

Valentia Court Metropolitan District  
Financial Statements  
Year Ended December 31, 2016  
with  
Independent Auditors' Report



**RECEIVED**

*By the Office of the State Auditor at 4:09 pm, Dec 19, 2017*

## C O N T E N T S

	<u>Page</u>
<u>Independent Auditors' Report</u>	I
<u>Basic Financial Statements</u>	
Balance Sheet/Statement of Net Position - Governmental Funds	1
Statement of Revenues, Expenditures and Changes in Fund Balances/Statement of Activities - Governmental Funds	2
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund	3
Notes to Financial Statements	4
<u>Supplemental Information</u>	
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Debt Service Fund	15
Schedule of Revenues, Expenditures and Changes in Fund Balance Budget and Actual - Capital Projects Fund	16

## **Independent Auditor's Report**

Board of Directors  
**Valentia Court Metropolitan District**

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and each major fund of Valentia Court Metropolitan 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.

### **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 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 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 Valentia Court Metropolitan District 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 opinion on the basic financial statements are not affected by this missing information.

Our audit was conducted for the purpose of forming an opinion 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.  
November 2, 2017

Valentia Court Metropolitan District

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

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
<b>ASSETS</b>						
Cash - restricted	\$ 5,707	\$ -	\$ -	\$ 5,707	\$ -	\$ 5,707
Receivable - County Treasurer	74	667	-	741	-	741
Property taxes receivable	14,006	126,051	-	140,057	-	140,057
Receivable - Developer	17,346	-	-	17,346	(7,013)	10,333
Due from other funds	-	8,929	-	8,929	-	8,929
Capital assets not being depreciated	-	-	-	-	2,718,755	2,718,755
<b>Total Assets</b>	<b>\$ 37,133</b>	<b>\$ 135,647</b>	<b>\$ -</b>	<b>\$ 172,780</b>	<b>2,711,742</b>	<b>2,884,522</b>
<b>LIABILITIES</b>						
Accounts payable	\$ 14,198	\$ -	\$ -	\$ 14,198	-	14,198
Accrued interest on note	-	-	-	-	16,685	16,685
Due to other funds	8,929	-	-	8,929	-	8,929
Long-term liabilities:						
Due in more than one year	-	-	-	-	2,706,924	2,706,924
<b>Total Liabilities</b>	<b>23,127</b>	<b>-</b>	<b>-</b>	<b>23,127</b>	<b>2,723,609</b>	<b>2,746,736</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Deferred property taxes	14,006	126,051	-	140,057	-	140,057
<b>Total Deferred Inflows of Resources</b>	<b>14,006</b>	<b>126,051</b>	<b>-</b>	<b>140,057</b>	<b>-</b>	<b>140,057</b>
<b>FUND BALANCES/NET POSITION</b>						
Fund Balances:						
Restricted:						
Emergencies	450	-	-	450	(450)	-
Debt service	-	9,596	-	9,596	(9,596)	-
Unassigned	(450)	-	-	(450)	450	-
<b>Total Fund Balances</b>	<b>-</b>	<b>9,596</b>	<b>-</b>	<b>9,596</b>	<b>(9,596)</b>	<b>-</b>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b>	<b>\$ 37,133</b>	<b>\$ 135,647</b>	<b>\$ -</b>	<b>\$ 172,780</b>		
Net Position:						
Net investment in capital assets					11,831	11,831
Restricted for:						
Emergencies					450	450
Debt service					(7,089)	(7,089)
Unrestricted					(7,463)	(7,463)
<b>Total Net Position</b>					<b>\$ (2,271)</b>	<b>\$ (2,271)</b>

The notes to the financial statements are an integral part of these statements.

