

ONE HORSE
BUSINESS IMPROVEMENT DISTRICT

Financial Statements and
Independent Auditors' Report

December 31, 2016



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**ONE HORSE BUSINESS IMPROVEMENT DISTRICT
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INDEPENDENT AUDITORS' REPORT

Board of Directors
One Horse Business Improvement District
City of Lakewood, Colorado

We have audited the accompanying financial statements of the governmental activities and each major fund of the One Horse Business Improvement District, as of and for the year ended December 31, 2016, and the related notes to the financial statements and respective budgetary comparison for the general fund, 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the One Horse Business Improvement District, as of December 31, 2016, and the respective changes in net position and budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

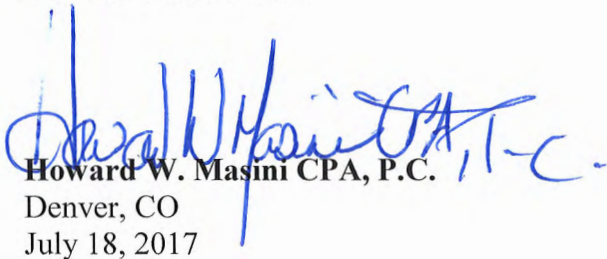
Required Supplementary Information

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not part of the basic financial statement, 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 the missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The supplementary information as listed in the table of contents is presented for purposes of legal compliance and additional analysis and is not a required part of the financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.


Howard W. Masini CPA, P.C.
Denver, CO
July 18, 2017

One Horse Business Improvement District
 GOVERNMENTAL FUNDS BALANCE SHEET/STATEMENT OF NET POSITION
 December 31, 2016

| | General | Debt Service | Total | Adjustments | Statement of Net Position |
|---|---------------------|-------------------------|---------------------|-----------------------|--|
| ASSETS | | | | | |
| Cash and investments | \$ 1,249,473 | \$ 36,893 | \$ 1,286,366 | \$ - | \$ 1,286,366 |
| Cash and investments - restricted | | 1,578,432 | 1,578,432 | - | 1,578,432 |
| Sales taxes receivable | 517,707 | - | 517,707 | - | 517,707 |
| Prepaid Insurance | 5,128 | | 5,128 | | 5,128 |
| Capital Assets | - | - | - | 2,370,613 | 2,370,613 |
| Total Assets | <u>1,772,308</u> | <u>1,615,325</u> | <u>3,387,633</u> | <u>2,370,613</u> | <u>5,758,246</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | | | | |
| Deferred loss on refunding | - | - | - | 114,561 | 114,561 |
| Total Deferred Outflows of Resources | <u>-</u> | <u>-</u> | <u>-</u> | <u>114,561</u> | <u>114,561</u> |
| Total Assets and Deferred Outflows of Resources | <u>\$ 1,772,308</u> | <u>\$ 1,615,325</u> | <u>\$ 3,387,633</u> | | |
| LIABILITIES | | | | | |
| Accrued interest on bonds | \$ - | - | \$ - | 38,075 | 38,075 |
| Bonds Payable | | | | | |
| Due within one year | | | | 400,000 | 400,000 |
| Due in more than one year | - | - | - | 7,415,000 | 7,415,000 |
| Total Liabilities | <u>-</u> | <u>-</u> | <u>-</u> | <u>7,853,075</u> | <u>7,853,075</u> |
| FUND BALANCES/NET POSITION | | | | | |
| Fund Balances: | | | | | |
| Restricted: | | | | | |
| Emergencies | 52,000 | - | 52,000 | (52,000) | - |
| Debt service | - | 1,615,325 | 1,615,325 | (1,615,325) | - |
| Unassigned | <u>1,720,308</u> | <u>-</u> | <u>1,720,308</u> | <u>(1,720,308)</u> | <u>-</u> |
| Total Fund Balances | <u>1,772,308</u> | <u>1,615,325</u> | <u>3,387,633</u> | <u>(3,387,633)</u> | <u>-</u> |
| Total Liabilities and Fund Balances | <u>\$ 1,772,308</u> | <u>\$ 1,615,325</u> | <u>\$ 3,387,633</u> | | |
| Net Position: | | | | | |
| Net investment in capital assets | | | | (5,329,826) | (5,329,826) |
| Restricted for: | | | | | |
| Emergencies | | | | 52,000 | 52,000 |
| Debt service | | | | 1,577,250 | 1,577,250 |
| Unrestricted | | | | <u>1,720,308</u> | <u>1,720,308</u> |
| Total Net Position | | | | <u>\$ (1,980,268)</u> | <u>\$ (1,980,268)</u> |

