

THE LAKES METROPOLITAN DISTRICT NO. 1
City of Brighton, Adams County, Colorado
—
FINANCIAL STATEMENTS
December 31, 2016

L. PAUL GOEDECKE P.C.
CERTIFIED PUBLIC ACCOUNTANTS



RECEIVED

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Independent Auditor's Report

Board of Directors

THE LAKES METROPOLITAN DISTRICT No. 1

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of The Lakes Metropolitan District No. 1 as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of The Lakes Metropolitan District No. 1 as of December 31, 2016, and the respective changes in financial position and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinions on the basic financial statements are not affected by this missing information.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The supplementary information as listed in the table of contents is presented for purposes of legal compliance and additional analysis and is not a required part of the financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

L. Paul Goedecke P.C.

L. Paul Goedecke, P.C.
September 28, 2017

THE LAKES METROPOLITAN DISTRICT NO. 1

**GOVERNMENTAL FUNDS BALANCE SHEET/STATEMENT OF NET POSITION
December 31, 2016**

	General	Capital Project	Total	Adjustments	Statement of Net Position
ASSETS					
Cash and investments - restricted	\$ 175	\$ -	\$ 175	\$ -	\$ 175
Capital assets not being depreciated	-	-	-	1,364,673	1,364,673
Total assets	\$ 175	\$ -	\$ 175	\$ 1,364,673	\$ 1,364,848
LIABILITIES					
Accounts payable	212	-	212	-	212
Long-term liabilities:					
Due in more than one year	-	-	-	2,113,980	2,113,980
Total liabilities	212	-	212	2,113,980	2,114,192
FUND BALANCES/NET POSITION					
Restricted:					
Emergencies	796	-	796	(796)	-
Unassigned	(833)	-	(833)	833	-
Total fund balances	(37)	-	(37)	37	-
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 175	\$ -	\$ 175		
Net Position:					
Restricted for:					
Emergencies				796	796
Unrestricted				(750,140)	(750,140)
Total net position				\$ (749,344)	\$ (749,344)

NOTE: The accompanying notes are an integral part of the financial statements.

THE LAKES METROPOLITAN DISTRICT NO. 1

**STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES/STATEMENT OF ACTIVITIES**

For the Year Ended December 31, 2016

	General	Capital Project	Total	Adjustments	Statement of Activities
EXPENDITURES					
Accounting and audit	\$ 178	\$ -	\$ 178	\$ -	\$ 178
Consultant fees	2,765	-	2,765	-	2,765
Insurance	4,652	-	4,652	-	4,652
Legal and election	12,443	-	12,443	-	12,443
Management fees	6,000	-	6,000	-	6,000
Miscellaneous expenses	507	-	507	-	507
Interest expense - developer note	-	-	-	153,649	153,649
Capital improvement	-	1,364,673	1,364,673	(1,364,673)	-
Total expenditures/expenses	26,545	1,364,673	1,391,218	(1,211,024)	180,194
GENERAL REVENUES					
Specific ownership taxes	4	-	4	-	4
Total General Revenues	4	-	4	-	4
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(26,541)	(1,364,673)	(1,391,214)	1,211,024	(180,190)
OTHER FINANCING SOURCES (USES)					
Developer advances	27,300	1,364,673	1,391,973	(1,391,973)	-
Total Other Financing Sources (Uses)	27,300	1,364,673	1,391,973	(1,391,973)	-
NET CHANGES IN FUND BALANCES	759	-	759	(759)	
CHANGE IN NET POSITION				(180,190)	(180,190)
FUND BALANCES/NET POSITION:					
BEGINNING OF YEAR	(796)	-	(796)	(568,358)	(569,154)
END OF YEAR	\$ (37)	\$ -	\$ (37)	\$ (749,307)	\$ (749,344)

NOTE: The accompanying notes are an integral part of the financial statements

THE LAKES METROPOLITAN DISTRICT NO. 1

GENERAL FUND

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES – BUDGET AND ACTUAL
Year Ended December 31, 2016**

	Original & Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Specific ownership taxes	\$ -	\$ 4	\$ 4
Total revenues	-	4	4
EXPENDITURES			
Accounting and audit	500	178	322
Consultant fees	-	2,765	(2,765)
Insurance	4,000	4,652	(652)
Legal and election	15,000	12,443	2,557
Management fees	6,000	6,000	-
Miscellaneous expenses	100	507	(407)
Contingency	5,000	-	5,000
Emergency reserve	945	-	945
Total expenditures	31,545	26,545	5,000
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(31,545)	(26,541)	5,004
OTHER FINANCING SOURCES (USES)			
Developer advances	31,500	27,300	(4,200)
Total Other Financing Sources (Uses)	31,500	27,300	(4,200)
NET CHANGE IN FUND BALANCE	(45)	759	804
FUND BALANCE:			
BEGINNING OF YEAR	93	(796)	(889)
END OF YEAR	\$ 48	\$ (37)	\$ (85)

NOTE: The accompanying notes are an integral part of the financial statements.

