

**Aviation Station North Metropolitan District No. 1  
City and County of Denver, Colorado**

**FINANCIAL STATEMENTS**

**With Independent Auditors' Report**

**December 31, 2016**

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Office of the State Auditor

March 20, 2018

**Aviation Station North Metropolitan District No. 1**

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Certified Public Accountants and Business Consultants

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Aviation Station North Metropolitan District No. 1  
City and County of Denver, Colorado

We have audited the accompanying financial statements of the governmental activities and each major fund of Aviation Station North Metropolitan District No. 1 (the District) 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. These financial statements are the responsibility of the District management.

### ***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 misstatements, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit 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 that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Opinions***

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 Aviation Station North Metropolitan District No. 1, as of December 31, 2016, and the respective changes in financial position thereof, and the budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

I

Barnes Griggs & Associates, PC

## **Other Matters**

### *Economic Dependency*

As disclosed in Note 10 to the financial statements, the District has not yet established a revenue base sufficient to pay the District's operational or debt service expenditures. Until an independent revenue base is established, the District may be dependent upon the developer of the District's service area for funding of continued operations.

### *Required Supplementary Information*

Management has omitted 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 opinion on the basic financial statements is not affected by this missing information.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. 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 basic 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 basic financial statements as a whole.

*Danner Higgin & Associates, PC*

Lakewood, Colorado  
January 31, 2018

## **BASIC FINANCIAL STATEMENTS**

Aviation Station North Metropolitan District No. 1

STATEMENT OF NET POSITION

December 31, 2016

	<b>Governmental Activities</b>
<b>Assets</b>	
Cash and cash equivalents	\$ 1,238,550
Receivables	1,129,828
Developer advance receivable	10,000
Capital assets, not being depreciated	36,700,138
<b>Total assets</b>	<u>39,078,516</u>
<b>Liabilities</b>	
Accounts payable	1,454,480
Retainage payable	524,265
Long-term debt:	
Amounts due in one year	83,333
Due in more than one year	32,533,136
Accrued interest on loan and advances	1,926,781
<b>Total liabilities</b>	<u>36,521,995</u>
<b>Net position</b>	
Net investment in capital assets	2,546,521
Restricted for:	
Capital projects	398,758
Unrestricted	(388,758)
<b>Total net position</b>	<u>\$ 2,556,521</u>

*The accompanying Notes to Financial Statements are an integral part of these statements.*

**Aviation Station North Metropolitan District No. 1**  
**STATEMENT OF ACTIVITIES**  
**For the Year Ended December 31, 2016**

	Program Revenues			Net (Expense) Revenue and Changes in Net Position
Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
<b>Functions/Programs:</b>				
<b>Primary government</b>				
General government	\$ (414,976)	\$ -	\$ -	\$ 2,640,383
Interest on long-term debt and related costs	(1,570,568)	-	-	(1,570,568)
Total primary government	\$ (1,985,544)	\$ -	\$ 3,055,359	1,069,815
	<b>General Revenues:</b>			
				23,025
				23,025
				1,092,840
				1,463,681
				\$ 2,556,521

*The accompanying Notes to Financial Statements are an integral part of these statements.*

**Aviation Station North Metropolitan District No. 1**

**BALANCE SHEET  
GOVERNMENTAL FUNDS**

**December 31, 2016**

	<u>General</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
<b>Assets</b>			
Cash and cash equivalents	\$ -	\$ 1,238,550	\$ 1,238,550
Developer advance receivable	8,500	1,500	10,000
Accounts receivable	-	1,129,828	1,129,828
<b>Total assets</b>	<u>8,500</u>	<u>2,369,878</u>	<u>2,378,378</u>
<b>Liabilities and fund balances</b>			
<b>Liabilities</b>			
Accounts payable	7,625	1,446,855	1,454,480
Retainage payable	-	524,265	524,265
<b>Total liabilities</b>	<u>7,625</u>	<u>1,971,120</u>	<u>1,978,745</u>
<b>Fund balance</b>			
Unassigned	875	398,758	399,633
<b>Total fund balances</b>	<u>875</u>	<u>398,758</u>	<u>399,633</u>
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<u>\$ 8,500</u>	<u>\$ 2,369,878</u>	