The Notes to the Financial Statements and Independent Auditors' Report
 are an integral part of these statements.

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

| | <u>General</u> | <u>Debt Service</u> | <u>Total</u> | <u>Adjustments</u> | <u>Statement of Activities</u> |
|--|---------------------|-------------------------|---------------------|-----------------------|--|
| EXPENDITURES | | | | | |
| Management | \$ 819,629 | \$ - | \$ 819,629 | \$ - | \$ 819,629 |
| Depreciation | - | - | - | 249,539 | 249,539 |
| Debt Service: | - | - | - | - | - |
| Principal | - | 380,000 | 380,000 | (380,000) | - |
| Interest | - | 480,300 | 480,300 | 10,125 | 490,425 |
| Paying Agent Fees | - | 3,000 | 3,000 | - | 3,000 |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| Total Expenditures | 819,629 | 863,300 | 1,682,929 | (120,336) | 1,562,593 |
| GENERAL REVENUES | | | | | |
| Sales tax revenue | 2,295,814 | - | 2,295,814 | - | 2,295,814 |
| Interest income | 34 | 40,138 | 40,172 | - | 40,172 |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| Total General Revenues | 2,295,848 | 40,138 | 2,335,986 | - | 2,335,986 |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | | | | | |
| | 1,476,219 | (823,162) | 653,057 | 120,336 | 773,393 |
| OTHER FINANCING SOURCES (USES) | | | | | |
| Transfers in/(out) | (875,600) | 875,600 | - | - | - |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| Total Other Financing Sources (Uses) | (875,600) | 875,600 | - | - | - |
| NET CHANGES IN FUND BALANCES | | | | | |
| | 600,619 | 52,438 | 653,057 | (653,057) | |
| CHANGE IN NET POSITION | | | | | |
| | | | | 773,393 | 773,393 |
| FUND BALANCES/NET POSITION: | | | | | |
| BEGINNING OF YEAR | <u>1,171,689</u> | <u>1,562,887</u> | <u>2,734,576</u> | <u>(5,488,237)</u> | <u>(2,753,661)</u> |
| END OF YEAR | <u>\$ 1,772,308</u> | <u>\$ 1,615,325</u> | <u>\$ 3,387,633</u> | <u>\$ (5,367,901)</u> | <u>\$ (1,980,268)</u> |

The Notes to the Financial Statements and Independent Auditors' Report
are an integral part of these statements.

One Horse Business Improvement District
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL -
GENERAL FUND
For the Year Ended December 31, 2016

| | Original Budget | Final Budget | Actual | Variance Favorable (Unfavorable) |
|--|--------------------|-----------------|--------------|--|
| REVENUES | | | | |
| Sales tax revenue | \$ 2,222,604 | \$ 2,222,604 | \$ 2,295,814 | \$ 73,210 |
| Interest income | 5 | 5 | 34 | 29 |
| Total Revenues | 2,222,609 | 2,222,609 | 2,295,848 | 73,239 |
| EXPENDITURES | | | | |
| Total Expenditures | 900,000 | 900,000 | 819,629 | 80,371 |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | 1,322,609 | 1,322,609 | 1,476,219 | 153,610 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers in/(out) | (835,182) | (835,182) | (875,600) | (40,418) |
| Total Other Financing Sources (Uses) | (835,182) | (835,182) | (875,600) | (40,418) |
| NET CHANGE IN FUND BALANCE | 487,427 | 487,427 | 600,619 | 113,192 |
| FUND BALANCE: | | | | |
| BEGINNING OF YEAR | 1,166,366 | 1,166,366 | 1,171,689 | 5,323 |
| END OF YEAR | \$ 1,653,793 | \$ 1,653,793 | \$ 1,772,308 | \$ 118,515 |

The Notes to the Financial Statements and Independent Auditors' Report
are an integral part of these statements.