THE LAKES METROPOLITAN DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE 1 – DEFINITION OF REPORTING ENTITY

Definition of Reporting Entity

The Lakes Metropolitan District No. 1 (the District), a quasi-municipal corporation, was organized on January 9, 2007 and is governed pursuant to provisions of the Colorado Special District Act. The District's service area is located in the City of Brighton (City), Adams County, Colorado. The District was organized to finance, acquire and construct certain public improvements including streets and safety controls, water and storm sewer service, park and recreation facilities, transportation and mosquito control improvements. The District anticipates that all, or some, of the improvements may be dedicated to the City, or its designee. The District was formed concurrently with The Lakes Metropolitan Districts Nos. 2-4 (District Nos. 2-4). It is anticipated that the Districts, collectively, will undertake the financing and construction of Improvements contemplated in the Districts' Service Plans. Specifically, the Districts shall enter into one or more intergovernmental agreements which shall govern the relationships between and among the Districts with respect to the financing, construction and operation and maintenance, as appropriate, of the Improvements contemplated in the Districts' Service Plans.

The District has no employees and all operation and administrative functions are contracted.

The District follows the Governmental Accounting Standards Boards (GASB) accounting pronouncements which provide guidance for determining which governmental activities, organizations and functions should be included within the financial reporting entity. GASB pronouncements set forth the financial accountability of a governmental organization's elected governing body as the basic criterion for including a possible component governmental organization in a primary government's legal entity. Financial accountability includes, but is not limited to, appointment of a voting majority of the organization's governing body, ability to impose its will on the organization, a potential for the organization to provide specific financial benefits or burdens and fiscal dependency.

The District is not financially accountable for any other organization, nor is the District a component unit of any other primary governmental entity.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The more significant accounting policies of the District are described as follows:

Basis of Presentation

The accompanying financial statements are presented per GASB Statement No. 34 – Special Purpose Governments.

THE LAKES METROPOLITAN DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are measurable and available. Revenues are *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current period. The material sources of revenue subject to accrual are property taxes and interest. Expenditures, other than interest on long-term obligations, are recorded when the liability is incurred or the long-term obligation is paid.

The government reports the following major governmental funds:

General Fund – The General Fund is the general operating fund of the District. It is used to account for all financial resources not accounted for and reported in another fund.

Capital Projects Fund – The Capital Projects Fund is used to account for all financial resources that are restricted, committed or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other assets.

Fund Balances

Beginning with fiscal year 2011 the District implemented GASB Statement No. 54, “Fund Balance Reporting and Governmental Fund Type Definitions.” This statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government’s fund balances more transparent. In the fund financial statements the following classifications describe the relative strength of the spending constraints.

Non-spendable fund balance – The portion of fund balance that cannot be spent because it is either not in spendable form (such as inventory) or is legally or contractually required to be maintained intact.

Restricted fund balance – The portion of fund balance constrained to being used for a specific purpose by external parties (such as grantors or bondholders), constitutional provisions or enabling legislation.

THE LAKES METROPOLITAN DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Committed fund balance – The portion of fund balance constrained for specific purposes according to limitations imposed by the District’s highest level of decision making authority, the Board of Directors prior to the end of the current fiscal year. The constraint may be removed or changed only through formal action of the Board of Directors.

Assigned fund balance – The portion of fund balance that is constrained by the government’s intent to be used for specific purposes, but is neither restricted nor committed. Intent is expressed by the Board of Directors to be used for a specific purpose. Constraints imposed on the use of assigned amounts are more easily removed or modified than those imposed on amounts that are classified as committed.

Unassigned fund balance – The residual portion of fund balance that does not meet any of the above criteria.

If more than one classification of fund balance is available for use when an expenditure is incurred, it is the District’s policy to use the most restrictive classification first.

Budgets

In accordance with the State Budget Law, the District’s Board of Directors holds public hearings in the fall of each year to approve the budget and appropriate the funds for the ensuing year. The appropriation is at the total fund expenditures level and lapses at year end. The District’s Board of Directors can modify the budget by line item within the total appropriation without notification. The appropriation can only be modified upon completion of notification and publication requirements. The budget includes each fund on its basis of accounting unless otherwise indicated.