Valentia Court Metropolitan District

STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES/STATEMENT OF ACTIVITIES  
GOVERNMENTAL FUNDS  
For the Year Ended December 31, 2016

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
<b>EXPENDITURES</b>						
Accounting and audit	\$ 4,022	\$ -	\$ -	\$ 4,022	\$ -	\$ 4,022
Election expense	-	-	-	-	-	-
Insurance	2,013	-	-	2,013	-	2,013
Legal	14,786	-	-	14,786	-	14,786
Miscellaneous expenses	280	-	-	280	-	280
Treasurer's fees	199	1,792	-	1,991	-	1,991
Note principal	-	40,000	-	40,000	(40,000)	-
Note interest expense	-	91,321	-	91,321	16,685	108,006
District Compliance	-	1,400	-	1,400	-	1,400
Capital improvements	-	-	1,398,875	1,398,875	(1,398,875)	-
Total Expenditures	<u>21,300</u>	<u>134,513</u>	<u>1,398,875</u>	<u>1,554,688</u>	<u>(1,422,190)</u>	<u>132,498</u>
<b>GENERAL REVENUES</b>						
Property taxes	13,250	119,248	-	132,498	-	132,498
Specific ownership taxes	1,016	9,142	-	10,158	-	10,158
Interest income	21	191	-	212	-	212
Total General Revenues	<u>14,287</u>	<u>128,581</u>	<u>-</u>	<u>142,868</u>	<u>-</u>	<u>142,868</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>						
	(7,013)	(5,932)	(1,398,875)	(1,411,820)	1,422,190	10,370
<b>OTHER FINANCING SOURCES (USES)</b>						
Note proceeds	-	-	1,398,875	1,398,875	(1,398,875)	-
Developer advances	7,013	-	-	7,013	(7,013)	-
Developer contributions	-	-	-	-	-	-
Total Other Financing Sources (Uses)	<u>7,013</u>	<u>-</u>	<u>1,398,875</u>	<u>1,405,888</u>	<u>(1,405,888)</u>	<u>-</u>
<b>NET CHANGES IN FUND BALANCES</b>						
	-	(5,932)	-	(5,932)	5,932	
<b>CHANGE IN NET POSITION</b>						
					10,370	10,370
<b>FUND BALANCES/NET POSITION:</b>						
BEGINNING OF YEAR	-	15,528	-	15,528	(28,169)	(12,641)
END OF YEAR	<u>\$ -</u>	<u>\$ 9,596</u>	<u>\$ -</u>	<u>\$ 9,596</u>	<u>\$ (11,867)</u>	<u>\$ (2,271)</u>

The notes to the financial statements are an integral part of these statements.

Valentia Court Metropolitan District

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

For the Year Ended December 31, 2016

	Original <u>Budget</u>	Amended <u>Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
<b>REVENUES</b>				
Property taxes	\$ 13,250	\$ 13,250	\$ 13,250	\$ -
Specific ownership taxes	928	928	1,016	88
Interest income	-	-	21	21
	<u>14,178</u>	<u>14,178</u>	<u>14,287</u>	<u>109</u>
Total Revenues				
<b>EXPENDITURES</b>				
Accounting and audit	3,000	3,000	4,022	(1,022)
Election expense	2,000	2,000	-	2,000
Insurance	2,300	2,300	2,013	287
Legal	8,000	11,006	14,786	(3,780)
Miscellaneous expenses	1,000	1,000	280	720
Treasurer's fees	199	199	199	-
Contingency	2,000	2,000	-	2,000
Emergency reserve	495	495	-	495
	<u>18,994</u>	<u>22,000</u>	<u>21,300</u>	<u>700</u>
Total Expenditures				
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	(4,816)	(7,822)	(7,013)	809
<b>OTHER FINANCING SOURCES (USES)</b>				
Developer advances	<u>4,816</u>	<u>7,822</u>	<u>7,013</u>	<u>(809)</u>
Total Other Financing Sources (Uses)	<u>4,816</u>	<u>7,822</u>	<u>7,013</u>	<u>(809)</u>
<b>NET CHANGE IN FUND BALANCE</b>	-	-	-	-
<b>FUND BALANCE:</b>				
BEGINNING OF YEAR	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The notes to the financial statements are an integral part of these statements.

