

Marin Metropolitan District
FINANCIAL STATEMENTS AND
REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

December 31, 2016



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REPORT OF INDEPENDENT CERTIFIED
PUBLIC ACCOUNTANTS

Board of Directors
Marin Metropolitan District

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Marin Metropolitan District (the "District"), as of and for the year ended December 31, 2016, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on conducting our audit in accordance with auditing standards generally accepted in the United States of America as established by the American Institute of Certified Public Accountants ("US GAAS").

We conducted our audit in accordance with US GAAS. Those standards require that we plan and perform our audit to obtain reasonable assurance about whether these financial statements are free of material misstatement.

An audit includes 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 District'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 District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting principles 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 on the Financial Statements

In our opinion, the financial statements referred to on the preceding page present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Marin Metropolitan District, as of December 31, 2016, and the respective changes in financial position thereof, 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.

As discussed in NOTE D to the financial statements, the District will be unable to make the scheduled payments of principal and interest on the General Obligation Bonds, Series 2008 unless the terms of the bonds are restructured.

Other Matters

Supplementary Information

Our audit was conducted with the purpose of forming an opinion on the financial statements of the Marin Metropolitan District taken as a whole. The supplementary information on page 20 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information is the responsibility of management of the District and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to our auditing procedures applied in the audit of the financial statements and certain other 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 basic financial statements taken as a whole.

Management's Discussion and Analysis

The Board of Directors has not presented the Management's Discussion and Analysis information that governmental 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 part of the basic financial statements, is required by the Government Accounting Standards Board, who considers it to be an essential part of the 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.

Marc, James and Associates, PC

Highlands Ranch, Colorado
September 29, 2017

BASIC FINANCIAL STATEMENTS

Marin Metropolitan District

GOVERNMENTAL FUNDS BALANCE SHEET/ STATEMENT OF NET POSITION

	December 31, 2016				Statement of Net Position
	General	Debt Service	Total	Adjustments	
ASSETS					
Cash and investments	\$2,959,280	\$ -	\$ 2,959,280	\$ -	\$ 2,959,280
Cash and investments - restricted	-	148,384	148,384	-	148,384
Due from Arapahoe County	142	-	142	-	142
Total assets	\$2,959,422	\$ 148,384	\$ 3,107,806	-	3,107,806
LIABILITIES					
Accounts payable	\$ 19,045	\$ -	\$ 19,045	-	19,045
Accrued interest on bonds	-	-	-	3,797,205	3,797,205
Long-term liabilities	-	-	-	-	-
Due in more than one-year	-	-	-	17,485,000	17,485,000
Total liabilities	19,045	-	19,045	21,282,205	21,301,250
FUND BALANCE					
Non-spendable	-	-	-	-	-
Restricted	-	-	-	-	-
Emergencies	800	-	800	(800)	-
Debt service	-	148,384	148,384	(148,384)	-
Unassigned	2,939,577	-	2,939,577	(2,939,577)	-
Total fund balance	2,940,377	148,384	3,088,761	(3,088,761)	-
Total liabilities, deferred inflows of resources and fund balance	\$2,959,422	\$ 148,384	\$ 3,107,806		
NET POSITION					
Restricted					
Emergencies				800	800
Debt service				148,384	148,384
Unrestricted				(18,342,628)	(18,342,628)
Total net position				\$ (18,193,444)	\$ (18,193,444)

