

**PRAIRIESTAR METROPOLITAN
DISTRICT NO. 1**

Financial Statements

December 31, 2016



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PRAIRIESTAR METROPOLITAN DISTRICT NO. 1

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Dazzio & Associates, PC

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Board of Directors
PrairieStar Metropolitan District No. 1
Larimer County, Colorado

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express 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 of 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 the PrairieStar Metropolitan District No. 1, as of December 31, 2016, and the respective changes in financial position 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.

Other Matters

Required Supplementary Information

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires 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 PrairieStar Metropolitan District No. 1's basic financial statements. The Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Capital Projects Fund (the Supplementary Information) is presented for purposes of additional analysis and legal compliance and are not a required part of the financial statements.

The Supplementary Information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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 supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Duggio & Associates, P.C.

June 30, 2017

BASIC FINANCIAL STATEMENTS

PRAIRIESTAR METROPOLITAN DISTRICT NO. 1

STATEMENT OF NET POSITION

December 31, 2016

	Governmental Activities
Assets	
Cash	\$ 8,670
Due from PrairieStar Metropolitan District No. 2	4,015
Prepaid Expense	5,692
Capital Assets Not Being Depreciated	64,546
Total Assets	82,923
Liabilities	
Accounts Payable	11,959
Noncurrent Liabilities:	
Due In More Than One Year	561,521
Total Liabilities	573,480
Net Position	
Net Investment In Capital Assets	56,823
Restricted	
Emergencies	310
Unrestricted	(547,690)
Total Net Position	\$ (490,557)

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

PrairieStar Metropolitan District No. 1

Statement of Activities
For the Year Ended December 31, 2016

<u>Function/Program Activities</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Governmental Activities</u>	<u>Net (Expense) Revenue and Changes in Net Position</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>		
Governmental Activities					
Administration	\$ 74,685	\$ 1,950	\$ 8,406	\$ 3,755,968	\$ 3,691,639
Interest and Related Costs on Long-term Debt	184,339	-	-	-	(184,339)
Transfer of Public Improvements to other Governments	3,518,767	-	-	-	(3,518,767)
Total Governmental Activities	\$ 3,777,791	\$ 1,950	\$ 8,406	\$ 3,755,968	(11,467)
			Changes In Net Position		(11,467)
			Net Position - Beginning		(479,090)
			Net Position - Ending		\$ (490,557)

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

PRAIRIESTAR METROPOLITAN DISTRICT NO. 1

**BALANCE SHEET
GOVERNMENTAL FUNDS**

December 31, 2016

	<u>General</u>	<u>Capital Projects</u>	<u>Total</u>
Assets			
Cash	\$ 4,346	\$ 4,324	\$ 8,670
Due from PrairieStar Metropolitan District No. 2	4,015	-	4,015
Prepaid Expenditures	5,692	-	5,692
Total Assets	<u>\$ 14,053</u>	<u>\$ 4,324</u>	<u>\$ 18,377</u>
Liabilities			
Accounts Payable	\$ 7,635	\$ 4,324	\$ 11,959
Fund Balances			
Nonspendable			
Prepaid Expenses	5,692	-	5,692
Restricted			
Emergencies	310	-	310
Unassigned	416	-	416
Total Fund Balances	<u>6,418</u>	<u>-</u>	<u>6,418</u>
Total Liabilities and Fund Balances	<u>\$ 14,053</u>	<u>\$ 4,324</u>	<u>\$ 18,377</u>

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

PRAIRIESTAR METROPOLITAN DISTRICT NO. 1

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION**

December 31, 2016

Total Fund Balances - Governmental Funds		\$	6,418
Total net position reported for governmental activities in the statement of of net position is different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of:			
Construction in Process			64,546
Long-term liabilities applicable to the District's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the statement of net position.			
Balances at December 31, 2016 are:			
Developer Advance - Operations	\$	(112,507)	
Developer Advance - Operations - Accrued Interest		(8,153)	
Developer Advance - Capital		(428,749)	
Developer Advance - Capital - Accrued Interest		(12,112)	(561,521)
		<hr/>	<hr/>
Net Position - Governmental Activities		\$	<u>(490,557)</u>