Amounts reported for governmental activities in the statement of net position are different because:

Long-term assets are not available to pay for current period expenditures and, therefore, are not reported in the funds:

Capital assets 36,700,138

Long-term liabilities, including bonds payable and accrued interest, are not due and payable in the current period and therefore are not reported in the funds:

Loan and advance payable (32,616,469)

Accrued interest on debt (1,926,781)

Net position of governmental activities \$ 2,556,521

*The accompanying Notes to Financial Statements are an integral part of these statements.*

**Aviation Station North Metropolitan District No. 1**  
**STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS**  
**For the Year Ended December 31, 2016**

	<u>General</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
<b>Revenues</b>			
Contributions from other governments	\$ -	\$ 3,055,359	\$ 3,055,359
Other revenue	15	23,010	23,025
<b>Total revenues</b>	<u>15</u>	<u>3,078,369</u>	<u>3,078,384</u>
<b>Expenditures</b>			
General government			
Accounting and audit	12,113	9,476	21,589
Capital outlay	-	22,397,027	22,397,027
District management	8,963	22,925	31,888
Elections	2,046	-	2,046
Insurance	7,355	-	7,355
Interest, fees and reserve costs	-	94,283	94,283
Legal	5,647	317,053	322,700
Miscellaneous & administrative	2,530	5,507	8,037
Snow removal	-	21,097	21,097
Statutory compliance	264	-	264
<b>Total expenditures</b>	<u>38,918</u>	<u>22,867,368</u>	<u>22,906,286</u>
<b>Excess of revenue (under)</b> <b>expenditures</b>	<u>(38,903)</u>	<u>(19,788,999)</u>	<u>(19,827,902)</u>
<b>Other financing sources (uses)</b>			
Advances from other governments	-	12,611,004	12,611,004
Developer advance	29,716	2,877,156	2,906,872
<b>Total other financing sources (uses)</b>	<u>29,716</u>	<u>15,488,160</u>	<u>15,517,876</u>
<b>Net change in fund balances</b>	(9,187)	(4,300,839)	(4,310,026)
<b>Fund balance - beginning</b>	10,062	4,699,597	4,709,659
<b>Fund balance - ending</b>	<u>\$ 875</u>	<u>\$ 398,758</u>	<u>\$ 399,633</u>

*The accompanying Notes to Financial Statements are an integral part of these statements.*

**Aviation Station North Metropolitan District No. 1**  
**RECONCILIATION OF THE STATEMENT OF REVENUES,**  
**EXPENDITURES, AND CHANGES IN FUND BALANCES OF**  
**GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

**For the Year Ended December 31, 2016**

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds	\$ (4,310,026)
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The issuance of long-term debt provides current financial resources to governmental funds while the repayment of the principal consumes current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.

Loans and Developer advances received	(15,517,876)
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Change in accrued interest	(1,476,285)
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Government funds report capital outlays as expenditures. The statement of activities does not report capital outlay as expenditures. However, the statement of activities will report depreciation expense. Therefore, the following are amounts of capital outlay in the current period:

Capital outlay and adjustments	<u>22,397,027</u>
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Change in net position of governmental activities	<u><u>\$ 1,092,840</u></u>
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*The accompanying Notes to Financial Statements are an integral part of these statements.*

**Aviation Station North Metropolitan District No. 1**  
**STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES - BUDGET AND ACTUAL**  
**GENERAL FUND**

For the Year Ended December 31, 2016

	<b>Original and Final Budget</b>	<b>Actual</b>	<b>Variance with Final Budget - Positive (Negative)</b>
<b>Revenues</b>			
Other revenue	\$ -	\$ 15	\$ 15
<b>Total revenues</b>	<u>-</u>	<u>15</u>	<u>15</u>
<b>Expenditures</b>			
General government			
Accounting and audit	19,000	12,113	6,887
Contingency	4,400	-	4,400
District management	20,000	8,963	11,037
Elections	500	2,046	(1,546)
Insurance	10,000	7,355	2,645
Legal	25,000	5,647	19,353
Miscellaneous & administrative	1,000	2,530	(1,530)
Statutory compliance	3,500	264	3,236
Emergency reserve	2,600	-	2,600
<b>Total expenditures</b>	<u>86,000</u>	<u>38,918</u>	<u>47,082</u>
<b>Excess of revenue (under) expenditures</b>	<u>(86,000)</u>	<u>(38,903)</u>	<u>47,097</u>
<b>Other financing sources (uses)</b>			
Developer advance	84,000	29,716	54,284
<b>Total other financing sources (uses)</b>	<u>84,000</u>	<u>29,716</u>	<u>54,284</u>
<b>Net change in fund balances</b>	(2,000)	(9,187)	(7,187)
<b>Fund balance - beginning</b>	<u>2,000</u>	<u>10,062</u>	<u>8,062</u>
<b>Fund balance - ending</b>	<u>\$ -</u>	<u>\$ 875</u>	<u>\$ 875</u>