The accompanying notes are an integral part of these financial statements

Marin Metropolitan District

STATEMENT OF GOVERNMENTAL FUNDS REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCE/STATEMENT OF ACTIVITIES

For the Year ended December 31, 2016

	General	Debt Service	Capital Projects	Total	Adjustments	Statement of Activities
EXPENDITURES						
Accounting and audit	\$ 4,733	\$ -	\$ -	\$ 4,733	\$ -	\$ 4,733
Dues	340	-	-	340	-	340
Insurance	2,488	-	-	2,488	-	2,488
Legal	1,655,277	-	-	1,655,277	-	1,655,277
Miscellaneous	1,300	-	-	1,300	-	1,300
Treasurer's fees	381	-	-	381	-	381
Bond interest	-	-	-	-	1,558,225	1,558,225
Paying agent	-	11,600	-	11,600	-	11,600
Total expenditures	1,664,519	11,600	-	1,676,119	1,558,225	3,234,344
GENERAL REVENUES						
Property taxes	25,429	-	-	25,429	-	25,429
Specific ownership taxes	1,949	-	-	1,949	-	1,949
Settlement	4,561,967	-	212,594	4,774,561	-	4,774,561
Interest income	16,208	686	-	16,894	-	16,894
Total general revenues	4,605,553	686	212,594	4,818,833	-	4,818,833
CHANGES IN FUND BALANCE	2,941,034	(10,914)	212,594	3,142,714	(3,142,714)	-
CHANGE IN NET POSITION	-	-	-	-	1,584,489	1,584,489
FUND BALANCE (DEFICIT)/NET POSITION						
Beginning of the year	(657)	159,298	(212,594)	(53,953)	(19,723,980)	(19,777,933)
End of the year	<u>\$2,940,377</u>	<u>\$ 148,384</u>	<u>\$ -</u>	<u>\$ 3,088,761</u>	<u>\$ (21,282,205)</u>	<u>\$ (18,193,444)</u>

The accompanying notes are an integral part of these financial statements

Marin Metropolitan District

STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND

For the Year ended December 31, 2016

	Original Budget	Amended and Final Budget	Actual	Variance
REVENUES				
Property taxes	\$ 25,429	\$ 25,429	\$ 25,429	\$ -
Specific ownership taxes	1,780	1,780	1,949	169
Settlement	-	4,500,000	4,561,967	61,967
Interest income	-	-	16,208	16,208
	<u>27,209</u>	<u>4,527,209</u>	<u>4,605,553</u>	<u>78,344</u>
EXPENDITURES				
Accounting and audit	8,500	8,500	4,733	(3,767)
Dues	-	-	340	340
Insurance	3,000	3,000	2,488	(512)
Legal	76,434	1,647,000	1,655,277	8,277
Miscellaneous	1,000	1,000	1,300	300
Treasurer's fees	381	381	381	-
Emergency reserve	2,679	763	-	(763)
Contingency	-	39,356	-	(39,356)
	<u>91,994</u>	<u>1,700,000</u>	<u>1,664,519</u>	<u>3,875</u>
CHANGE IN FUND BALANCE	(64,785)	2,827,209	2,941,034	74,469
FUND BALANCE (DEFICIT)				
Beginning balance	<u>(10,700)</u>	<u>(10,700)</u>	<u>(657)</u>	<u>10,043</u>
Ending balance	<u>\$ (75,485)</u>	<u>\$2,816,509</u>	<u>\$ 2,940,377</u>	<u>\$ 84,512</u>

The accompanying notes are an integral part of these financial statements

Marin Metropolitan District
NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Marin Metropolitan District (the "District") conform to the accounting principles generally accepted in the United States of America ("US GAAP") as applicable to governmental entities. The following is a summary of the more significant policies consistently applied in the preparation of the basic financial statements of the District.

1. Reporting Entity

The District was formed in August 2007, under State of Colorado statutes as a quasi-municipal corporation and is governed by a five-member Board of Directors pursuant to the provisions of the Colorado Special District Act (Title 32, Article I, Colorado Revised Statutes).

The District's service area is located in the City of Greenwood Village, Colorado. The District was formed to provide street improvements, traffic and safety control, storm water drainage, water and sanitation, parks and recreation and other public infrastructure improvements and related facilities that benefit the residents and visitors of the District. As required by US GAAP, these financial statements present the activities of the District, which is legally separate and financially independent of other state and local government entities. The District has no component units as defined by Governmental Accounting Standards Board ("GASB"), Statement No. 14, *The Reporting Entity* and GASB No. 39, *Determining Whether Certain Organizations are Component Units*.