## Valentia Court Metropolitan District

### Notes to Financial Statements December 31, 2016

#### Note 1: Summary of Significant Accounting Policies

The accounting policies of the Valentia Court Metropolitan District, located in Arapahoe County, Colorado, conform to the accounting principles generally accepted in the United States of America (“GAAP”) as applicable to governmental units. The Governmental Accounting Standards Board (“GASB”) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant policies consistently applied in the preparation of financial statements.

#### Definition of Reporting Entity

The District was organized in 2007, as a quasi-municipal organization established under the State of Colorado Special District Act. The District was established to finance and construct certain public infrastructure improvements that benefit the citizens of the District. The District's primary revenues are property taxes. The District is governed by an elected Board of Directors.

As required by GAAP, these financial statements present the activities of the District, which is legally separate and financially independent of other state and local governments. The District follows the GASB, Statement No. 61, *The Financial Reporting Entity: Omnibus, which amended* GASB Statement No. 14, *The Financial Reporting Entity* and GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, which provides guidance for determining which governmental activities, organizations and functions should be included within the financial reporting entity. GASB sets 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 pronouncements also require including a possible component unit if it would be misleading to exclude it.

The District is not financially accountable for any other organization. The District has no component units as defined by the GASB.

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

## Valentia Court Metropolitan District

### Notes to Financial Statements December 31, 2016

#### Basis of Presentation

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

The government-wide financial statements (i.e. the governmental funds balance sheet/statement of net position and the governmental funds statement of revenues, expenditures, and changes in fund balances/statement of activities) report information on all of the governmental activities of the District. The statement of net position reports all financial and capital resources of the District. The difference between the (a) assets and deferred outflows of resources and the (b) liabilities and deferred inflows of resources of the District is reported as net position. The statement of activities demonstrates the degree to which expenditures/expenses of the governmental funds are supported by general revenues. For the most part, the effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct and indirect expenses of a given function or segment 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*.

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 the related cash flows. Property taxes are recognized as revenues in the year for which they are collected.

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. 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.

## Valentia Court Metropolitan District

### Notes to Financial Statements December 31, 2016

The District 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.

**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.

**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.

#### Budgetary Accounting

Budgets are adopted on a non-GAAP basis for the governmental funds. In accordance with the State Budget Law of Colorado, 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 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. The appropriation is at the total fund expenditures level and lapses at year end.

In December 2016, the District amended its total appropriations in the General Fund from \$18,994 to \$22,000 primarily due to legal expenses.

#### Assets, Liabilities and Net Position

##### Fair Value of Financial Instruments

The District's financial instruments include cash and cash equivalents, accounts receivable and accounts payable. The District estimates that the fair value of all financial instruments at December 31, 2016, does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying balance sheet. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

##### Deposits and Investments

The District's cash and cash equivalents are considered to be cash on hand and short-term investments with maturities of three months or less from the date of acquisition. Investments for the government are reported at fair value.

## Valentia Court Metropolitan District

### Notes to Financial Statements December 31, 2016

The District follows the practice of pooling cash and investments of all funds to maximize investment earnings. Except when required by trust or other agreements, 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.

#### Estimates

The preparation of these financial statements in conformity with GAAP requires the District management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

#### Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District does not have any items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has one item that qualify for reporting in this category. Deferred property taxes are deferred and recognized as an inflow of resources in the period that the amounts become available and a deferred gain on refunding that is reported in the government-wide statement of net position.

#### Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items), are reported in the applicable governmental activities columns in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the life of the asset are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable using the straight-line method. Depreciation on property that will remain assets of the District is reported on the Statement of Activities as a current charge. Improvements that will be conveyed to other governmental entities are classified as construction in progress and are not depreciated. Land and certain landscaping improvements are not depreciated. No depreciation expense was recognized during 2016.