*The accompanying Notes to Financial Statements are an integral part of these statements.*

## Aviation Station North Metropolitan District No. 1

### NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016

#### Note 1 – Reporting entity

Aviation Station North Metropolitan District No. 1 (the District), a quasi-municipal corporation and political subdivision of the State of Colorado was organized on May 29, 2013, and is governed pursuant to the provisions of the Colorado Special District Act (Title 32, Article 1, Colorado Revised Statutes). The District's service area is generally located south of 71<sup>st</sup> Avenue, north of 56<sup>th</sup> Avenue, west of Tower Road and east of Pena Boulevard, in the City and County of Denver, Colorado. The District was established to provide for the planning, design, acquisition, construction, installation, relocation, operation and maintenance, repair and replacement of all public infrastructure and services within and without the 61<sup>st</sup> Avenue Aviation Station (the Project), including without limitation, all streets, safety protection, water, sewer, storm drainage, transportation, mosquito control and park and recreation facilities (the Improvements). The District was organized under a multiple district structure with Aviation Station North Metropolitan Districts No. 2 through 6 (collectively, the Aviation Districts), and in conjunction with Smith Metropolitan District No. 1 through 4 (collectively, the Smith Districts). Through the execution of a Memorandum of Understanding (MOU), the District was designated as the coordinating district for financing, construction, design, operation, and maintenance of the Improvements to serve the Aviation Districts. On July 27, 2015, the District and Aviation Station North District No. 5 (Aviation 5) executed a Partial Termination of Memorandum of Understanding, whereby Aviation 5 was released from further obligations and rights to services established under the MOU, with the exception of certain agreements related to Pena Station Improvements and related financing.

The District follows the Governmental Accounting Standards Board (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.

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

## Aviation Station North Metropolitan District No. 1

### NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2016

#### Note 2 – Summary of significant accounting policies

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

##### **Government-wide and fund financial statements**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of the District. The effect of interfund activity has been removed from these statements. Governmental activities are normally supported by taxes and intergovernmental revenues.

The statement of net position reports all financial and capital resources of the District. The difference between the assets and liabilities of the District is reported as net position.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

##### **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.

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 both measurable and available. Revenues are considered to be 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 fiscal period.

## **Aviation Station North Metropolitan District No. 1**

### **NOTES TO FINANCIAL STATEMENTS (continued)**

**December 31, 2016**

The District reports the following major governmental funds:

The general fund is the District's primary operating fund. It accounts for all financial resources of the general government, except for those required to be accounted for in another fund.

The capital projects fund is used to account for financial resources to be used for the purchase, construction, operation, and maintenance of capital equipment and facilities.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

Property taxes are recognized as revenues in the year for which they are levied. Grants are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Interest associated with the current fiscal period is considered to be susceptible to accrual and so has been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures, other than interest on long-term obligations, generally are recorded when a liability is incurred or the long-term obligation is paid.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

#### **Investments**

Investments for the District are reported at fair value. At December 31, 2016, the District had no investments.

#### **Property taxes**

Property taxes are levied 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 put the tax lien on 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 in equal installments, at the taxpayer's election, in February and June. Delinquent taxpayers are notified in August and generally sales of the tax liens on delinquent properties are held in November and December. The County Treasurer remits the taxes collected monthly to the District.

## **Aviation Station North Metropolitan District No. 1**

### **NOTES TO FINANCIAL STATEMENTS (continued)**

**December 31, 2016**

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.