Capital Assets

Capital Assets are stated at cost except for those assets contributed which are stated at estimated fair market value at the date of contribution or at the Developer’s cost. Depreciation on property that will remain assets of the District is reported on the Statement of Activities as a current charge. No depreciation is reflected on these statements.

THE LAKES METROPOLITAN DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property Taxes

Property taxes are levied by the District Board of Directors. The levy is based on assessed valuations determined by the County Assessor generally as of January 1 of each year. The levy is normally set by December 15 by certification to the County Commissioners to assess the property tax obligation of the individual properties as of January 1 of the following year. The County Treasurer collects the determined taxes during the ensuing calendar year. The taxes are payable by April, or at the taxpayer's election, in equal installments in February and June. Delinquent taxpayers are notified in August and the sales of the resultant tax liens on delinquent properties are generally held in November or December. The County Treasurer remits the taxes collected monthly to the District. Property taxes, net of estimated uncollectible taxes, are recorded initially as deferred revenue in the year they are levied and measurable. The deferred property tax revenues are recorded as revenue in the year they are available or collected.

Restricted Fund Balance

Emergency Reserves have been provided for as required by Article X, Section 20 of the Constitution of the State of Colorado. \$796 of the General Fund balance has been restricted in compliance with this requirement.

NOTE 3 - CASH AND INVESTMENTS

Cash and investments as of December 31, 2016 are classified in the accompanying financial statement as follows:

Cash and investments - restricted	\$ 175
	<u>\$ 175</u>

Cash and investments as of December 31, 2016 consist of the following:

Deposits with financial institutions	175
	<u>\$ 175</u>

The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulators. Amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is determined by the PDPA. PDPA allows the institution to create a single collateral pool for all public funds.

THE LAKES METROPOLITAN DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

The pool for all the uninsured public deposits as a group is to be maintained by another institution or held in trust. The market value of the collateral must be at least equal to 102% of the aggregate uninsured deposits.

The State Commissioners for banks and financial services are required by Statute to monitor the naming of eligible depositories and reporting of the uninsured deposits and assets maintained in the collateral pools.

Investments

Credit Risk

The District has not adopted a formal investment policy; however, the District follows state statutes regarding investments.

Cash Deposits

Colorado State statutes specify investment instruments meeting defined rating and risk criteria in which local governments may invest which include:

- * Obligations of the United States and certain U.S. government agency securities
- Certain international agency securities
- General obligation and revenue bonds of U.S. local government entities
- Bankers' acceptances of certain banks
- Commercial paper
- Written repurchase agreements collateralized by certain authorized securities
- Certain money market mutual funds
- Guaranteed investment contracts
- * Local government investment pools

The District generally limits its concentration of investments to those noted with an asterisk (*) above, which are believed to have minimal credit risk; minimal interest rate risk and no foreign currency risk.

Interest Rate Risk

Colorado revised statutes limit investment maturities to five years or less unless formally approved by the Board of Directors, such actions are generally associated with a debt service or sinking fund requirements.

THE LAKES METROPOLITAN DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE 4 – CAPITAL ASSETS

An analysis of the changes in capital assets for the year ended December 31, 2016 follows:

<u>Governmental Type Activities:</u>	Balance			Balance
	1/1/2016	Additions	Deletions	12/31/2016
<u>Capital assets not being depreciated:</u>				
Streets	\$ -	\$ 740,489	\$ -	\$ 740,489
Water	-	301,222	-	301,222
Sanitary and Storm Drainage	-	322,962	-	322,962
Total capital assets not being depreciated	-	1,364,673	-	1,364,673
Government type assets, Net	\$ -	\$ 1,364,673	\$ -	\$ 1,364,673

The District anticipates that all or some of the improvements may be dedicated to the City of Brighton, or other appropriate entity.

NOTE 5 – LONG-TERM DEBT OBLIGATIONS

The following is a summary of long-term debt obligations as of December 31, 2016:

<u></u>	Beg			Balance	Current
	Balance	Additions	Deletions	12/31/2016	Portion
	1/1/2016				
Brighton Lakes LLC operations					
Operations advance	\$ 134,961	\$ -	\$ -	\$ 134,961	\$ -
Accrued interest	83,976	10,797	-	94,773	-
Capital advance	175,953	-	-	175,953	-
Accrued interest	126,340	14,076	-	140,416	-
RH Indigo Trail LLP					
Operational advance	45,600	27,300	-	72,900	-
Accrued interest	1,527	4,445	-	5,972	-
Capital advance	-	1,364,674	-	1,364,674	-
Accrued Interest	-	124,331	-	124,331	-
Total	\$ 568,357	\$ 1,545,623	\$ -	\$ 2,113,980	\$ -

THE LAKES METROPOLITAN DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE 6 – AGREEMENTS

Capital Reimbursement Agreements

The District has entered into the following agreements for reimbursement of advances from developer entities for capital expenses.

