

VERVE METROPOLITAN DISTRICT NO. 1

Financial Statements

Year Ended December 31, 2016  
with  
Independent Auditors' Report



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Board of Directors  
Verve Metropolitan District No. 1  
Jefferson County, Colorado

### Independent Auditors' Report

We have audited the accompanying financial statements of the governmental activities and each major fund of the Verve 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 District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

#### ***Opinions***

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 Verve Metropolitan District No. 1 as of December 31, 2016, and the respective changes in financial position and the respective budgetary comparison for the General Fund for the year then ended in 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 require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinions on the basic financial statements are not affected by this missing information.

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Verve Metropolitan District No.1's basic financial statements. The supplemental information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplemental 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 supplemental information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

*Simmons & Wheeler P.C.*

Englewood, CO  
August 17, 2017

## Verve Metropolitan District No. 1

### 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	\$ 891	\$ -	\$ -	\$ 891	\$ -	\$ 891
Cash - restricted	1,500	375,432	1,555,523	1,932,455	-	1,932,455
Property taxes receivable	76,356	343,601	-	419,957	-	419,957
Prepaid expenses	<u>5,113</u>	<u>-</u>	<u>-</u>	<u>5,113</u>	<u>-</u>	<u>5,113</u>
Total Assets	<u>\$ 83,860</u>	<u>\$ 719,033</u>	<u>\$ 1,555,523</u>	<u>\$ 2,358,416</u>	<u>-</u>	<u>2,358,416</u>
<b>LIABILITIES</b>						
Accounts payable	\$ 1,228	\$ -	\$ 1,139	\$ 2,367	-	2,367
Accrued interest	-	-	-	-	26,332	26,332
Long-term liabilities:						
Due in more than one year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,864,007</u>	<u>4,864,007</u>
Total Liabilities	<u>1,228</u>	<u>-</u>	<u>1,139</u>	<u>2,367</u>	<u>4,890,339</u>	<u>4,892,706</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Deferred property taxes	<u>76,356</u>	<u>343,601</u>	<u>-</u>	<u>419,957</u>	<u>-</u>	<u>419,957</u>
Total Deferred Inflows of Resources	<u>76,356</u>	<u>343,601</u>	<u>-</u>	<u>419,957</u>	<u>-</u>	<u>419,957</u>
<b>FUND BALANCE</b>						
Nonspendable:						
Prepays	5,113	-	-	5,113	(5,113)	-
Restricted:						
Emergencies	1,500	-	-	1,500	(1,500)	-
Debt service	-	375,432	-	375,432	(375,432)	-
Capital projects	-	-	1,554,384	1,554,384	(1,554,384)	-
Unassigned	<u>(337)</u>	<u>-</u>	<u>-</u>	<u>(337)</u>	<u>337</u>	<u>-</u>
Total Fund Balances	<u>6,276</u>	<u>375,432</u>	<u>1,554,384</u>	<u>1,936,092</u>	<u>(1,936,092)</u>	<u>-</u>
Total Liabilities, Deferred Inflows of Resource and Fund Balances	<u>\$ 83,860</u>	<u>\$ 719,033</u>	<u>\$ 1,555,523</u>	<u>\$ 2,358,416</u>		
<b>NET POSITION</b>						
Restricted for:						
Emergencies					1,500	1,500
Debt service					349,100	349,100
Capital projects					1,554,384	1,554,384
Unrestricted					<u>(4,859,231)</u>	<u>(4,859,231)</u>
Total Net Position (Deficit)					<u>\$(2,954,247)</u>	<u>\$(2,954,247)</u>