#### **Capital assets**

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable governmental activities column of the government-wide financial statements. Capital assets are defined by the District as those assets with a cost of \$5,000 or greater. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Capital assets which are anticipated to be conveyed to other governmental entities are recorded as construction in progress, and are not included in the calculation of the net asset component "net investment in capital assets".

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements for which the District retains title are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable. Interest incurred during the construction phase of capital assets is not included as part of the capitalized value of the assets constructed.

The District's capital assets as of December 31, 2016 consists of construction in progress and no depreciation expense has been computed.

#### **Long-term obligations**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position.

In the fund financial statements, the face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

#### **Fund Equity**

Fund balances are categorized to make the nature and extent of the constraints placed on the District's fund balances transparent. In the fund financial statements the following classifications describe the relative strength of the spending constraints.

## Aviation Station North Metropolitan District No. 1

### NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2016

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.

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 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 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 total appropriation can only be modified upon completion of notification and publication requirements. The budget includes each fund on its basis of accounting.

In December 2016, the District amended its total appropriations in the Capital Projects Fund to \$24,000,000.

#### **Note 3 – Cash and investments**

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

## Aviation Station North Metropolitan District No. 1

### NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2016

Statement of net position:

Cash

\$1,238,550

Cash as of December 31, 2016 consists of the following:

Deposits with financial institutions

\$1,238,550

#### Deposits with financial institutions

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. As of December 31, 2016, the federal insurance limit was \$250,000. The eligible collateral is determined by the PDPA. PDPA allows the institution to create a single collateral pool for all public funds. 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.

As of December 31, 2016, the District's cash deposits had a bank balance of \$1,238,550 and a carrying balance of \$1,238,550.

#### Investments

The District has not adopted a formal investment policy but follows state statutes regarding investments. Colorado revised statutes limit investment maturities to five years or less unless formally approved by the District.

The District primarily limits its investments to local government investment pools, which are believed to have minimal credit risk, minimal interest rate risk and no foreign currency risk. Additionally, the District is not subject to concentration risk disclosure requirements or subject to custodial credit risk for investments that are in the possession of another party.

Colorado 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

## Aviation Station North Metropolitan District No. 1

### NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2016

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

As of December 31, 2016, the District had no investments.

#### Note 4 – Capital assets

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

	Balance at December 31, 2015 (Restated)	Increases and Adjustments	Decreases	Balance at December 31, 2016
Construction in progress	<u>\$ 14,303,111</u>	<u>\$ 22,397,027</u>	<u>\$ -</u>	<u>\$ 36,700,138</u>

#### Note 5 – Long-term obligations

##### Facilities Funding and Acquisition Agreement

On June 2, 2015, the District and Rail Stop LLC (the Developer) entered into the Facilities Funding and Acquisition Agreement (FFAA), whereby the Developer agrees to advance to the District amounts to pay certain organization expenses of the Aviation Districts, construction and/or acquisition of the Improvements, and the Developer's costs in securing its loan from MidFirst Bank (MidFirst Loan), the proceeds of which the Developer agreed to advance to the District. Repayment by the District for advances made under the FFAA are subject to cost verification by an independent engineer, certifying that costs are reasonable and comparable for similar projects in the Denver Metropolitan area, and verification by the District's accountant that the costs are reimbursable. The District agrees to make payment to the Developer for all Developer Advances, together with interest thereon at 5% compounded quarterly until advances are repaid. No payment by the District is required until the District issues bonds in an amount sufficient to reimburse the Developer for all or a portion of verified costs. Additionally, no repayment may be made by the District to the Developer until the MidFirst Loan and the Hensel Loan (as defined on page 14) are paid in full. The FFAA does not constitute debt, but is an annual appropriations agreement intended to be repaid through a future bond issuance.