ONE HORSE BUSINESS IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE 1 – REPORTING ENTITY

Organization

One Horse Business Improvement District (District) was formed August 26, 2002 pursuant to approval of an ordinance by the City Council of the City of Lakewood. The District is a separate legal entity authorized in accordance with Part 12, Article 25, Title 31 of the Colorado Revised Statutes, and all other statutes of the State of Colorado amendatory thereof or supplement thereto. The District was formed for the purpose of providing, operating and maintaining a variety of public improvements within the service area of the district which may include transportation and drainage improvements, and any other improvements dedicated to or used for public purposes.

Funds to construct facilities and provide services are to be financed primarily through the issuance of revenue bonds. Sales tax revenues, received pursuant to revenue sharing agreements with the City of Lakewood, are the primary source of revenue of the District and have been fully pledged for bond debt service.

The District has no employees and contracts for all of its management and administrative services.

Definition of Reporting Entity

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.

As of December 31, 2016, no component unit has been identified as reportable to the District, nor is the District a component unit of any other primary governmental entity.

The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States (USGAAP) as applied to government units. The Government Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

NOTE 2 – MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

Basis of Presentation

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

ONE HORSE BUSINESS IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE 2 – MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION - (Continued)

Measurement Focus – Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Governmental Fund financial statements are reported using the *current financial resources measurement focus* and the *modified 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 the purpose, the Government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences and claims and judgements, are recorded only when payment is due.

The government reports the following major governmental funds:

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.

The Debt Service Fund is used to account for the accumulation of resources that are restricted, committed or assigned to expenditures for principal, interest and other debt related costs.

Budgets

Each September 30, the District is required to submit a budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means for financing them. Public hearings are conducted at the District to obtain taxpayer comments. Prior to December 31, the Board legally enacts the budget. The Board of Directors is authorized to transfer budgeted amounts between line items of the District; however, the Board of Directors must approve any revisions that alter the total expenditure of the District.

Colorado budget law requires that all local governments have legally adopted budgets and appropriations. Total expenditures for each fund may not exceed the amount appropriated. All appropriations lapse at the end of the fiscal year. Appropriations may be increased during the fiscal year provided unanticipated revenues offset them. Budget appropriations presented in this report include all legally adopted appropriations as amended. Subsequent to December 31, 2016, appropriation increases for the 2016 budget year were approved by the Board, due to a potential increase in debt service fund expenditures.

| | <u>Original Budget</u> | <u>Final Budget</u> |
|--------------|------------------------|---------------------|
| Debt Service | \$ <u>863,300</u> | \$ <u>866,800</u> |

ONE HORSE BUSINESS IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE 2 – MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION - (Continued)

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Risk Management

The District is exposed to various risks of loss related to limited torts; theft of, damage to and destruction of assets; errors and omissions and natural disasters for which the District carries insurance.

Cash 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 are reported as fair value.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflow 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 has only one item that qualifies for reporting in this category. Deferred loss on refunding is reported in the government-wide statement of net position. This results from the difference between the reacquisition price of the 2012 series bonds and the net carrying amount of the portion of the 2004 series bonds currently refunded. Deferred loss on refunding will be recognized as a component of interest expense on a straight-line basis over the remaining life of the new debt.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflow of resources. This separate financial statement element, deferred inflows of resources, represents the 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 did not report any deferred inflows of resources.