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

## Verve Metropolitan District No. 1

### 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	\$ 5,814	\$ -	\$ -	\$ 5,814	\$ -	\$ 5,814
Audit	4,500	-	-	4,500	-	4,500
Office expenses/miscellaneous	124	-	-	124	-	124
Insurance	2,264	-	-	2,264	-	2,264
Legal	9,906	-	-	9,906	-	9,906
Bank fees	218	-	-	218	-	218
Treasurer's fees	16	157	-	173	-	173
Trustee fees	-	875	-	875	-	875
Loan interest expense	-	246,079	-	246,079	3,028	249,107
Loan principal	-	10,000	-	10,000	(10,000)	-
Capital outlay	-	-	404,278	404,278	-	404,278
County reimbursement	-	-	471,017	471,017	(471,017)	-
County reimbursement - interest	-	-	60,152	60,152	(12,914)	47,238
Developer advances - interest	-	-	-	-	1,518	1,518
Total Expenditures	<u>22,842</u>	<u>257,111</u>	<u>935,447</u>	<u>1,215,400</u>	<u>(489,385)</u>	<u>726,015</u>
<b>GENERAL REVENUES</b>						
Property taxes	1,032	10,434	-	11,466	-	11,466
Facilities fees	-	-	100,946	100,946	-	100,946
Interest income	-	604	3,580	4,184	-	4,184
Total General Revenues	<u>1,032</u>	<u>11,038</u>	<u>104,526</u>	<u>116,596</u>	<u>-</u>	<u>116,596</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	(21,810)	(246,073)	(830,921)	(1,098,804)	489,385	(609,419)
<b>OTHER FINANCING SOURCES (USES)</b>						
Developer/County advances	13,354	-	-	13,354	(13,354)	-
Total Other Financing Sources (Uses)	<u>13,354</u>	<u>-</u>	<u>-</u>	<u>13,354</u>	<u>(13,354)</u>	<u>-</u>
<b>NET CHANGES IN FUND BALANCES</b>	(8,456)	(246,073)	(830,921)	(1,085,450)	1,085,450	
<b>CHANGE IN NET POSITION</b>					(609,419)	(609,419)
<b>FUND BALANCES/NET POSITION:</b>						
BEGINNING OF YEAR - RESTATED	14,732	621,505	2,385,305	3,021,542	(5,366,370)	(2,344,828)
END OF YEAR	<u>\$ 6,276</u>	<u>\$ 375,432</u>	<u>\$ 1,554,384</u>	<u>\$ 1,936,092</u>	<u>\$ (4,890,339)</u>	<u>\$ (2,954,247)</u>

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

# Verve Metropolitan District No. 1

## STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL 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	\$ 1,042	\$ 1,032	\$ (10)
Total Revenues	1,042	1,032	(10)
<b>EXPENDITURES</b>			
Accounting	\$ 9,000	\$ 5,814	\$ 3,186
Audit	5,000	4,500	500
Office expenses/miscellaneous	125	124	1
Insurance	3,000	2,264	736
Legal	25,000	9,906	15,094
Bank fees	-	218	(218)
Treasurer's fees	-	16	(16)
Emergency reserve	1,750	-	1,750
Total Expenditures	43,875	22,842	21,033
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	(42,833)	(21,810)	21,023
<b>OTHER FINANCING SOURCES (USES)</b>			
Developer/County advances	42,833	13,354	(29,479)
Total Other Financing Sources (Uses)	42,833	13,354	(29,479)
<b>NET CHANGE IN FUND BALANCE</b>	-	(8,456)	(8,456)
<b>FUND BALANCE:</b>			
BEGINNING OF YEAR	-	14,732	14,732
END OF YEAR	\$ -	\$ 6,276	\$ 6,276

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

# VERVE METROPOLITAN DISTRICT NO. 1

## Notes to Financial Statements December 31, 2016

### Note 1: Summary of Significant Accounting Policies

The accounting policies of the Verve Metropolitan District No. 1 (the “District”), located in Jefferson 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 on June 10, 2014, as a quasi-municipal organization established under the State of Colorado Special District Act. The District was established to finance, construct, own, operate and maintain the public improvements for the property within and without its Service Area for the benefit of the citizens of the District as per the District’s Service Plan. The District’s primary revenues will be 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 pronouncements which provide 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.