## **Aviation Station North Metropolitan District No. 1**

### **NOTES TO FINANCIAL STATEMENTS (continued)**

**December 31, 2016**

#### **Project Improvement Reimbursement Agreement (PIRA)**

On June 12, 2015, the District, Smith Metropolitan District No. 1 (Smith 1) and the City and County of Denver (the City), on behalf of the Department of Aviation (DIA) entered into the Project Improvement Reimbursement Agreement (PIRA) for purposes of establishing terms for the repayment of \$17,000,000 (the Reimbursement Obligation) advanced by the City (on behalf of DIA) pursuant to an Intergovernmental Agreement regarding Pena Station Area Improvements (see Note 8). The District and Smith 1 agreed to impose a mill levy of ten mills on all taxable property within their respective boundaries (District Mill Levy Ten and Smith Mill Levy Ten) for the purpose of paying principal and interest on the Reimbursement Obligation (as defined in PIRA) on a joint and several basis. Revenues received from the District Mill Levy Ten and the Smith Mill Levy Ten shall be remitted to UMB Bank, n.a., pursuant to a Custodial Agreement. Outstanding principal bears interest at the annual rate of 5%, compounded semiannually, payable on June 1 and December 1 each year, commencing on June 1, 2016. The District and Smith 1 may prepay all or a portion of the outstanding principal, together with applicable accrued interest, at any time.

#### **Additional Project Improvements Reimbursement Agreement**

On June 12, 2015, the District and the City, on behalf of DIA, entered into the Additional Project Improvements Reimbursement Agreement (Additional PIRA), whereby the City agreed to fund a portion of the District's share of costs associated with additional public improvements in the amount of \$3,000,000 (Additional Reimbursement Obligation) and the District agreed to repay that amount. The District agreed to impose a mill levy in the amount of 3 mills upon all taxable property of each of the Aviation Districts (Aviation Mill Levy Three). Further, the Additional PIRA contemplates that at such time any real property is included within any of the Aviation Districts, such applicable Aviation District will be required to execute a pledge agreement whereby such district will agree to impose the Aviation Mill Levy Three and remit the revenues to the District for the purpose of repaying the Additional Reimbursement Obligation.

#### **Inclusion Agreement**

The District and Developer, as the owner of certain real property within the future inclusion area of one of the Aviation Districts, entered into that certain Inclusion Agreement on June 12, 2015, whereby Developer agreed to include certain real property into the District, or one of the other Aviation Districts, to facilitate revenue for certain improvements as well as repayment of the Reimbursement Obligation and the Additional Reimbursement Obligation pursuant to the PIRA and Additional PIRA, respectively.

**Aviation Station North Metropolitan District No. 1**

**NOTES TO FINANCIAL STATEMENTS  
(continued)**

**December 31, 2016**

**Loan Agreement**

The District and Hensel Phelps Construction Co. (the General Contractor) entered into a Loan Agreement on June 2, 2015, whereby the General Contractor agreed to advance \$2,500,000 (the Loan Amount), as evidenced by a promissory note, to fund the completion of Phase I of the Pena Station Project (as defined in the Loan Agreement) and the District agreed to repay the Loan Amount with revenue derived from the District and the Aviation Districts imposition of a mill levy (not including any operation mill levy, the District Ten Mill Levy, or the District Three Mill Levy), any fees or charges collected by the District or Financing Districts, and the specific ownership taxes allocable to the amount of the mill levy (Hensel Loan). Principal is payable annually on December 1 in the amount of \$83,333 with the entirety of unpaid principal due December 1, 2020. The Loan bears interest at the rate of 6% per annum, compounded quarterly and payable semi-annually on June 1 and December 1 each year commencing on the date in which the MidFirst Loan (as defined in the Loan Agreement) is paid in full. The District may prepay the Hensel Loan in whole or in part without penalty at a price equal to the prepaid principal plus accrued interest thereon.

The District's outstanding long-term obligations at December 31, 2016, were as follows:

	Balance at December 31, 2015 (Restated)	Additions	Reductions	Balance at December 31, 2016	Due Within One Year
Developer advance	\$ 7,341,441	\$ 3,007,792	\$ -	\$ 10,349,233	\$ -
Developer advance interest	271,634	448,332	-	719,966	-
PIRA advance	6,889,353	12,877,883	-	19,767,236	-
PIRA accrued interest	103,299	856,240	-	959,539	-
Loan	2,500,000	-	-	2,500,000	83,333
Loan interest	75,563	171,713	-	247,276	-
	<u>\$ 17,181,290</u>	<u>\$ 17,361,960</u>	<u>\$ -</u>	<u>\$ 34,543,250</u>	<u>\$ 83,333</u>

**Debt authorization**

At an election held on November 5, 2013, the voters of the Aviation Districts and the Smith Districts authorized the issuance of general obligation debt in the total aggregate amount of \$500,000,000 (Aggregate Debt Cap). Pursuant to Intergovernmental Agreements Regarding Debt Allocation, executed in June and August, 2015, the Aviation Districts, exclusive of Aviation 5, are allocated \$359,969,737 of the total \$500,000,000 Aggregate Debt Cap. Aviation 5 is allocated \$30,819,736 in total debt authorization and the Smith Districts were allocated the sum of \$109,210,526.