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

PRAIRIESTAR 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</u>
Revenues			
Transfer from PrairieStar			
Metropolitan District No. 2	\$ 8,406	\$ 3,755,968	\$ 3,764,374
Transfer Fees	1,600	-	1,600
Landscape Review Fees	350	-	350
Total Revenues	<u>10,356</u>	<u>3,755,968</u>	<u>3,766,324</u>
Expenditures			
Management	9,842	16,765	26,607
Accounting	7,476	11,214	18,690
Audit	6,781	-	6,781
Election	1,171	-	1,171
Insurance	7,024	-	7,024
Legal	12,957	21,258	34,215
Statutory Compliance	79	-	79
Covenant Control Enforcement	21,548	1,260	22,808
Miscellaneous	7,807	-	7,807
Engineering	-	14,049	14,049
Repay Developer Advance - Principal	-	3,154,564	3,154,564
Repay Developer Advance - Interest	-	601,404	601,404
Total Expenditures	<u>74,685</u>	<u>3,820,514</u>	<u>3,895,199</u>
Excess Revenues Over (Under)			
Expenditures	(64,329)	(64,546)	(128,875)
Other Financing Sources			
Developer Advances	64,353	64,546	128,899
Net Change in Fund Balances	<u>24</u>	<u>-</u>	<u>24</u>
Fund Balances - Beginning	<u>6,394</u>	<u>-</u>	<u>6,394</u>
Fund Balances - Ending	<u>\$ 6,418</u>	<u>\$ -</u>	<u>\$ 6,418</u>

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

PRAIRIESTAR 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

Net Change in Fund Balances - Total Governmental Funds	\$	24
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. In the statement of activities, capital outlay is not reported as an expenditure. However, the statement of activities will report as depreciation expense the allocation of the cost of any depreciable asset over the estimated useful life of the asset.

Capital outlay	\$ 64,546	
Transfer of public improvements to other governments	<u>(3,518,767)</u>	(3,454,221)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. The net effect of these differences in the treatment of long-term debt is as follows:

Repayment to Developer - Capital	3,154,564	
Repayment to Developer - Capital - Accrued Interest	601,404	
Developer Advance - Operations	(64,353)	
Developer Advance - Operations - Accrued Interest	(4,880)	
Developer Advance - Capital	(64,546)	
Developer Advance - Capital - Accrued Interest	<u>(179,459)</u>	<u>3,442,730</u>

Change in Net Position - Governmental Activities	\$	<u><u>(11,467)</u></u>
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The notes to the financial statements are an integral part of this statement.

PRAIRIESTAR METROPOLITAN DISTRICT NO. 1

GENERAL FUND

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

For the Year Ended December 31, 2016

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues				
Transfer from PrairieStar Metropolitan District No. 2	\$ 7,754	\$ 7,970	\$ 8,406	\$ 436
Transfer Fees	-	950	1,600	650
Landscape Review Fees	-	350	350	-
Bond Issuance Costs	-	68,200	-	(68,200)
Total Revenues	7,754	77,470	10,356	(67,114)
Expenditures				
Current				
Management	12,000	10,983	9,842	1,141
Accounting	8,000	6,500	7,476	(976)
Audit	5,000	6,729	6,781	(52)
Election	1,500	1,171	1,171	-
Insurance	5,900	6,365	7,024	(659)
Legal	10,000	18,086	12,957	5,129
Statutory Compliance	-	80	79	1
Covenant Control Enforcement	10,000	21,365	21,548	(183)
Costs of Issuance	-	68,200	-	68,200
Miscellaneous	1,500	5,521	7,807	(2,286)
Contingency	20,000	-	-	-
Emergency Reserve	2,250	-	-	-
Total Expenditures	76,150	145,000	74,685	70,315
Excess Expenditures over Revenues	(68,396)	(67,530)	(64,329)	3,201
Other Financing Sources				
Developer Advances	66,948	62,178	64,353	2,175
Net Change in Fund Balance	(1,448)	(5,352)	24	5,376
Fund Balance - Beginning	1,448	6,394	6,394	-
Fund Balance - Ending	\$ -	\$ 1,042	\$ 6,418	\$ 5,376

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

PRAIRIESTAR METROPOLITAN DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016

Note 1 – Definition of Reporting Entity

The PrairieStar Metropolitan District No. 1 (the “District”), was originally organized by recorded Order and Decree of the District Court for the County of Larimer on December 8, 2010, and is governed pursuant to provisions of the Colorado Special District Act (Title 32, Article 1, Colorado Revised Statutes).