## Valentia Court Metropolitan District

### Notes to Financial Statements December 31, 2016

#### 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.

Property taxes, net of estimated uncollectible taxes, are recorded initially as deferred inflows in the year they are levied and measurable since they are not normally available nor are they budgeted as a resource until the subsequent year. The deferred property taxes are recorded as revenue in the subsequent year when they are available or collected.

#### Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities.

#### Fund Equity

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. Because circumstances differ among governments, not every government or every governmental fund will present all of these components. The following classifications make the nature and extent of the constraints placed on a government's fund balance more transparent:

#### Nonspendable Fund Balance

Nonspendable fund balance includes amounts that cannot be spent because they are either not spendable in form (such as inventory or prepaids) or are legally or contractually required to be maintained intact.

#### Restricted Fund Balance

The restricted fund balance includes amounts restricted for a specific purpose by external parties such as grantors, bondholders, constitutional provisions or enabling legislation.

The restricted fund balance in the General Fund represents Emergency Reserves that have been provided as required by Article X, Section 20 of the Constitution of the State of Colorado. A total of \$450 of the General Fund balance has been restricted in compliance with this requirement.

The restricted fund balance in the Debt Service Fund in the amount of \$9,596 is restricted for the payment of the debt service costs associated with the Promissory Note (see Note 4).

Valentia Court Metropolitan District

Notes to Financial Statements  
December 31, 2016

Assigned Fund Balance

Assigned fund balance includes amounts the District intends to use for a specific purpose. Intent can be expressed by the District's Board of Directors or by an official or body to which the Board of Directors delegates the authority.

Unassigned Fund Balance

Unassigned fund balance includes amounts that are available for any purpose. Positive amounts are reported only in the General Fund, all other funds can report negative amounts.

Committed Fund Balance

The portion of fund balance that can only be used for specific purposes pursuant to constraints imposed by a formal action of the government's highest level of decision-making authority, the Board of Directors. The constraint may be removed or changed only through formal action of the Board of Directors.

For the classification of Governmental Fund balances, the District considers an expenditure to be made from the most restrictive first when more than one classification is available.

Net Position

Net Position represents the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources. The District can report 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 position are available, the District will use the most restrictive net position first.

Valentia Court Metropolitan District

Notes to Financial Statements  
December 31, 2016

Note 2: Cash

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

Statement of Net Position:

Cash - Restricted	\$ <u>5,707</u>
Total	\$ <u>5,707</u>

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

Deposits with financial institutions	\$ <u>5,707</u>
--------------------------------------	-----------------

Deposits

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 eligibility. 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 pool is to be maintained by another institution, or held in trust for all the uninsured public deposits as a group. 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.

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

Investments

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

Valentia Court Metropolitan District

Notes to Financial Statements  
December 31, 2016

Note 3: Capital Assets

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

<u>Governmental Type Activities:</u>	<u>Balance</u> <u>1/1/2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/2016</u>
<u>Capital assets not being depreciated:</u>				
Construction in progress	\$1,319,880	\$ 1,398,875	\$ -	\$ 2,718,755
Total capital assets not being depreciated	<u>1,319,880</u>	<u>1,398,875</u>	<u>-</u>	<u>2,718,755</u>
Government type assets, net	<u>\$1,319,880</u>	<u>\$ 1,398,875</u>	<u>\$ -</u>	<u>\$ 2,718,755</u>

Upon completion and acceptance, all the fixed assets will be conveyed by the District to other local governments. The District will not be responsible for maintenance.

Note 4: Long Term Debt

A description of the long-term obligations as of December 31, 2016, is as follows:

Infrastructure Acquisition and Reimbursement Agreement

The District entered into Infrastructure Acquisition and Reimbursement Agreements with Willowmiss Development, Inc. and Valentia Development, Inc., setting forth the requirements to be met for the District to accept public infrastructure from a developer entity.