# VERVE METROPOLITAN DISTRICT NO. 1

## 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 flow. Property taxes are recognized as revenues in the year for which they are levied.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are 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.

# VERVE METROPOLITAN DISTRICT NO. 1

## Notes to Financial Statements December 31, 2016

The District reports the following governmental funds:

**General Fund** - The General 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.

**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.

Subsequent to year end, the District amended its total appropriations in the Debt Service Fund from \$246,127 to \$258,000 primarily due to a prepayment of principal on the Taxable Loan Drawdown Issue, Series 2015A&B.

### 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.

# VERVE METROPOLITAN DISTRICT NO. 1

## Notes to Financial Statements December 31, 2016

### 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.

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 to report in this category as of December 31, 2016.

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 qualifies 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.

### 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 estimated fair value at the date of donation.

# VERVE METROPOLITAN DISTRICT NO. 1

## Notes to Financial Statements December 31, 2016

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.

At December 31, 2016, all capital expenditures have been made on behalf of the County and the related assets are owned and maintained by the County; therefore, no capital assets are reflected on the financial statements of the District.

### Property Taxes

Property taxes are levied by the District. 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 during December by certification to the County Commissioners to put the tax lien on the individual properties as of January 1 of each 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 and tax sales are in November. 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.

# VERVE METROPOLITAN DISTRICT NO. 1

## Notes to Financial Statements December 31, 2016

The nonspendable fund balance in the General Fund in the amount of \$5,113 represents prepaid expenditures.

### 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 \$1,500 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 \$375,432 is restricted for the payment of the debt service costs associated with the 2015 Loan (see Note 3).

The restricted fund balance in the Capital Projects Fund in the amount of \$1,554,384 is restricted for capital improvements within the District.

### Unassigned Fund Balance

Unassigned fund balance includes amounts that are available for any purpose. Positive amounts are reported only in the General Fund.

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. At December 31, 2016, the District did not have anything to report in this category.

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.

VERVE METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements  
December 31, 2016

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.

Note 2: Cash and Investments

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

Statement of Net Position:	
Cash	\$ 891
Cash – restricted	<u>1,932,455</u>
	\$ <u>1,933,346</u>

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

Deposits with financial institutions	\$ <u>1,933,346</u>
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Deposits and investments

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

As of December 31, 2016, none of the District’s deposits were exposed to custodial credit risk.

Investments

Investment Valuation

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments not measured at fair value and not categorized include governmental money market funds (PFM Funds Governmental Select series); money market funds (generally held by Bank Trust Departments in their role as paying agent or trustee); and CSAFE which record their investments at amortized cost.

# VERVE METROPOLITAN DISTRICT NO. 1

## Notes to Financial Statements December 31, 2016

The District has no recurring fair value measurements as of December 31, 2016.

### Credit Risk

The District's investment policy requires that the District follow state statutes for investments. Colorado statutes specify the types of investments meeting defined rating and risk criteria in which local governments may invest. These investments include obligations of the United States and certain U.S. Government agency entities, certain money market funds, guaranteed investment contracts, and local government investment pools.

### Custodial and Concentration of Credit Risk

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

### Interest Rate Risk

Colorado revised statutes limit investment maturities to five years or less unless formally approved by the Board of Directors.

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

### Note 3: Long Term Debt

The District has issued the following long-term obligations:

#### Taxable Loan Drawdown Issue, Series 2015A and B

On September 23, 2015, the District and Vectra Bank National Association Colorado entered into a Loan Agreement pertaining to a Series 2015 Loan, in the maximum principal amount of \$20,000,000 (Series 2015 Loan). On that date, the District drew an initial advance of \$4,719,137 leaving a remainder of \$15,280,863 which can be advanced at a later time. The loan matures on December 1, 2046 and initially bears interest at 5.13% calculated on the basis of a 360 day year and actual number of days elapsed in the applicable period. The interest rate is calculated as the Index Rate (as defined in the Loan Agreement) plus 325 basis points, resetting on each Interest Reset Date which is defined as December 1, 2020, and every five year anniversary thereafter until the Series 2015 Loan is paid in full.