Capital Assets – Capital assets are recorded at cost. Depreciation is computed on the straight-line method over the useful lives of the assets, which is as follows:

Land Improvements

23 years

ONE HORSE BUSINESS IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE 2 – MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION - (Continued)

Fund Balance - Beginning with fiscal year 2011 the District implemented GASB Statement No. 54, “Fund Balance Reporting and Governmental Fund Type Definitions.” This statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government’s fund balances more transparent. In fund financial statements the following classifications describe the relative strength of the spending constraints.

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

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

The District reports the following restricted fund balances:

Restricted for Debt Service – Represents the portion of fund balances that is legally restricted to payment of principal and interest on all bond obligations.

Restricted for TABOR Emergencies – Emergency reserves have been provided for as required by Article X, Section 20 of the Constitution of the State of Colorado.

Committed fund balance – The portion of fund balance constrained for specific purposes according to limitations imposed by the District’s highest level of decision making authority, the Board of Directors prior to the end of the current fiscal year. The constraint may be removed or changed only through formal action of the Board of Directors.

Assigned fund balance – The portion of the fund balance that is constrained by the government’s intent to be used for specific purposes, but is neither restricted or committed. Intent is expressed by the Board of Directors to be used for a specific purpose. Constraints imposed on the use of assigned amounts are more easily removed or modified than those imposed on amounts that are classified as committed.

Unassigned fund balance – The residual portion of fund balance that does not meet any of the above criteria.

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

Net Position – Net Position represents the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources. The District reports three categories of net position as follows:

ONE HORSE BUSINESS IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE 2 – MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION - (Continued)

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 acquisitions, construction, or improvement of those assets and increased by balances of deferred outflows or resources related to those assets.

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

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

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

Recently Issued and Adopted Accounting Pronouncements – Effective January 1, 2012, the District implemented the provisions of GASB No. 63, “*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*” (GASB No. 63) and early implemented the provisions of GASB No. 65, “*Items Previously Reported as Assets and Liabilities*” (GASB No. 65).

GASB No. 63 provides guidance for reporting deferred outflows and deferred inflows of resources as introduced and defined in GASB Concepts Statements No. 4 “*Elements of Financial Statements*” (Concepts Statement No. 4). Concepts Statement No. 4 defines as deferred outflow of resources as a consumption of net assets that is applicable to a future reporting period. A deferred inflow of resources is defined as an acquisition of net assets applicable to a future reporting period. The impact on the District’s financial statements has been to replace the term “net assets” with “net position”.

GASB No. 65 establishes accounting and financial reporting standards that reclassify as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. The adoption of this standard had no impact on the District’s financial statement.

Effective for year ends beginning after June 15, 2015 GASB No. 72 “*Fair Value Measurement and Application*” establishes general principles for measuring fair value and standards of accounting and financial reporting for assets and liabilities measured at fair value. The District implemented the provisions of this pronouncement beginning January 1, 2016.

ONE HORSE BUSINESS IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE 3 – CASH AND INVESTMENTS – UNRESTRICTED AND RESTRICTED

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

| | |
|-----------------------------|---------------------|
| Statement of Net Position: | |
| Cash – checking and savings | \$ 1,286,366 |
| Investments - restricted | <u>1,578,432</u> |
| Total | \$ <u>2,864,798</u> |

Cash Deposits

The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulators. Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral as determined by the PDPA. PDPA allows the financial institution to create a single collateral pool for all public funds held. The pool for all the uninsured public deposits as a group is to be maintained by another institution or held in trust. The market value of the collateral must be at least equal to 102% of the aggregate uninsured deposits. The State Regulatory 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, all of the cash deposits were either insured by the FDIC or held in eligible public depositories as required by PDPA.

Investments

Colorado statutes specify investment instruments meeting defined rating and risk criteria in which local governments may invest which include certain money market funds and guaranteed investment contracts.

The District has not adopted a formal investment policy; however, the District follows state statutes regarding investments.

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) and 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.