Project Funding and Reimbursement Agreement

On January 22, 2007, the District and Brighton Lakes, LLC (the Developer) entered into a Project Funding and Reimbursement Agreement (the Project Funding Agreement), pursuant to which the District agreed to reimburse the Developer for funds (i) incurred by the Developer for the organization of the District and The Lakes Metropolitan District Nos. 2-4 and (ii) advanced by the Developer for construction related expenses incurred by the District in fiscal year 2007, together with interest of 8%.

Capital Advance and Reimbursement Agreement

On November 7, 2008, the District and the Developer entered into a Capital Advance and Reimbursement Agreement (the 2008 Capital Agreement), pursuant to which the parties acknowledged that the Developer had incurred organizational costs and advanced funds for capital costs under the Project Funding Agreement in the amount of \$146,103.70 through fiscal year 2008 (the Prior Advances). Under the 2008 Capital Agreement, the District agreed to reimburse the Developer for the Prior Advances and additional Developer advances for capital expenses for each year subsequent to 2008, together with interest of 8%. As of December 31, 2016, outstanding advances under this agreement totaled \$175,953 and accrued interest totaled \$140,416.

Facilities Reimbursement Agreement

On May 21, 2015, the District, The Lakes Metropolitan District No. 2, RH Indigo Trails, LLLP (Indigo Trails) and Meritage Homes of Colorado, Inc. (Meritage) entered into a Facilities Reimbursement Agreement, pursuant to which Meritage agreed to construct certain public improvements, and directed District Nos. 1 and 2 to reimburse Indigo Trails for such costs, together with interest of 8%, from revenues derived from a mill levy imposed by District No. 2. As of December 31, 2016, outstanding amounts payable to Indigo Trails under the Facilities Reimbursement Agreement totaled \$1,364,674 and accrued interest totaled \$124,331.

Operation Funding Agreements

The District has entered into the following agreements for reimbursement of advances from Developer entities for operation expenses.

THE LAKES METROPOLITAN DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE 6 – AGREEMENTS (CONTINUED)

2007 Operation Funding Agreement

On March 7, 2007, the District and the Developer entered into an Operation Funding Agreement (the 2007 OFA) pursuant to which the District agreed to reimburse the Developer for funds advanced to pay operations and maintenance expenses incurred by the District during fiscal year 2007, together with interest of 8%.

2008 Operation Funding Agreement

On December 19, 2008, the District and the Developer entered into an Operation Funding Agreement (the 2008 OFA) pursuant to which the parties acknowledged the Developer had advanced \$41,829 to the District under the 2007 OFA (the 2007 Advances) and the District agreed to reimburse the Developer for the 2007 Advances and additional Developer advances for operations and maintenance costs incurred by the District during fiscal year 2008 and each subsequent year, together with interest of 8%. As of December 31, 2016, outstanding advances under this agreement totaled \$134,961 and accrued interest totaled \$94,773.

2015-2016 Operation Funding Agreement

On May 21, 2015, the District and Indigo Trails entered into the 2015-2016 Operation Funding Agreement, which was amended on November 9, 2016 (Current OFA), pursuant to which the District agreed to reimburse Indigo Trails for funds advance to pay operations and maintenance costs incurred by the District during fiscal years 2015, 2016 and 2017, together with interest of 8%. As of December 31, 2016, outstanding advances under this agreement totaled \$72,900 and accrued interest totaled \$5,972.

With the acknowledgement and consent of the Developer, the District's obligation to reimburse the Developer under the 2008 Capital Agreement in the estimated principal amount of \$175,953 and the 2007 OFA and 2008 OFA in the estimated amount of \$134,961, was subordinated to the District's obligation to reimburse Indigo Trails under the Current OFA. As of December 31, 2016, outstanding advances payable to Indigo Trails under the Current OFA totaled \$1,437,574 and accrued interest totaled \$130,303.

Facilities Funding, Construction and Operations Agreement

On January 22, 2007, the District and District Nos. 2-4 entered into a Facilities Funding, Construction and Operations Agreement (the FFCOA), which establishes certain expectations regarding the financing, construction, operation and maintenance of public improvements as contemplated in the Districts' service plans.