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

2. Measurement Focus and Financial Reporting Framework

The accompanying financial statements are presented in accordance with GASB Statement No 34, *Special Purpose Governments*.

Government-wide Financial Statements

The government-wide financial statements, the Statement of Net Position and the Statement of Activities, report information on the accrual basis of accounting related to the *governmental-type activities* of the District, which rely to a significant extent on property and specific ownership taxes. The Statement of Activities demonstrates the degree to which expenses of the *governmental-type activities* are supported by property and specific ownership taxes.

Governmental Fund Financial Statements

The governmental fund financial statements are prepared 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 if the revenues are collectible within the current period or soon thereafter to pay liabilities of the current period. For that purpose, the District considers revenues to be available if they are expected to be collected within 60 days of the end of the current fiscal period.

Marin Metropolitan District
NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *continued*

2. Measurement Focus and Financial Reporting Framework - continued

Governmental Funds

For 2016, the District has three Governmental Funds.

- The *General Fund* – The General Fund is the general operating fund of the District. It is used to account for all of the financial resources not accounted for and reported in another fund,
- The *Debt Service Fund* – The Debt Service Fund is used to account for all financial resources that are restricted, committed or assigned to expenditures for principal, interest and other debt related costs.
- The *Capital Projects Fund* – The Capital Project Fund is used to account for all financial resources that are restricted, committed or assigned to expenditures for capital outlays, including the acquisition of capital facilities and other assets.

3. Deposits and Investments

The District considers cash and cash equivalents to include cash on hand, demand deposits and money market accounts. Investments for the District are reported at fair value.

The District follows the practice of pooling cash and investments of all funds to maximize investment earnings. Except when required by trust or other agreement, all cash is deposited to and disbursed from a minimum number of bank accounts. Cash in excess of immediate operating requirements is pooled for deposit and investment flexibility. Investment earnings are allocated periodically to the participating funds based upon each fund's average equity balance in the total cash.

4. Fair Value of Financial Instruments

The District's financial instruments include cash and investments and accounts payable. The District estimates that the fair value of these financial instruments as of December 31, 2016 do not differ materially from the aggregate carrying values used in the accompanying financial statements. The carrying amount of these financial instruments approximates the fair value due to the short maturity of these financial instruments.

5. Use of Estimates

The preparation of financial statements in conformity with US GAAP involves the use of management's estimates that affect the reported amounts of assets and liabilities as of the date of the financial statements, and the reported amounts of revenue and expenditures during the reporting period. These estimates are based upon management's best judgment, after considering past events and assumptions about future events. Actual results could differ from those estimates.

Marin Metropolitan District
NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

6. *Property Taxes*

Property taxes are levied by the District's 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 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 if in equal installments, at the taxpayers' election, in February and June. Delinquent taxpayers are notified in July or 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.

For 2017, the District did not levy property taxes.

NOTE B – BUDGET INFORMATION

The District's annual budget is prepared on a Non-GAAP basis for the general and debt service funds. An annual appropriated budget is adopted at the total fund expenditure level and the annual appropriations lapse at the end of the District's fiscal year.

The District conforms to the following procedures, in accordance with the State of Colorado Revised Statutes, in the establishment of the budgetary information reflected in the accompanying financial statements.

On or before October 15, the District's management submits a proposed budget for the subsequent fiscal year to the District's Board of Directors. The budget sets forth all proposed expenditures for administration, operations, maintenance, debt service, and capital projects, as applicable, for the budget year; all anticipated revenues for the budget year; estimated beginning and ending fund balances; actual figures for the prior fiscal year and projected figures through the end of the current year; and a written budget message describing the important features of the budget.