Interest is payable semi-annually on June 1 and December 1 commencing on December 15, 2015. Principal payments are payable on December 1 commencing December 1, 2018 based on certain varying percentages (as defined in the Loan Agreement) times the principal amount outstanding. The Series 2015 Loan is subject to redemption prior to maturity at the option of the District as of September 23, 2017, except that after an Interest Reset Date no early payment is permitted prior to the second anniversary of such Interest Reset Date. Early payments of principal will include accrued interest and possibly a prepayment fee as defined by the Loan Agreement.

VERVE METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements  
December 31, 2016

The Series 2015 Loan is payable from the Pledged Revenue including the Required Mill Levy (not in excess of 50 mills nor less than 45 mills, subject to adjustment in the event the method of calculating the assessed valuation is changed after February 11, 2014), Capital Fees, any fees collected under an agreement or arrangement pursuant to which the District is legally entitled to collect the cash equivalent of the Required Mill Levy from property which is exempt from ad valorem property taxes under then applicable law, a portion of the Specific Ownership Taxes attributable to the Required Mill Levy, and any other legally available moneys as determined by the Board. The District is required to maintain the Reserve Requirement upon issuance of the Initial Funded Amount on September 23, 2015, of \$352,010. Upon each additional advance, an additional reserve amount will be required as calculated by the Bank at that time. The Unfunded Advance Amount of the Series 2015 Loan is also subject to a Non-Use fee of 0.25% of the Unfunded Advance Amount computed on the basis of a 360-day year and actual days elapsed in each such quarterly period, payable in arrears on the first day of January, April, July, and October of each year, commencing December 1, 2016.

During 2016, Pledged Revenues were credited to the 2015 Mandatory Prepayment Fund in an amount in excess of \$10,000 resulting in a mandatory prepayment on the loan in that amount as required per the Custodial Agreement.

The Series 2015 Loan was obtained to fund the project costs as per the Intergovernmental Agreement between the District and the County (“County/District IGA”), to pay a portion of the costs under the FFAA, and to pay the cost of issuance and fund a reserve fund.

The following is a summary of changes in long-term debt for the year:

	Restated Balance 1/1/2016	Additions	Deletions	Balance 12/31/2016	Current Portion
Series 2015 Loan	\$ 4,719,137	\$ -	\$ 10,000	\$ 4,709,137	\$ -
County Construction Advance	597,533	-	471,017	126,516	-
Developer Advance	15,000	13,354	-	28,354	-
Total	<u>\$ 5,331,670</u>	<u>\$ 13,354</u>	<u>\$ 481,017</u>	<u>\$ 4,864,007</u>	<u>\$ -</u>

The County Construction Advance beginning balance at January 1, 2016, has been restated (See details in Note 9).

Due to the uncertainty of the timing of the principal and interest on the Series 2015 Loan, a schedule of the timing of these payments is not available.

# VERVE METROPOLITAN DISTRICT NO. 1

## Notes to Financial Statements December 31, 2016

### Debt Authorization

As of December 31, 2016, the District had remaining voted debt authorization of approximately \$155,000,000. The District has not budgeted to issue any new debt during 2017. Per the District's Service Plan, the District has a combined debt limit of \$175,000,000 with Verve Metropolitan District Nos. 2-4.

### Note 4: Other Agreements

#### Operation Funding Agreement

On July 9, 2014, the District and Urban Frontier RMMA, LLC ("Developer") entered into an agreement whereby the Developer agreed to advance funds necessary to cover the estimated shortfall for the District's operations and maintenance expenses for the fiscal years 2014 and 2015 up to an estimated amount of \$30,000 ("2014-2015 OFA"). The Advances under the 2014-2015 OFA will accrue interest at the rate of 8% until paid. On November 19, 2015, the 2014-2015 OFA was amended to increase the estimated shortfall amount to \$75,000 and extend the term of the agreement to December 31, 2016. The obligation of the Developer to advance funds to the District under the First Amendment to the 2014-2015 OFA will expire on March 15, 2017 and the obligation of the District to reimburse the Developer shall expire on December 31, 2046.