The District operates under a Service Plan approved by the Town of Berthoud (the “Town”) on July 27, 2010. The District’s service boundaries are located entirely within the Town. The District is one of four related districts: PrairieStar Metropolitan Districts Nos. 1, 2, 3 and 4 (the “Districts”). The Districts entered into a Memorandum of Understanding that defines the various responsibilities the Districts (see Note 6). As of December 31, 2016, the Districts have the same membership of their respective Boards of Directors.

Pursuant to the Service Plan, the District has the power to provide for the design, acquisition, construction, installation, relocating, redeveloping and financing of certain water, sanitation, storm water, street, traffic and safety protection, transportation, mosquito control, park and recreation, television relay and translator, and fire protection improvements and services.

It is anticipated that when completed, the District will transfer much of the public improvements to the Town or other appropriate entities for ownership and operations and maintenance. It is anticipated that certain landscaping and parks and recreation improvements will be retained by the District for operations and maintenance thereof.

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

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 to any other organization, nor is the District a component unit of any other primary governmental entity.

PRAIRIESTAR METROPOLITAN DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS

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 include the statement of net position and the statement of activities. These financial statements include all of the activities of the District. For the most part, the effect of interfund activity has been removed from these statements.

The statement of net position reports all financial and capital resources of the District. The difference between the assets and deferred outflows of resources and liabilities and deferred inflows of resources 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 segment is offset by program revenue. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenue* 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 revenue are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported in 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*. Revenue is 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 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 revenue to be available if they are collected within 60 days of the end of the current fiscal period. The major source of revenue susceptible to accrual are developer advances. All other revenue items are considered to be measurable and available only when cash is received by the District.

PRAIRIESTAR METROPOLITAN DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016

Expenditures other than interest on long-term obligations are recorded when the liability is incurred or the long-term obligation is due.

The District reports the following major governmental funds:

General Fund – This fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

Capital Projects Fund – This fund is used to account for the acquisition and construction of the District’s major capital facilities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

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 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 District has amended its annual budget for the year ended December 31, 2016.

Pooled Cash and Investments

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 single bank account. 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 and investments.

Cash and investments are presented on the balance sheet in the basic financial statements at fair value.

PRAIRIESTAR METROPOLITAN DISTRICT NO. 1

NOTES TO THE 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 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 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 inflow of resources in the year they are levied and measurable. The property tax revenues are recorded as revenue in the year they are available or collected.

The District imposed a mill levy for collections years 2014 through 2016, but there was not sufficient valuation to generate property tax revenues.

Capital Assets

Capital assets, which include property and equipment, are reported in the government-wide financial statements. Capital assets defined by the District as assets include improvements to buildings and equipment with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. 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.

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. Bonds payable are reported net of the applicable bond premiums and discounts. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight method and charged to interest expense.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Issuance costs, even if withheld from the actual new proceeds received, are reported as debt services expenditures, in both the government-wide statements and fund financial statements.

PRAIRIESTAR METROPOLITAN DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016

Equity

Net Position

For government-wide presentation purposes, when both restricted and unrestricted resources are available for use, it is the District's practice to use restricted resources first, then unrestricted resources as they are needed.

In the government-wide financial statements, fund equity is classified as net position. Net position may be classified into three components: net investment in capital assets, restricted and unrestricted. These classifications are defined as follows:

Net investment in capital assets – this component of net position consists of capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any debt that is attributable to the acquisition, construction or improvement of those assets. If there are significant unspent debt proceeds at year end, the portion of the debt attributable to the unspent proceeds is not included in this component.