Following receipt of the proposed budget, the District publishes notice of the hearing at which the adoption of the proposed budget will be considered, a statement that the proposed budget is available for inspection, and that any interested elector may file objections to the proposed budget prior to its adoption. The budget hearing is held at a regular or special Board of Directors' meeting.

Following the budget hearing, the Board of Directors adopts the budget and makes appropriations for the budget year. The District also certifies a mill levy for collection in the budget year. Because the District certifies a mill levy, the adoption of the budget, appropriations and certification of the mill levy must occur on or before December 15. Expenditures in excess of the amounts appropriated for a Fund or transfer of moneys between Funds must be approved by the Board of Directors in the same manner as the adoption of the budget.

For 2016, the General Fund budget was amended. Under the amended budget, budgeted revenues were increased to \$4,527,209 from \$27,209 and budgeted expenditures were increased to \$1,700,000 from \$91,994. The increases pertain to the settlement of litigation and related legal fees further discussed in NOTE H.

Marin Metropolitan District
NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE C – CASH AND INVESTMENTS

Deposits and Custodial Credit Risk

The Colorado Public Deposit Protection Act (“PDPA”) requires that all units of local government deposit cash in eligible public depositories. State regulators determine the eligibility. Amounts on deposit in excess of the Federal Deposit Insurance Corporation (“FDIC”) insurance levels must be collateralized. The eligible collateral is determined by the PDPA. The PDPA allows institutions to create a single collateral pool for all public funds. The pool is to be maintained by another institution, or held in trust for all uninsured public deposits. The market value of the collateral must be equal to 102% of the aggregate uninsured public deposits.

The Colorado Division of Banking for banks and savings associations is required by statute to monitor the naming of eligible depositories and reporting of the uninsured deposits and assets maintained in the collateral pools.

The District follows Colorado statutes for deposits. None of the District’s deposits were exposed to custodial credit risk.

Investments

Credit Risk

The District has adopted a formal investment policy that follows Colorado statutes regarding investments. Colorado statutes specify the types of investments meeting defining rating and risk criteria in which local governments may invest. These investments include obligations of the United States and certain United States Government agency entities, certain money market funds, guaranteed investment contracts, and local government investment pools.

Custodial and Concentration of Credit Risk

None of the District’s investments are subject to custodial or concentration of credit risk.

Colorado Surplus Assets Fund Trust (“CSAFE”)

The local government investment pool Colorado Surplus Asset Fund Trust (“CSAFE”), is rated AAAM by Standard and Poor’s. CSAFE is an investment vehicle established by state statute for local government entities to pool surplus assets. The State Securities Commissioner administers and enforces all State statutes governing the Trust. The Trust is similar to a money market fund, with each share valued at \$1.00. CSAFE may invest in U.S. Treasury securities, repurchase agreements collateralized by U.S. Treasury securities, certain money market funds, and highest rated commercial paper. A designated custodial bank serves as custodian for CSAFE’s portfolio pursuant to custodian agreements. The custodian acts as safekeeping agent for CSAFE’s investment portfolio and provides services as the depository in connection with direct investments and withdrawals. The custodians’ internal records identify the investments owned by CSAFE. At December 31, 2016, the District had \$2,879,493 invested in CSAFE.

Marin Metropolitan District
NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE D – GENERAL OBLIGATION BONDS, SERIES 2008

On June 1, 2008, the District issued \$30,485,000 of General Obligation Bonds, Series 2008 (the "Bonds") dated June 1, 2008 to finance capital improvements. The Bonds are term bonds due in various amounts through December 1, 2028. Interest is payable semiannually on June 1 and December 1, at 7.75% of the principal amount then outstanding. The Bonds are subject to early redemption prior to their respective maturities at the option of the District, at a redemption price equal to the principal amount plus accrued interest to the redemption date, without a redemption premium, on June 1, 2018 or any date thereafter. The Bonds are subject to extraordinary mandatory redemption when: 1) amounts on deposit in the bond fund and the reserve fund, together with other available monies, are sufficient to pay and redeem in full all of the bonds then outstanding, including accrued interest; or 2) when the retained amount is transferred to the bond fund in accordance with the Indenture.