#### Facilities Funding and Acquisition Agreement

On July 9, 2014, the District and Urban Frontier RMMA, LLC ("Developer") entered into a Facilities Funding and Acquisition Agreement ("FFAA"). Under the FFAA, the District agreed to reimburse the Developer for organization expenses paid by the Developer as well as costs for review, verification and approval of these costs, and interest thereon from the organization of the District until the payment date at the rate of 8%. The Developer further agreed to advance funds necessary to fund the construction related expenses incurred by the District as needed from 2014 through 2018 up to the shortfall amount of \$110,461,000, but subject to additional funding by the Developer if requested and approved. The District also agreed to acquire certain improvements that have been designed, constructed and completed by the Developer upon verification of costs from an independent engineer. Interest at 8% shall accrue on Developer advances for construction related expenses, however, all parties agree that no payment is due by the District to the Developer unless and until the District issues bonds sufficient to make this reimbursement or obtains other funding not pledged for other purposes.

# VERVE METROPOLITAN DISTRICT NO. 1

## Notes to Financial Statements December 31, 2016

### Resolution Regarding the Imposition of Facilities Fees

On December 11, 2014, the District adopted Resolution 2014-12-06, Resolution regarding the Imposition of Facilities Fees recorded at Reception No. 2015002746 on January 9, 2015, in the office of the Jefferson County Clerk and Recorder, to impose a facilities fee of \$0.50 per gross square foot intended for non-residential use for which a building permit is required on all buildings located within the boundaries of the District. The facilities fee is payable on or before the date of the issuance of a building permit by the jurisdictional entity issuing such permit. The revenues from this fee have been pledged to the payment of Bonds or any indebtedness of the District. During 2016, Facilities Fees were received in the amount of \$100,946.

### Development Agreement

On January 16, 2015, Jefferson County, State of Colorado (the "County") and SunCap Boulder, LLC ("SunCap") entered into a Development Agreement related to the sale of certain property from SunCap to the County whereby the County agreed to construct certain improvements on said property ("Development Agreement"). The responsibility for the construction of the improvements defined as the "Post Closing Work" in the Development Agreement was subsequently delegated to the District under the Intergovernmental Agreement by and between the District and the County, discussed below.

### Intergovernmental Agreement between the District and the County ("County IGA")

On January 16, 2015, the District entered into the County IGA. Under the County IGA, the District agreed to construct certain improvements within a 26 acre parcel of land known as the Verve Innovation Park. These improvements include roadway improvements, drainage improvements and certain utilities which shall be provided to the property line.

### Intergovernmental Agreement regarding the Construction of and Reimbursement for SunCap Public Improvements among the District, the County and the Developer ("RMMA IGA")

On January 16, 2015, the District, the County and the Developer entered into the RMMA IGA whereby the District agreed to construct certain Project Improvements as defined in the RMMA IGA with a total estimated cost of \$2,189,078, subject to receipt of funding from proceeds of the SunCap closing. The District accepted delegation of the County's duties and obligations for the Project Improvements per the Development Agreement. SunCap agreed to deposit 105% of the Estimated Project Costs into an escrow account with Land Title Guarantee Company, and subject to an Escrow & Disbursement Agreement between the District, SunCap, the County, and Land Title Guarantee Company ("Escrow Agreement"). If the actual project cost is lower than initially bid, the District shall refund the balance of the Project Funds at the completion of the project as directed by the County and RMMA. The Escrow Agreement also provides that subject to available funding, the District agrees to reimburse the County for the Actual Project Costs. A portion of the amount advanced under the Escrow Agreement was repaid with the proceeds of the Series 2015 Loan.