Restricted – this component of net position consists of assets that are restricted for use as imposed by external parties such as creditors, grantors or contributors, or as imposed by laws or regulations of other governments, or as imposed through constitutional provisions or enabling legislation.

Unrestricted – the component of net position that does not meet the definitions above.

Fund Balance

Fund balance for governmental funds should be reported in classifications that comprise a hierarchy based on the extent to which the government is bound to honor constraints on the specific purposes for which spending can occur. Governmental funds report up to five classifications of fund balance: nonspendable, restricted, committed, assigned, and unassigned. Because circumstances differ among governments, not every government or every governmental fund will present all of these components. The following classifications describe the relative strength of the spending constraints:

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

PRAIRIESTAR METROPOLITAN DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016

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

Committed fund balance – The portion of fund balance that can only be used for specific purposes pursuant to constraints imposed by 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.

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 criteria described above.

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

Note 3 – Cash and Investments

Cash Deposits

Custodial credit risk

Custodial risk for deposits is the risk that, in the event of a failure of a depository financial institution, the District will not be able to recover its deposits or will not be able to recover collateral securities that are in possession of an outside party. The Colorado Public Deposit Protection Act (PDPA) governs the investment of public funds. 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 (\$250,000) 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 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 institution's internal records identify the collateral by depositor and as such, these deposits are considered to be uninsured but collateralized. The State Regulatory Commissions for banks and financial services are required by statute to monitor the naming of eligible depositories and reporting of

PRAIRIESTAR METROPOLITAN DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016

the uninsured deposits and assets maintained in the collateral pools. At December 31, 2016, the District's deposits amounting to \$8,670 were insured by federal depository insurance and consequently were not exposed to custodial credit risk.

Investments

The District has adopted an investment policy by which it follows state statutes regarding investments.

The District generally limits its concentration of investments to obligations of the United States, certain U.S. government agency securities and 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 investment custodial credit risk for investments that are in the possession of another party.

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

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

- Obligations of the United States, certain U.S. government agency securities and securities of the World Bank
- General obligation and revenue bonds of US local government entities
- Certain certificates of participation
- Certain securities lending agreements
- 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

At December 31, 2016, the District did not have any investments.

PRAIRIESTAR METROPOLITAN DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016

Note 4 – Capital Assets

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital assets not being depreciated				
Construction in progress	\$ 3,518,767	\$ 64,546	\$ 3,518,767	\$ 64,546

During the year ended December 31, 2016, capital assets amounting to \$3,518,767 were dedicated to other governmental entities. The District is in the process of completing the infrastructure improvements and upon completion, some assets will also be dedicated. Any remaining assets will remain with the District and be depreciated.

Note 5 – Long-Term Obligations

The following is an analysis of changes in the District’s long-term obligations for the year ended December 31, 2016:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Developer Advances					
Capital					
Principal	\$ 3,518,767	\$ 64,546	\$ 3,154,564	\$ 428,749	\$ -
Interest	434,057	179,459	601,404	12,112	-
Operating					
2013-2018 - Principal	48,154	16,748	-	64,902	-
2013-2018 - Interest	3,273	4,565	-	7,838	-
MYOFA - Principal	-	47,605	-	47,605	-
MYOFA - Interest	-	315	-	315	-
	<u>\$ 4,004,251</u>	<u>\$ 313,238</u>	<u>\$ 3,755,968</u>	<u>\$ 561,521</u>	<u>\$ -</u>

PRAIRIESTAR METROPOLITAN DISTRICT NO. 1

**NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016**

Developer Advances

The District entered into Operation Funding Agreements and a Facilities Funding and Acquisition Agreement with Prairiestar, Inc. (the “Developer”) as follows:

Operation Funding Agreements

2013 - 2018 Operation Funding Agreement (“2013–2018 OFA”)

On December 3, 2012, the District entered into a 2013–2018 OFA with the Developer.

The District anticipates a shortfall in operations revenues of \$5,400 (the “Shortfall Amount”) for the fiscal years 2013 through 2018. The Developer advances funds necessary to fund, or directly pay, the District's operations and maintenance expenses on a periodic basis as needed for fiscal years 2013 through 2018 up to the Shortfall Amount. The agreement was amended on December 3, 2015 to increase the Shortfall Amount for fiscal years 2013 through 2018 to \$250,000.