Funding and Reimbursement Agreements

On December 2, 2011, the District and Valentia Development, Inc. entered into a Funding and Reimbursement Agreement pursuant to which Valentia Development, Inc. agreed to loan to the District certain funds, up to a maximum of \$5,000,000. The parties also agreed that additional advances would be available to the District through December 31, 2016, and simple interest of 6% would accrue on any outstanding balance. As of December 31, 2016, the outstanding advances, excluding interest, totaled \$17,346.

On November 1, 2016, the District and Willowmiss Development, Inc. entered into a Funding and Reimbursement Agreement pursuant to which Willowmiss Development, Inc. agreed to loan to the District certain funds, up to a maximum of \$5,000,000. The parties also agreed that additional advances would be available to the District through December 31, 2020, and simple interest of 6% would accrue on any outstanding balance. As of December 31, 2016, the outstanding advances, excluding interest, totaled \$0.

Valentia Court Metropolitan District

Notes to Financial Statements  
December 31, 2016

On July 29, 2013 the District adopted a resolution authorizing the issuance of a Promissory Note (“The 2013 Note”). Effective August 1, 2013, the District issued a Note in the amount of \$1,348,049 for the acquisition of public infrastructure. The 2013 Note matures on August 1, 2043 and bears interest at 6% per annum payable semiannually on June 1 and December 1 of each year. The 2013 Note is subject to mandatory redemption prior to maturity to the extent of excess tax revenues and is subject to optional redemption prior to maturity at any time at the principal amount plus accrued interest. Provided that the debt service mill levy has been imposed each year and tax revenues applied to principal and accrued interest on the 2013 Note, any principal and accrued interest remaining unpaid on the maturity date of August 1, 2043 shall be deemed discharged and satisfied in full.

On November 15, 2016 the District adopted a resolution authorizing the issuance of a Promissory Note (“The 2016 Note”). On November 15, 2016, the District issued a Note in the amount of \$1,398,875 for the acquisition of public infrastructure. The 2016 Note matures on December 1, 2046 and bears interest at 6% per annum payable semiannually on June 1 and December 1 of each year. The 2016 Note is subject to mandatory redemption prior to maturity to the extent of excess tax revenues and is subject to optional redemption prior to maturity at any time at the principal amount plus accrued interest. Provided that the debt service mill levy has been imposed each year and tax revenues applied to principal and accrued interest on the 2016 Note, any principal and accrued interest remaining unpaid on the maturity date of December 1, 2046 shall be deemed discharged and satisfied in full.

A summary of the annual long-term debt principal and interest requirements is not available as principal is paid based upon available revenue.

The following is an analysis of changes in long-term debt for the period ending December 31, 2016:

	Balance 1/1/2016	Additions	Deletions	Balance 12/31/2016	Current Portion
2013 Note Payable	\$1,348,049	\$ -	\$ 40,000	\$1,308,049	\$ -
2016 Note Payable	-	1,398,875	-	1,398,875	-
	<u>\$1,348,049</u>	<u>\$1,398,875</u>	<u>\$ 40,000</u>	<u>\$2,706,924</u>	<u>\$ -</u>

Debt Authorization

As of December 31, 2016, the District had remaining voted debt authorization of approximately \$2,253,076. The District has budgeted to issue any new debt of no more than \$500,000 during 2017. Per the District’s Service Plan, the District can not issue debt in excess of \$5,000,000.

Valentia Court Metropolitan District

Notes to Financial Statements  
December 31, 2016

Note 5: Related Party

All of the Board of Directors are employees, owners or are otherwise associated with the Developer and may have conflicts of interest in dealing with the District. Management believes that all potential conflicts, if any, have been disclosed to the Board.

Note 6: Tax, Spending and Debt Limitations

Article X, Section 20 of the Colorado Constitution, commonly known as the Taxpayer 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.

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.

In November 2007, a majority of the District’s electors authorized the District to collect and spend or retain in a reserve all currently levied taxes and fees of the District without regard to any limitations under Article X, Section 20 of the Colorado Constitution.