In December 2011, the District made an extraordinary redemption of \$13,000,000. The redemption was applied to the sinking fund payments from 2014 through 2027 and the balance was applied to the 2028 payment.

The scheduled June 1, 2016 and December 1, 2016 interest payments totaling \$1,355,088 were not made and the 2016 unpaid interest is included in accrued interest as of December 31, 2016. In addition for 2016, additional interest in the amount of \$203,138 was recorded to recognize the interest on the unpaid accrued interest. As such, for 2016, total interest expense was \$1,558,225 and the total accrued interest as of December 31, 2016 was \$3,797,205 which has been added to the 2017 payment.

The Bonds are secured and payable from pledged revenue consisting of a limited tax mill levy of no more than 59.5 mills adjusted for change in the assessed value calculation, and specific ownership taxes. As discussed further in NOTE H, the District is currently prohibited from levying for the scheduled principal and interest payments. The Bonds are further secured by the reserve fund, which has a requirement, as defined in the Bond Indenture Agreement, of not less than \$3,048,500 and a surplus fund of up to \$1,000,000. At December 31, 2016, the balance in the reserve fund was \$105,826, which is less than the required amount.

The following is an analysis of changes in the Bonds for the period ending December 31, 2016:

	Balance December 31, 2015	Borrowings	Payments	Balance December 31, 2016	Balance Due in One Year
Series 2008 Bonds	\$ 17,485,000	\$ -	\$ -	\$ 17,485,000	\$ -

The following is a summary of the annual Bond principal and interest requirements.

Year Ended December 31,	Principal	Interest	Total
2017	\$ -	\$ 5,152,293	\$ 5,152,293
2018	-	1,355,088	1,355,088
2019	-	1,355,088	1,355,088
2020	-	1,355,088	1,355,088
2021	-	1,355,088	1,355,088
2022 to 2026	-	6,775,440	6,775,440
2027 to 2028	17,485,000	2,710,176	20,195,176
	\$ 17,485,000	\$ 20,058,261	\$ 37,543,261

Marin Metropolitan District
NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE D – GENERAL OBLIGATION BONDS, SERIES 2008 - *continued*

Debt Authorization

District voters, at a November 2007 election, authorized the District to issue \$177,500,000 of general obligation bonds for infrastructure development, parks and recreation, and other uses. As of December 31, 2015, the District had remaining voted debt authorization of approximately \$147,015,000. The District has not budgeted to issue any additional debt in 2017. The District's Service Plan limits its general obligation debt to \$35,500,000.

NOTE E – FUND BALANCE/NET POSITION

Fund Balance

The District utilizes the fund balance presentation as required under GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Fund balances are categorized as non-spendable, restricted, committed, assigned or unassigned.

Non-spendable – represents amounts that cannot be spent because they are either in non-spendable form or legally required to remain intact,

Restricted – represents amounts with external constraints placed on the use of these resources or imposed by enabling legislation,

Committed – represents amounts that can only be used for specific purposes imposed by a formal action of the District's highest level of decision-making authority, the District's Board of Directors. Committed resources cannot be used for any other purpose unless the District's Board of Directors removes or changes the specific use by the same type of action used to commit those amounts, either by resolution or by ordinance,

Assigned – represents amounts that the District intends to use for specific purposes as expressed by the District's Board of Directors or a District official delegated the authority to assign amounts,

Unassigned – represents the residual classification for the general fund or deficit balances in other funds, as applicable.

Amounts are considered to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) amounts are available. Unrestricted amounts are considered to have been spent when an expenditure is incurred for purposes for which amounts in any of these unrestricted fund balances classifications could be used.