The advances accrue simple interest at a rate of 8.0% per annum from the date of deposit in the District’s account. The repayment obligations do not constitute a multiple fiscal year financial obligation and are subject to annual appropriation. The obligation of the Developer to advance funds under the 2013–2018 OFA expire on March 15, 2019. In the event the District has not reimbursed the Developer for any Developer Advance(s) made pursuant to the 2013–2018 OFA on or before December 31, 2058, any amount of principal and accrued interest outstanding on such date shall be deemed to be forever discharged and satisfied in full.

The District intends to repay amounts advanced by the Developer pursuant to the 2013–2018 OFA, to the extent it has funds available from the imposition of its taxes, fees, rates, tolls, penalties, and charges and from any other revenue legally available, after the payment of its annual debt service obligations and annual operations and maintenance expenses, which repayment is subject to annual budget and appropriation.

At December 31, 2016, the outstanding principal and interest owed on the 2013–2018 OFA is \$64,902 and \$7,838, respectively.

The 2013–2018 OFA was terminated on August 3, 2016 when the Multiple-Year Operations Funding Agreement was executed.

PRAIRIESTAR METROPOLITAN DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016

Multiple-Year Operations Funding Agreement (MYOFA)

On August 3, 2016, the District entered into a MYOFA with the Developer. The District's current financial forecast of increases in assessed valuation due to growth, and expenditures for operations and maintenance expenses (Operations Expense), the District anticipates annual shortfalls in revenues available for Operations Expenses to be incurred for fiscal year 2016 and in each fiscal year thereafter until 2032. The District shall be required to impose on a yearly basis during the term of this Agreement a mill levy of at least 10 mills, but not more than the mill levy limit in the Service Plan ("Operations Mill Levy") for the Operations Expenses of the District. The revenue generated from the Operations Mill Levy plus specific ownership taxes generated as a result of the Operations Mill Levy shall be the "Operations Revenue." The MYOFA provides that the Developer will advance funds to the District in an amount equal to the difference between the Assumed Annual Budget Amount, equal to the operation and maintenance budget for the following fiscal year and the Operations Revenue (the Shortfall Amount). The Assumed Annual Budget Amount for fiscal years 2016 and 2017 is estimated to be \$76,150 and \$93,860, respectively, and for fiscal years 2018 through 2021, approximately \$131,560, so that in each such year the Developer will be required to fund the difference between the Assumed Annual Budget Amount and the Operations Revenue. Starting in fiscal year 2022, the Assumed Annual Budget Amount will equal the average of the actual total amount expended by the District in its General Fund plus any budgeted operating reserves, in the previous three-year period.

If the District imposes an Operations Mill Levy of less than 10 mills, the Developer is not obligated under this Agreement to fund any difference between the Operations Revenue that would be generated from the 10 mills Operations Mill Levy plus specific ownership taxes generated as a result of the Operations Mill Levy and the revenue generated from the Operations Mill Levy actually imposed in the applicable year. Amounts advanced under the MYOFA accrue interest at 8% per annum.

The obligation of the Developer to advance funds under the MYOFA expires on December 31, 2056. In the event the District has not reimbursed the Developer for any Developer Advance(s) made pursuant to the MYOFA on or before December 31, 2056, any amount of principal and accrued interest outstanding on such date shall be deemed to be forever discharged and satisfied in full.

This MYOFA may be terminated after December 31, 2023 if the Operations Revenue for the two most recent consecutive years was equal to or more than the Assumed Annual Budget Amount during such two-year period.

At December 31, 2016, the outstanding principal and interest owed to the Developer for amounts advances under the MYOFA is \$47,605 and \$315, respectively.

PRAIRIESTAR METROPOLITAN DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016

Priority of Payments

Payments to reimburse the Developer shall be made on December 2 of each year and shall be applied as follows: (a) first to accrued and unpaid interest and then principal on amounts received on the 2013-2018 OFA prior to its termination, but which remain outstanding, and then (b) first to the accrued and unpaid interest and then to the principal amount due pursuant to the MYOFA.