VERVE METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements  
December 31, 2016

Note 5: Related Parties

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 by 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.

On May 6, 2014, 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

The District is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets; errors or omissions; injuries to agents; and natural disasters. The District maintains commercial insurance for various risks of loss. There were no claims in any of the two fiscal years since the organization of the District.

VERVE METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements  
December 31, 2016

Note 8: Reconciliation of government-wide financial statements and fund financial statements

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

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

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

- 1) 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; and,
- 2) governmental funds report the repayment of loan principal as expenditures; however, these are reported as reductions in long-term liabilities on the Statement of Net Position.

Note 9: Prior Period Adjustment

During 2015, interest on the County Construction Advance was incorrectly calculated, resulting in the County reimbursement and County reimbursement - interest in the Statement of Revenues, Expenditures and Changes in Fund Balance on the District's 2015 audited financial statements to be incorrectly stated. The County reimbursement was overstated by \$64,390 while the County reimbursement – interest was understated by \$64,390. Because these differences offset each other, there was no need to restate the December 31, 2015, Fund Balance of the Capital Projects Fund.

A restatement of the Total Net Position at December 31, 2015, is required in the government-wide financial statements as the result of the 2015 error. Interest expense in 2015 was understated by \$53,538 which would have been reflected on the Statement of Activities. In addition, on the Statement of Net Position, Accrued interest was overstated by \$10,852 and Long-term liabilities were understated by \$64,390. The beginning Total Net Position on the government-wide financial statements has been restated as follows:

Total Net Position, beginning of year, as previously stated:	\$ (2,291,290)
Prior period adjustment:	<u>(53,538)</u>
Restated beginning Net Position:	<u>\$ (2,344,828)</u>

SUPPLEMENTAL INFORMATION

## Verve Metropolitan District No. 1

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

For the Year Ended December 31, 2016

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>REVENUES</b>				
Property taxes	\$ 10,424	\$ 10,424	\$ 10,434	\$ 10
Interest income	120	120	604	484
Total Revenues	<u>10,544</u>	<u>10,544</u>	<u>11,038</u>	<u>494</u>
<b>EXPENDITURES</b>				
Loan interest expense	246,127	247,000	246,079	921
Loan principal	-	10,000	10,000	-
Treasurer's fees	-	150	157	(7)
Trustee fees	-	850	875	(25)
Total Expenditures	<u>246,127</u>	<u>258,000</u>	<u>257,111</u>	<u>889</u>
<b>NET CHANGE IN FUND BALANCE</b>	(235,583)	(247,456)	(246,073)	1,383
<b>FUND BALANCE:</b>				
BEGINNING OF YEAR	<u>651,938</u>	<u>651,938</u>	<u>621,505</u>	<u>(30,433)</u>
END OF YEAR	<u>\$ 416,355</u>	<u>\$ 404,482</u>	<u>\$ 375,432</u>	<u>\$ (29,050)</u>

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

## Verve Metropolitan District No. 1

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>
<b>REVENUES</b>			
Facilities fees	\$ 110,000	\$ 100,946	\$ (9,054)
Interest income	-	3,580	3,580
	<u>110,000</u>	<u>104,526</u>	<u>(5,474)</u>
<b>Total Revenues</b>			
<b>EXPENDITURES</b>			
Capital outlay	1,400,000	404,278	995,722
County reimbursement	-	471,017	(471,017)
County reimbursement - interest	-	60,152	(60,152)
	<u>1,400,000</u>	<u>935,447</u>	<u>464,553</u>
<b>Total Expenditures</b>			
<b>NET CHANGE IN FUND BALANCE</b>	(1,290,000)	(830,921)	459,079
<b>FUND BALANCE:</b>			
BEGINNING OF YEAR	<u>3,572,200</u>	<u>2,385,305</u>	<u>(1,186,895)</u>
END OF YEAR	<u>\$ 2,282,200</u>	<u>\$ 1,554,384</u>	<u>\$ (727,816)</u>

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