Marin Metropolitan District
NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE E – FUND BALANCE/NET POSITION - *continued*

Fund Balance - continued

As of December 31, 2016, the District's fund balance consisted of the following:

	General Fund	Debt Service Fund	Total
Fund balance:			
Restricted			
Emergencies	\$ 800	\$ -	\$ 800
Debt service	-	148,384	148,384
Unassigned	2,939,577	-	2,939,577
Total fund balance	\$ 2,940,377	\$ 148,384	\$ 3,088,761

Net Position

Net Position represents the difference between assets less liabilities. The District reports three categories of net position, as follows:

Net investment in capital assets – consists of net capital assets, reduced by outstanding balances of any *related debt obligations and deferred inflows of resources attributable to the acquisition, construction, or improvement* of those assets and increased by balances of deferred outflows or resources related to those assets.

Restricted net position – net position is considered restricted if their use is constrained to a particular purpose. Restrictions are imposed by external organizations such as federal or state laws. Restricted net position is reduced by liabilities and deferred inflows of resources related to the restricted assets.

Unrestricted net position – consists of all other net position that does not meet the definition of the above two components and is available for general use by the District.

When an expense is incurred for purposes for which both restricted and unrestricted net positions are available, the District will use the most restrictive net position first.

NOTE F – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets, errors or omissions, injuries to employees or natural disasters.

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 agreements to provide property, liability, public officials' liability, boiler and machinery and workers compensation coverage to its members.

The District pays annual premiums to the Pool for liability, property, public officials' liability and workers compensation 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.

Marin Metropolitan District
NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE G – 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 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.

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 calculation of the fiscal year spending limits will require judicial interpretation.

NOTE H – LITIGATION

The following is a summary of the current on-going litigation involving the District:

Landmark Towers Association, Inc. v. UMB Bank, N.A., Colorado BondShares, and Marin Metropolitan District

On June 1, 2011, Landmark Towers Association, Inc. (“Landmark”), a homeowner association, filed an action on behalf of its members entitled *Landmark Towers Ass’n, et al. v. UMB Bank, et al.*, Case Number 2011-CV-1076 in Arapahoe County District Court, Colorado (“Landmark Litigation”). The complaint filed in the Landmark Litigation sought a temporary restraining order, declaratory relief and permanent injunction against the MARIN Marin Metropolitan District (the “District”), Colorado Bondshares (“Fund”) and UMB Bank (“UMB”), the trustee, alleging that the taxes imposed by the District pledged to pay the Bonds violated Colorado’s Tax Payer Bill of Rights (“TABOR”).

In August 2011, Landmark sought to freeze approximately \$13,000,000 in original proceeds from the sale of the Bonds to the Fund, which moneys were held by UMB as trustee. The District Court denied Landmark’s efforts to freeze the \$13,000,000 and allowed those moneys to be paid to the Fund, which reduced the principal amount of the Bonds to the current level of \$17,485,000.

In July and August 2013, the District Court held a bench trial regarding Landmark’s claims for declaratory relief and permanent injunction. On September 6, 2013, the District Court issued an order (“Sept. 6 Order”) that the District was properly formed and that the election approving the taxes was proper, but nonetheless held that there were violations of TABOR relating to the property taxes. In particular, the District Court held that (1) bond proceeds were used to pay improper charges of the developer; (2) the taxes exceeded the maximum mill levy for debt service; and (3) the taxes did not benefit the Landmark taxpayers. After holding that the taxes did not provide a benefit to the Landmark taxpayers, the Court enjoined the District from imposing its taxes on the Landmark members for purposes of paying the Bonds (the “Injunction”). The District, the Fund and UMB filed a motion for reconsideration of the Sept. 6 Order, which the District Court denied in an order dated October 31, 2013 (“Oct. 31 Order”).

Marin Metropolitan District
NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE H – LITIGATION - *continued*

Landmark Towers Association, Inc. v. UMB Bank, N.A., Colorado BondShares, and Marin Metropolitan District - continued

The Fund filed a Notice of Appeal of the Sept. 6 Order and the Oct. 31 Order, including the Injunction.