ONE HORSE BUSINESS IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE 3 – CASH AND INVESTMENTS – UNRESTRICTED AND RESTRICTED (continued)

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

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

At December 31, 2016, the District's investments consisted of the following:

| <u>Investments - Restricted</u> | <u>S&P Rating</u> | <u>Maturity</u> | <u>Fair Value</u> |
|---------------------------------|-----------------------|-----------------|---------------------|
| Money Market Funds | AAAm | < 1 year | \$ 776,857 |
| Guaranteed Investment Contract | Aa2/AA | 11.5 years | 801,575 |
| Total Investments - restricted | | | \$ <u>1,578,432</u> |

Custodial Credit Risk – Investments – Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the District may be unable to recover the value of its investments or collateral securities that are in the possession of an outside party. Therefore, exposure arises if the securities are uninsured, are not registered in the Districts' name and are held by either the counterparty to the investment purchase or the counterparty's trust department or agent but not in the Districts' name. The District does not have a formal investment policy regarding custodial credit risk although all investments are either in the custody of the bond indenture trustee or held in the name of the District by a party other than the issuer of the security.

Concentration of Credit Risk – Neither the state statutes nor the District's investment policy limits the amount of investments in any one issuer. At December 31, 2016, the District is invested in Wells Fargo

Advantage Government Money Market Account and Society General Guaranteed Investment Contract which are believed to have minimal credit risk.

Interest Rate Risk – Interest rate risk is the risk that changes in the market rate of interest will adversely affect the value of an investment. The District does not have a formal investment policy regarding interest rate risk although the Indenture limits bank time deposits to a 1 year maturity and repurchase agreements to a 30 day term. The guaranteed investment contract provides a 5% fixed rate of return through its termination date on June 1, 2024.

ONE HORSE BUSINESS IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE 3 – CASH AND INVESTMENTS – UNRESTRICTED AND RESTRICTED (continued)

Credit Quality Risk – Credit quality risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Mutual funds and certain other investments are not categorized as to credit quality risk because ownership is not evidenced by a security. This risk is assessed by national rating agencies which assign a credit quality rating for many investments.

State law limits investments in securities, at the time of purchase, to securities with the top two ratings issued by nationally recognized statistical rating organizations. The District does not have a formal policy related to investment credit quality risk although the Indenture limits investments in most debt to ratings of at least “A1” or higher by Moody’s and “A+” or higher by S&P, investments in commercial paper to “VMIG1” or higher by Moody’s or “A-1” or higher by S&P, and money market portfolios and mutual funds to “Aa” or better by Moody’s and “AAm” or better by S&P.

Restricted Cash and Investments

Certain cash and investments are legally required under bond covenants to be restricted and held in trust for specific purposes. The total of these restrictions amounts to \$1,578,432 at December 31, 2016. These assets are included and invested as disclosed above.

| | |
|--------------------------------|---------------------|
| Restricted, held in trust for: | |
| Reserve Fund Account | \$ 821,614 |
| Bond Interest Account | 264,864 |
| Bond Principal Fund Account | 203,539 |
| Revenue Fund Account (2004) | 236,153 |
| Revenue Fund Account (2012) | 52,262 |
| Tabor Reserve | 52,000 |
| Total | \$ <u>1,630,432</u> |

Reserve Fund Account, cash and investments in the amount of \$821,614 are restricted to meet the minimum reserve requirement of \$801,575 as specified in the Indenture.

Bond Interest Fund Account, cash and investments in the amount of \$264,864 are restricted for payment of interest on outstanding debt obligations.

Bond Principal Fund Account, cash and investments in the amount of \$203,539 are restricted to the payment of principal on outstanding debt obligations.

Revenue Fund Accounts all pledged revenues are to be deposited in the Revenue Fund Account. Cash and investments in the amount of \$52,262 are restricted for deposit into the Bond Interest Fund Account first, the Bond Principal Account second, and then to other Restricted Fund Accounts in accordance with formulas established in the Indenture. Excess funds may be transferred to the District to be used for any lawful purpose of the District.