In the future, the District may issue a portion or all of its remaining authorized but unissued general obligation debt for purposes of providing public improvements to support development as it occurs within the District's service area. In addition, the

## Aviation Station North Metropolitan District No. 1

### NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2016

maximum debt service mill levy for the District is 50 mills, as adjusted for the changes in the ratio of actual value to assessed value of property within the District.

#### **Note 6 – Net position**

The District reports net position consisting of three components – net investment in capital assets, restricted, and unrestricted.

The District has \$2,546,521 in net investment in capital assets at December 31, 2016.

Restricted assets include net position that is restricted for use either externally imposed by creditors, grantors, contributors, or laws of other governments, or imposed by law through constitutional provisions or enabling legislation. Amounts held in the capital projects fund are restricted by contracts with creditors and capital contributors.

The District had unrestricted net deficit of \$388,758 as of December 31, 2016.

#### **Note 7 – Related parties**

L.C. Fulenwider, Inc. (Fulenwider) is involved in the development of the Project along with the Developer. Certain members of the Board of Directors of the District are employees, owners or otherwise associated with the Developer and/or Fulenwider and may have conflicts of interest in dealing with the District.

#### **Note 8 – Agreements**

##### **Intergovernmental Agreement Regarding Pena Station Improvements**

On April 20, 2015, the District and Smith 1 entered into an Intergovernmental Agreement (Management IGA) whereby the District, on behalf of the Aviation Districts and Smith 1 on behalf of the Smith Districts agreed to coordinate, in conjunction with DIA, the design and construction of those improvements for the Pena Station project, as more specifically described in the Management IGA, excluding those improvements agreed to be constructed and financed by DIA, as specified in the same. The District agreed to contribute to the cost of completing those certain improvements to the extent the improvements benefit the property located within any of the Aviation Districts. Pursuant to the Construction Disbursing Agreement, Smith 1 deposited \$3,200,000 towards its share of the costs created pursuant to the Management IGA.

##### **Intergovernmental Agreement Regarding Pena Station Area Improvements**

On May 21, 2015, the District and the City, on behalf of DIA entered into an Intergovernmental Agreement Regarding Pena Station Area Improvements (Improvement IGA) to coincide with the Developer's closing of a loan for \$4,000,000 with MidFirst Bank (MidFirst). The Improvement IGA sets forth the rights and

## **Aviation Station North Metropolitan District No. 1**

### **NOTES TO FINANCIAL STATEMENTS (continued)**

**December 31, 2016**

obligations under which the District agreed to undertake the design, construction and funding of certain Improvements within the Pena Station Area (as defined in the Improvements IGA).

#### **Construction Disbursing Agreement**

On June 12, 2015, the District, the City, Smith 1, MidFirst, the Developer, and Land Title Guarantee Company (Land Title) entered into the Construction Disbursing Agreement (CDA). Under the CDA the parties agreed to establish the construction accounts for the payment of construction of certain public improvements located in the proximity of the light rail station along Pena Boulevard. The CDA confirms the procedures to disburse the funds from each construction account. The District further agreed to enter into a separate written agreement with the General Contractor to construct the certain infrastructure and other improvements and each party agreed to pay its respective pro rata share of the costs thereof.

#### **Custodial Agreement**

On June 12, 2015, the District entered into a Custodial Agreement with Smith 1, Aviation Station North Metropolitan District No. 2 (Aviation 2), the City on behalf of DIA and UMB Bank, n.a. The Custodial Agreement establishes the Reimbursement Obligation for purposes of repaying \$17,000,000 pursuant to PIRA and the obligations of UMB Bank, n.a., as custodian of the Reimbursement Obligation Fund (as defined in the Custodial Agreement).