Note 7: Risk Management

Except as provided in the Colorado Governmental Immunity Act, 24-10-101, et seq., CRS, the District may be exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets; errors or omissions; injuries to agents; and natural disasters. The District has elected to participate in the Colorado Special Districts Property and Liability Pool (“Pool”) which is an organization created by intergovernmental agreement to provide common liability and casualty insurance coverage to its members at a cost that is considered economically appropriate. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

Valentia Court Metropolitan District

Notes to Financial Statements  
December 31, 2016

The District pays annual premiums to the Pool for auto, public officials' liability, and property and general liability coverage. In the event aggregated losses incurred by the Pool exceed its amounts recoverable from reinsurance contracts and its accumulated reserves, the District may be called upon to make additional contributions to the Pool on the basis proportionate to other 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 9: Reconciliation of Government-Wide Financial Statements and Fund Financial Statements

The Governmental Funds Balance Sheet/Statement of Net Position includes an adjustments column. The adjustments have the following elements:

- 1) capital improvements used in government activities are not financial resources and, therefore are not reported in the funds; and
- 2) long-term liabilities such as notes payable and accrued interest payable are not due and payable in the current period and, therefore, are not in the funds.

The Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances/Statement of Activities includes an adjustments column. The adjustments have the following elements:

- 1) governmental funds report capital outlays as expenditures, however, in the statement of activities, the costs of those assets are held as construction in process pending transfer to other governmental entities or depreciated over their useful lives;
- 2) governmental funds report interest expense on the modified accrual basis; however, interest expense is reported on the full accrual method on the Statement of Activities;
- 3) governmental funds report developer advances and/or bond proceeds as revenue; and,
- 4) governmental funds report long-term debt payments as expenditures, however, in the statement of activities, the payment of long-term debt is recorded as a decrease of long-term liabilities.

**SUPPLEMENTAL INFORMATION**

Valentia Court 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 & Final <u>Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
<b>REVENUES</b>			
Property taxes	\$ 119,248	\$ 119,248	\$ -
Specific ownership taxes	8,347	9,142	795
Interest income	-	191	191
Total Revenues	<u>127,595</u>	<u>128,581</u>	<u>986</u>
<b>EXPENDITURES</b>			
Note principal	55,000	40,000	15,000
Note interest expense	80,882	91,321	(10,439)
District compliance	1,400	1,400	-
Treasurer's fees	<u>1,789</u>	<u>1,792</u>	<u>(3)</u>
Total Expenditures	<u>139,071</u>	<u>134,513</u>	<u>4,558</u>
NET CHANGE IN FUND BALANCE	(11,476)	(5,932)	5,544
<b>FUND BALANCE:</b>			
BEGINNING OF YEAR	<u>13,517</u>	<u>15,528</u>	<u>2,011</u>
END OF YEAR	<u>\$ 2,041</u>	<u>\$ 9,596</u>	<u>\$ 7,555</u>

The notes to the financial statements are an integral part of these statements.

Valentia Court Metropolitan District

SCHEDULE OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL -  
CAPITAL PROJECTS FUND

For the Year Ended December 31, 2016

	Original & Final <u>Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
EXPENDITURES			
Issuance costs	15,000	-	15,000
Capital improvements	<u>3,985,000</u>	<u>1,398,875</u>	<u>2,586,125</u>
Total Expenditures	<u>4,000,000</u>	<u>1,398,875</u>	<u>2,601,125</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(4,000,000)	(1,398,875)	2,601,125
OTHER FINANCING SOURCES (USES)			
Note proceeds	<u>4,000,000</u>	<u>1,398,875</u>	<u>(2,601,125)</u>
Total Other Financing Sources (Uses)	<u>4,000,000</u>	<u>1,398,875</u>	<u>(2,601,125)</u>
NET CHANGE IN FUND BALANCE	-	-	-
FUND BALANCE:			
BEGINNING OF YEAR	<u>-</u>	<u>-</u>	<u>-</u>
END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The notes to the financial statements are an integral part of these statements.