Facilities Funding and Acquisition Agreement

On December 14, 2010, with an effective date of December 8, 2010 (the "Organization Date"), the District entered into a Facilities Funding and Acquisition Agreement with the Developer ("FFAA"). The FFAA acknowledges that the Developer has expended funds for the organization of the District and, upon independent verification and approval of those expenses, provides for the reimbursement of those costs. The advances will accrue simple interest at a rate of 8.0% per annum. Advances for organizational expenses accrue interest from the Organization Date. Advances for construction related expenses accrue interest either from the organization date, the date of deposit in the District's account or the date the verified costs were incurred by the Developer. Repayments by the District to the Developer shall be first applied to accrued interest and then to principal. No payment is required until the District issues bonds.

At December 31, 2016, the outstanding principal and interest owed on the FFAA is \$428,749 and \$12,112, respectively.

The District and Developer entered into a First Amendment to the FFAA on August 3, 2016, in order to acknowledge that District No. 2 will issue bonds on behalf of the Districts. The Amendment to the FFAA evidences an intent to reimburse the Developer, but shall not constitute a debt or indebtedness, nor a multiple fiscal year financial obligation.

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NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016

Authorized Debt

On November 2, 2010 and on May 6, 2014, a majority of the qualified electors of the District authorized the issuance of indebtedness in an amount not to exceed \$915,600,000 at an interest rate not to exceed 18% per annum. At December 31, 2016, the District had authorized but unissued indebtedness in the following amounts allocated for the following purposes:

	Amount Authorized on November 2, 2010	Amount Authorized on May 6, 2014	Authorized but Unissued at December 31, 2016
Streets	\$ 38,150,000	\$ 38,150,000	\$ 76,300,000
Parks and Recreation	38,150,000	38,150,000	76,300,000
Water	38,150,000	38,150,000	76,300,000
Sanitation/Storm Sewer	38,150,000	38,150,000	76,300,000
Transportation	38,150,000	38,150,000	76,300,000
Mosquito Control	38,150,000	38,150,000	76,300,000
Traffic and Safety Protection	38,150,000	38,150,000	76,300,000
Fire Protection and EMR	38,150,000	38,150,000	76,300,000
Television Relay and Translation	38,150,000	38,150,000	76,300,000
Operations and Maintenance	38,150,000	38,150,000	76,300,000
Debt Refundings	38,150,000	38,150,000	76,300,000
Intergovernmental Agreements	38,150,000	38,150,000	76,300,000
	<u>\$ 457,800,000</u>	<u>\$ 457,800,000</u>	<u>\$ 915,600,000</u>

Per the Service Plan, the District is limited to issuing \$38,150,000 in debt.

Note 6 – Intergovernmental Agreements

Intergovernmental Agreement with the Town

On December 14, 2010, the District entered into an Intergovernmental Agreement (“Agreement”) with the Town whereby the District agreed to various restrictions and notification requirements related to areas such as District dissolution, tax or fee impositions, bond issuances, boundary expansions and service expansions.

PRAIRIESTAR METROPOLITAN DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016

Memorandum of Understanding

A Memorandum of Understanding was entered into on December 14, 2010 by and among the District, District No. 2, District No. 3 and District No. 4 (“MOU”). Under the Service Plan, the Districts are required to work together and coordinate their efforts with respect to all activities contemplated in the Service Plan including but not limited to the management and administration of the Districts, the provision of essential services by the Districts, and the financing, construction, operation and maintenance of public improvements.

The MOU acknowledges that the District shall provide for the financing, construction, design, operation and maintenance of the public improvements, as well as the overall administration of the Districts and further acknowledges that the District has the authority to enter into agreement(s) and other obligations with the Developer of the property to provide for the financing of such services. The MOU acknowledges that the Districts will enter into a Facilities, Funding, Construction and Operations Agreement detailing such services (“FFCOA”). The MOU also provides that the FFCOA shall provide for District No. 2, District No. 3 and District No. 4 to remit revenues to the District for all costs incurred by the District pursuant to the MOU based on an allocable basis to be set forth in the FFCOA.