On April 21, 2016, the Colorado Court of Appeals issued an Opinion, in which it concluded that the TABOR election held for approving the Bonds and the District's ad valorem property taxes was invalid because eligible electors were denied the right to vote in the election and that ineligible electors voted in the election. Based on those decisions, the Court of Appeals upheld the injunction against the District, prohibiting it from levying taxes for payment of the Bonds.

The Fund filed a petition with the Colorado Supreme Court to review the Court of Appeals' Opinion on various grounds. On November 7, 2016, the Supreme Court granted the petition for review. The matter has been briefed to the Supreme Court and oral arguments occurred on September 20, 2017.

Marin Metropolitan District v. Paul R. Cockrel, individually; Collins, Cockrel & Cole, P.C.; Leann M. Jones, individually; Leann M. Jones, CPA, P.C. and Rike Palese, individually

On March 22, 2013, the District filed a complaint alleging (a) deceit based upon fraud; (b) fraudulent concealment; (c) professional malpractice; (d) breach of fiduciary duty; and (e) unjust enrichment against the various defendants.

In 2013, the District settled its claims against Mr. Palese for \$100,000, which was paid in full to the District in 2013. In 2016, the District settled its claim against Paul R. Cockrel, individually and Collins, Cockrel and Cole, PC for \$4,000,000 and the forgiveness of \$274,561 in payables owed to Collins, Cockrel & Cole, P.C. In 2016, the District settled its claim against Leann M. Jones, individually and Leann M. Jones, CPA, P.C. for \$500,000.

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

The Governmental Funds Balance Sheet/Statement of Net Position and Statement of Governmental Funds Revenue, Expenditures and Change in Fund Balance/Statement of Activities includes an adjustments column which reconciles the differences between the government-wide and fund financial statements as follows:

Governmental Funds Balance Sheet/Statement of Net Position

Long-term liabilities, including accrued interest payable, are not due and payable in the current period and therefore are not reported in the governmental funds.	\$	21,282,205
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Statement of Governmental Funds Revenue, Expenditures and Change in Fund Balance/Statement of Activities

Interest expense is recognized in the governmental funds when paid; however, in the statement of activities interest expense is recognized when incurred. This represents both the accrued and unpaid interest for the year ended December 31, 2016	\$	1,558,225
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Marin Metropolitan District

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE J – MANAGEMENT’S EVALUATION OF SUBSEQUENT EVENTS

The preparation of the District’s financial statements and accompanying footnotes in conformity with generally accepted accounting principles requires management of the District to evaluate transactions and events subsequent to the balance sheet date involving the District. Management has evaluated the subsequent transactions and events of the District through September 29, 2017, which is the date the financial statements and accompanying notes were available for issuance.

SUPPLEMENTARY INFORMATION

Marin Metropolitan District

SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - DEBT SERVICE FUND

For the Year ended December 31, 2016

	Original and Final Budget	Actual	Variance
	<u> </u>	<u> </u>	<u> </u>
REVENUES			
Bond interest shortage	\$ -	\$ -	\$ -
Interest income	-	686	686
	<u> </u>	<u> </u>	<u> </u>
Total revenues	-	686	686
	<u> </u>	<u> </u>	<u> </u>
EXPENDITURES			
Bond interest	-	-	-
Paying agent	-	11,600	11,600
Legal	154,926	-	(154,926)
	<u> </u>	<u> </u>	<u> </u>
Total expenditures	154,926	11,600	(143,326)
	<u> </u>	<u> </u>	<u> </u>
 CHANGE IN FUND BALANCE	 <u>(154,926)</u>	 <u>(10,914)</u>	 <u>144,012</u>
 FUND BALANCE			
Beginning balance	154,926	159,298	4,372
	<u> </u>	<u> </u>	<u> </u>
Ending balance	<u>\$ -</u>	<u>\$ 148,384</u>	<u>\$ 148,384</u>