THE LAKES METROPOLITAN DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE 6 – AGREEMENTS (CONTINUED)

The District is designated as the Management District for the purpose of coordinating such activities and providing administrative services for the District and District Nos. 2-4 and each of District Nos. 2-4 agree to pay their pro rata share of such costs from mill levy revenues, bond proceeds or other legally available revenues in accordance with the terms of the FFCOA.

NOTE 7 - RISK MANAGEMENT

The District is exposed to various risks of loss related to thefts of, damage to, or destruction of assets; errors or omissions; injuries to employees, or acts of God.

The District is a member of the Colorado Special Districts Property and Liability Pool (Pool) as of December 31, 2016. The Pool is an organization created by intergovernmental agreement to provide property, liability, public officials liability, boiler and machinery and workers compensation coverage to its members. Settled claims have not exceeded this coverage in any of the past three fiscal years.

The District pays annual premiums to the Pool for liability, property and public officials liability coverage. In the event aggregated losses incurred by the Pool exceed amounts recoverable from reinsurance contracts and funds accumulated by the Pool, the Pool may require additional contributions from the Pool members. Any excess funds which the Pool determines are not needed for purposes of the Pool may be returned to the members pursuant to a distribution formula.

NOTE 8 – RELATED PARTIES

Multiple members of the Board of Directors are officers or employees of owners (or affiliated entities) of property within the District. These members may have conflicts of interest with respect to certain transactions which come before the Board.

NOTE 9 - TAX, SPENDING AND DEBT LIMITATIONS

Article X, Section 20 of the Colorado Constitution, commonly known as the Taxpayer's Bill of Rights (TABOR) contains tax, spending, revenue and debt limitations, which apply to the State of Colorado and all local governments.

Spending and revenue limits are determined based on the prior year's Fiscal Year Spending adjusted for allowable increases based upon inflation and local growth. Fiscal Year Spending is generally defined as expenditures plus reserve increases with certain exceptions. Revenue in excess of the Fiscal Year Spending limit must be refunded unless the voters approve retention of such revenue.

THE LAKES METROPOLITAN DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE 9 - TAX, SPENDING AND DEBT LIMITATIONS (CONTINUED)

TABOR requires local governments to establish Emergency Reserves. These reserves must be at least 3% of Fiscal Year Spending (excluding bonded debt service). Local governments are not allowed to use the emergency reserves to compensate for economic conditions, revenue shortfalls, or salary or benefit increases.

The District's management believes it is in compliance with the provisions of TABOR. However, TABOR is complex and subject to interpretation. Many of the provisions, including the interpretation of how to calculate Fiscal Year Spending limits will require judicial interpretation.

NOTE 10 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Explanation of differences between the governmental fund Balance Sheet and the government-wide Statement of Net Assets

The governmental fund Balance Sheet and the government-wide Statement of Net Assets includes a reconciling column. Explanation of the adjustments included in the reconciling column is as follows:

Capital assets, not depreciated	\$ 1,364,673
Long term debt	\$ 2,113,980

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.

Explanation of differences between the governmental fund Statement of Revenue, Expenditures and Changes in Fund Balance and the government-wide Statement of Activities

The governmental fund Statement of Revenue, Expenditures and Changes in Fund Balance and the government-wide Statement of Activities include a reconciling column. Explanation of the adjustments included in the reconciling column is as follows:

Interest expense	\$ 153,649
Capital Improvement	\$ (1,364,673)
Developer advances	\$ (1,391,973)

Governmental funds report capital outlay as expenditures and advances as revenue. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense and bond proceeds and advances are reflected as debt on the Statement of Net Assets.

SUPPLEMENTAL INFORMATION

THE LAKES METROPOLITAN DISTRICT NO. 1

**CAPITAL PROJECT FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES – BUDGET AND ACTUAL
Year Ended December 31, 2016**

	Original & Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Developer advance	\$ 1,652,075	\$ 1,364,673	\$ (287,402)
Interest income	2	-	2
Total Revenues	<u>1,652,077</u>	<u>1,364,673</u>	<u>(287,404)</u>
EXPENDITURES			
Capital Improvements	1,652,075	1,364,673	287,402
Total expenditures	<u>1,652,075</u>	<u>1,364,673</u>	<u>287,402</u>
NET CHANGE IN FUND BALANCE	2	-	(2)
FUND BALANCE:			
BEGINNING OF YEAR	<u>-</u>	<u>-</u>	<u>-</u>
END OF YEAR	<u>\$ 2</u>	<u>\$ -</u>	<u>\$ (2)</u>

NOTE: The accompanying notes are an integral part of the financial statements