Facilities, Funding, Construction and Operations Agreement (“FFCOA”)

On December 9, 2014, with an effective date of December 5, 2013, the District entered into a FFCOA with PrairieStar Metropolitan District No. 2 (“District No. 2). Pursuant to the FFCOA, the District serves as the Operating District which will operate, maintain, finance and construct (including funding thereof) certain of the Public Improvements and the Taxing District will contribute to the costs of construction, operation, management and maintenance of such Public Improvements. District No. 2 serves as the Taxing District. As of the Effective Date of this Agreement, District No. 3 and District No. 4 continue to be inactive. Consistent with the terms of the MOU, the Districts intend for District No. 3 and District No. 4 to also be parties to this Agreement and therefore, at such time as District No. 3 and District No. 4 each become active, this Agreement will be presented to District No. 3 and District No. 4 for consideration and they will each be given the opportunity to become a party to this Agreement, and until such time, the MOU shall continue to govern the rights and obligations with respect to District No. 3 and District No. 4.

Each Taxing District anticipates receiving revenue from the imposition of a mill levy against all property within its respective boundaries and specific ownership taxes, and, if imposed or assessed at the direction of the Operating District, the collection of fees, charges, rates and tolls. All revenue received by the Taxing District will be transferred to the Operating District.

PRAIRIESTAR METROPOLITAN DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS

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On August 3, 2016, the FFCOA was amended and restated ("Amended FFCOA") to recognize the Taxing District's issuance of Bonds and to reflect the changed debt structure of the Districts. Pursuant to the Amended FFCOA, either of the Districts may issue bonds for the construction, acquisition, or reimbursement of costs. Each District that determines to issue Bonds hereunder the proceeds of which will be utilized for Public Improvements shall be an "Issuing District". Each Taxing District anticipates receiving revenue from the imposition of a mill levy against all property within its respective boundaries and specific ownership taxes, and, if imposed or assessed at the direction of the Operating District, the collection of fees, charges, rates and tolls. All revenue received by the Taxing District will be transferred to the Operating District. However, If the Taxing District is the Issuing District and if the Taxing District pledges its debt service mill levy, specific ownership taxes attributable to such mill levy and other revenue of the Taxing District to the repayment of the Bond Requirements related to its Bonds, the Taxing District shall not be required to transfer the Taxing District Pledged Revenue to the Operating District.

During the year ending December 31, 2016, \$3,755,968 was transferred from District No. 2 for the purpose of repaying a portion of Developer advances (see Note 5) and \$8,406 was transferred from District No. 2, representing funds received from the imposition of District No. 2's operating mill levy and other unrestricted funds.

Note 7 – Net Position

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

Net investment in capital assets consists of capital assets, net of accumulated depreciation, and reduced by the outstanding balances of bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.

As of December 31, 2016, the District had net investment in capital assets calculated as follows:

Capital Assets	\$	64,546
Less: Capital Related Debt		
Developer Advances - Principal		<u>(7,723)</u>
Net Investment in Capital Assets	\$	<u>56,823</u>

The restricted component of net position consists of assets that are restricted for use either externally imposed by creditors, grantors, contributors, or laws and regulations of other

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NOTES TO THE FINANCIAL STATEMENTS

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governments or imposed by law through constitutional provisions or enabling legislation. The District had restricted net position as of December 31, 2016, amounting to \$310.

Unrestricted net position represents assets that do not have any third party limitations on their use.

The District's unrestricted net position as of December 31, 2016 totaled \$(547,690). This deficit amount was the result of the District being responsible for the financing and repayment of debt obligations and advances for the construction of public improvements and operations.

Note 8 – Related Party

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

Note 9 – Economic Dependency

The District has not yet established a revenue base sufficient to pay the District's operational expenditures. Until an independent revenue base is established, continuation of operations in the District will be dependent upon actions by the Developer to advance funds for operations of the District.

Note 10 – 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 natural disasters.