#### **Intergovernmental Agreement – Pena Station Improvements**

On August 3, 2015, the District entered into an Intergovernmental Agreement Regarding Pena Station Improvements with Aviation 5 (Aviation 5 IGA) whereby the District and Aviation 5 agreed that Aviation 5 would pay the District its initial allocation for the Pena Station Improvements (as defined in the Aviation 5 IGA) in the amount of \$721,858 (Aviation 5 Initial Share) and would impose the District Mill Levy Ten on property located within its boundaries and remit amounts collected therefrom to the District up to the maximum amount of \$17,000,000 (Aviation 5 Repayment Obligation) to repay the District for constructing the Pena Station Improvements which benefit Aviation 5. The parties further agreed to the terms and conditions of the use of the Aviation 5 Initial Share and the Aviation 5 Repayment Obligation, and to address funding and approval for change orders to the construction contract with the General Contractor that impact Aviation 5. Aviation 5 agreed to fund an escrow account, via developer advances, for the full amount of the Aviation 5 Initial Share. The Aviation 5 IGA further requires Aviation 5 to fund its proportionate share (1.9%) of Pena Station Improvement cost increases in excess of \$100,000. Aviation 5 fulfilled its obligation to fund the escrow account in 2015.

## **Aviation Station North Metropolitan District No. 1**

### **NOTES TO FINANCIAL STATEMENTS (continued)**

**December 31, 2016**

#### **Capital Pledge Agreements**

On June 2, 2015, the District entered into a Capital Pledge Agreement with Aviation 2 and the General Contractor, whereby Aviation 2 agreed to pledge certain revenues to the District to facilitate the repayment of the Loan Agreement from the imposition of a mill levy as determined each year pursuant to the Capital Pledge Agreement (Required Mill Levy). The Required Mill Levy is the ad valorem mill levy necessary to make required payments to the General Contractor under the Hensel Loan, provided that the mill levy would not cause Aviation 2 to exceed the maximum amounts permitted under its Service Plan, the November 2013 election or any other applicable law. Aviation 2 is required to remit the pledged revenues to the General Contractor immediately upon receipt.

On June 12, 2015, the District and Aviation 2 entered into a Capital Pledge Agreement whereby Aviation 2 agreed to pledge certain revenues generated from Aviation 2's imposition of the District Mill Levy Ten to the District. Aviation 2 is required to remit the aforementioned pledged revenues to the District under PIRA.

On June 12, 2015, the District entered into a Capital Pledge Agreement with Aviation 2 whereby Aviation 2 agreed to pledge certain revenues generated from Aviation 2's imposition of the District Mill Levy Three to the District. Aviation 2 is required to remit the pledged revenues from the District Mill Levy Three to the District under the Additional PIRA.

On August 18, 2015, the District entered into the Capital Pledge Agreement with Aviation 5 whereby Aviation 5 agreed to pledge certain revenues generated by Aviation 5's imposition of the District Mill Levy Ten to the District. Aviation 5 is required to remit the pledged revenues from the District Mill Levy Ten to the Custodian under the PIRA.

#### **Operation Funding Agreement**

The District entered into a 2015 Operation Funding Agreement (OFA) with Fulenwider on December 3, 2014, effective January 1, 2015 through March 15, 2016. Under the OFA, Fulenwider agrees to periodically advance the District amounts to pay operation and maintenance expenses. The District agrees to repay amounts advanced, to the extent that it has funds available from legally available revenue. Amounts advanced under the OFA bear simple interest at 8%. The repayment of advances shall not extend beyond December 31, 2045. The District previously entered into a 2013-2014 Operation Funding Agreement with Fulenwider (2013-2014 OFA). Repayment of the aforementioned advances are applied pursuant to the priority established in the 2013-2014 OFA and the OFA.

The District entered into a 2016-2021 Operation Funding Agreement (2016-2021 OFA) with the Developer on December 7, 2016, with an effective date of January 1, 2016.

## Aviation Station North Metropolitan District No. 1

### NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2016

Under the 2016-2021 OFA, the Developer agrees to periodically advance the District amounts to pay operation and maintenance expenses up to the potential shortfall amount of \$2,000,000. The District agrees to repay amounts advanced, to the extent that it has funds available from legally available revenue. Amounts advanced under the 2016-2021 OFA bear simple interest at 8%. The repayment of advances shall not extend beyond December 31, 2051. The District previously entered into the 2013-2014 OFA and the OFA. Repayment of the aforementioned advances will be applied pursuant to the priority established in the 2013-2014 OFA, the OFA and the 2016-2021 OFA.