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

The District pays annual premiums to the Pool for general and public officials' liability coverage. In the event aggregate 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

PRAIRIESTAR METROPOLITAN DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016

needed for purposes of the Pool, may be returned to the members pursuant to a distribution formula.

Note 11 – 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.

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 and qualification as an Enterprise will require judicial interpretation.

On May 6, 2014, the District's electors approved the following ballot issues:

Shall PrairieStar Metropolitan District No. 1 taxes be increased \$38,150,000 annually or such lesser amount as necessary to pay the District's administration, operations, maintenance, and capital expenses, by the imposition of ad valorem property taxes levied in any year, without limitation as to rate or amount or any other condition to pay such expenses and shall the proceeds of such taxes and any investment income thereon be collected, retained and spent by the District in fiscal year 2014 and in each fiscal year thereafter as a voter-approved revenue change without regard to any spending, revenue-raising, or other limitation contained within Article X, Section 20 of the Colorado Constitution, the limits imposed on increases in property taxation by Section 29-1-301, C.R.S. in any year, or any other law which purports to limit the District's revenues or expenditures as it currently exists or as it may be amended in the future, all without limiting in any year the amount of other revenues that may be collected, retained and spent by the District?

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Shall PrairieStar Metropolitan District No. 1 taxes be increased \$38,150,000 annually or such lesser amount as necessary to pay the District's administration, operations, maintenance, and capital expenses, by the imposition of a fee or fees imposed, without limitation as to rate or amount or any other condition to pay such expenses and shall the proceeds of such fees and any investment income thereon be collected, retained and spent by the District in fiscal year 2014 and in each fiscal year thereafter as a voter-approved revenue change without regard to any spending, revenue-raising, or other limitation contained within Article X, Section 20 of the Colorado Constitution, the limits imposed on increases in property taxation by Section 29-1-301, C.R.S. in any year, or any other law which purports to limit the District's revenues or expenditures as it currently exists or as it may be amended in the future, all without limiting in any year the amount of other revenues that may be collected, retained and spent by the District?

Shall PrairieStar Metropolitan District No. 1 be authorized to collect, receive, retain, and spend the full amount of all taxes, tax increment revenues, tap fees, park fees, facility fees, public improvement fees, service charges, inspection charges, administrative charges, grants or any other fee, rate, toll, penalty, or charge authorized by law, covenants or contract to be imposed, collected or received by the District during 2014 and each fiscal year thereafter, such amounts to constitute a voter-approved revenue change and be collected, retained and spent by the District without regard to any spending, revenue-raising, or other limitation contained within Article X, Section 20 of the Colorado Constitution, the limits imposed on increases in property taxation by Section 29-1-301, C.R.S. in any subsequent year, or any other law which purports to limit the District's revenues or expenditures as it currently exists or as it may be amended in the future, and without limiting in any year the amount of other revenues that may be collected, received, retained and spent by the District?

SUPPLEMENTARY INFORMATION

PRAIRIESTAR METROPOLITAN DISTRICT NO. 1

CAPITAL PROJECTS FUND

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

For the Year Ended December 31, 2016

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
Revenues				
Transfer from District No. 2	\$ -	\$ 4,900,000	\$ 3,755,968	
Expenditures				
Capital				
Management	-	-	16,765	(16,765)
Accounting	-	-	11,214	(11,214)
Legal	-	-	21,258	(21,258)
Covenant Control	-	-	1,260	(1,260)
Engineering	-	-	14,049	(14,049)
Project Construction	-	-	-	-
Repay Developer Advance - Principal	-	4,900,000	3,154,564	1,745,436
Repay Developer Advance - Interest	-	-	601,404	(601,404)
Total Expenditures	<u>-</u>	<u>4,900,000</u>	<u>3,820,514</u>	<u>1,079,486</u>
Excess Expenditures over Revenues	<u>-</u>	<u>-</u>	<u>(64,546)</u>	<u>1,079,486</u>
Other Financing Sources				
Developer Advances	-	-	64,546	64,546
Net Change in Fund Balance	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,144,032</u>
Fund Balance - Beginning	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance - Ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,144,032</u>

See the Accompanying Independent Auditor's Report