#### **Reimbursement Agreement**

On May 19, 2015, the District and WestTex 66 Pipeline Company (WestTex) entered into a Reimbursement Agreement whereby WestTex agreed to relocate, adjust and protect a certain pipeline and the District agreed to pay \$1,976,000 (the Estimated Cost) to WestTex for same. The parties further agreed that the District would pay WestTex any additional costs exceeding the Estimated Cost up to an amount not to exceed 10% of the Estimated Cost.

#### **Note 9 – Commitments**

On June 2, 2015, the District entered into a Standard Design-Build Agreement and General Conditions between Owner and Design-Builder with the General Contractor for the construction of various Pena Station Area Improvements. At December 31, 2016, there was approximately \$355,500 remaining on the contract. The District's portion is 26.14%, or approximately \$92,900.

#### **Note 10 – Economic dependency**

The District has not yet established a revenue base sufficient to pay the District's operational or debt services costs. Until an independent revenue base is established, continuation of operations in the District will be dependent upon funding from the Developer.

#### **Note 11 – Risk management**

The District is exposed to various risks of loss related to torts, 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 District Property and Liability Pool (the 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.

## Aviation Station North Metropolitan District No. 1

### NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2016

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 12 – 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.

At its November 5, 2013 election, voters in the District authorized the District to collect, retain and spend ad valorem tax increases without regard to limitations contained within Article X, Section 20 of the Colorado Constitution.

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 interpretation of how to calculate Fiscal Year Spending limits, will require judicial interpretation.

#### **Note 13 – Restatement**

Beginning net position was restated from \$614,662 to \$1,463,681. This was a result of an update in capital assets certified as eligible for District expenditure and the related timing and amounts of advances.

**SUPPLEMENTAL INFORMATION**

**Aviation Station North Metropolitan District No. 1**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -**  
**CAPITAL PROJECTS FUND**

**For the Year Ended December 31, 2016**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
<b>REVENUES</b>				
Contributions from other governments	\$ 1,600,691	\$ 4,630,000	\$ 3,055,359	\$ (1,574,641)
Other revenue	-	-	23,010	23,010
<b>Total revenues</b>	<u>1,600,691</u>	<u>4,630,000</u>	<u>3,078,369</u>	<u>(1,551,631)</u>
<b>EXPENDITURES</b>				
Accounting and audit	-	-	9,476	(9,476)
Capital outlay	-	24,000,000	22,397,027	1,602,973
Contingency	18,189,672	-	-	-
District management	-	-	22,925	(22,925)
Interest and reserve costs	-	-	94,283	(94,283)
Legal	-	-	317,053	(317,053)
Miscellaneous	-	-	5,507	(5,507)
Snow removal	-	-	21,097	(21,097)
<b>Total expenditures</b>	<u>18,189,672</u>	<u>24,000,000</u>	<u>22,867,368</u>	<u>1,132,632</u>
<b>Excess of revenues (under) expenditures</b>	<u>(16,588,981)</u>	<u>(19,370,000)</u>	<u>(19,788,999)</u>	<u>(418,999)</u>
<b>Other financing sources (uses)</b>				
Advances from other governments	9,833,337	12,615,000	12,611,004	(3,996)
Developer advance	3,210,313	3,210,313	2,877,156	(333,157)
<b>Total other financing sources (uses)</b>	<u>13,043,650</u>	<u>15,825,313</u>	<u>15,488,160</u>	<u>(337,153)</u>
<b>Net change in fund balance</b>	<u>(3,545,331)</u>	<u>(3,544,687)</u>	<u>(4,300,839)</u>	<u>(756,152)</u>
<b>Fund balance - beginning</b>	<u>3,545,331</u>	<u>3,545,331</u>	<u>4,699,597</u>	<u>1,154,266</u>
<b>Fund balance - ending</b>	<u>\$ -</u>	<u>\$ 644</u>	<u>\$ 398,758</u>	<u>\$ 398,114</u>