ONE HORSE BUSINESS IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE 4 – CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2016 follows:

| <u>Depreciable Assets</u> | <u>Balance Dec 31, 2015</u> | <u>Additions</u> | <u>Deletions/ Adjustments</u> | <u>Balance Dec. 31, 2016</u> |
|--------------------------------|---------------------------------|---------------------|-----------------------------------|----------------------------------|
| Land Improvements | \$ 5,739,389 | \$ - | \$ - | \$ 5,739,389 |
| Less: accumulated depreciation | <u>(3,119,237)</u> | <u>(249,539)</u> | <u>-</u> | <u>(3,368,776)</u> |
| Total capital assets | <u>\$ 2,620,152</u> | <u>\$ (249,539)</u> | <u>\$ -</u> | <u>\$ 2,370,613</u> |

NOTE 5 – LONG –TERM DEBT

The following is a summary of changes in long-term debt for the year ended December 31, 2016:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> | <u>Due Within One Year</u> |
|--|------------------------------|------------------|-------------------|---------------------------|--------------------------------|
| Fixed Rate, Sales Tax Sharing Revenue Bonds Series 2004 | \$ 3,945,000 | \$ - | \$ 325,000 | \$ 3,620,000 | \$ 345,000 |
| Fixed Rate, Sales Tax Sharing Revenue Bonds Series 2012 | <u>4,250,000</u> | <u>-</u> | <u>55,000</u> | <u>4,195,000</u> | <u>55,000</u> |
| Total long-term debt | <u>\$ 8,195,000</u> | <u>\$ -</u> | <u>\$ 380,000</u> | <u>\$ 7,815,000</u> | <u>\$ 400,000</u> |

Long-term debt consists of SALES TAX SHARING REVENUE REFUNDING BONDS, SERIES 2004 (“Bonds”) originally totaling \$10,000,000. These Bonds were issued June 15, 2004 in order to refund the District’s outstanding variable rate revenue Bonds, establish a reserve fund for the Bonds, and pay the costs of issuing the Bonds.

The Bonds are issued as fully register bonds in denominations of \$25,000 or any interim multiple of \$5,000 in excess thereof. The Bonds bear interest at the rate of 6%, payable on December 1, 2004, and semi-annually thereafter on June 1 and December 1 each year.

Long-term debt also consists of SALES TAX SHARING REVENUE REFUNDING BONDS, SERIES 2012 (“Bonds”) originally totaling \$4,405,000. These Bonds were issued April 19, 2012 in order to redeem in advance of maturity, \$4,075,000 of the Series 2004 Bonds maturing on June 1, 2024, and to pay costs associated with the execution and issuance of the Bonds as a means to smooth the debt service obligations of the District.

The Bonds are issued as fully registered bonds in denominations of \$25,000 or any interim multiple of \$5,000 in excess thereof. The Bonds bear interest at 6%, payable on June 1, 2012, and annually thereafter on June 1, each year.

ONE HORSE BUSINESS IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE 5 – LONG –TERM DEBT – (continued)

The Bonds constitute special revenue obligations of the District. The principal of, premium (if any), and interest on the Bonds are payable solely from the secured by an irrevocable pledge of certain sales tax revenues generated within the vicinity of the District pursuant to two agreements with the City of Lakewood and certain funds and accounts created under the Indenture. The Bonds are issued pursuant to an Indenture of Trust between the District and Wells Fargo Bank, National Associations, as Trustee. The District covenants in the Indenture that it will not incur assume or permit any additional bonds secured by a lien on the Pledged Revenue that is senior to the lien thereon of the bonds and that it will not incur, assume or permit any other additional bonds on a priority with the bonds unless, among other conditions, the Pledged Revenue for a consecutive 12-month period within the previous 24 months preceding the date of issuance of the Additional Bonds being issued were equal to at least one hundred seventy five percent (175%) of the combined maximum annual principal and interest requirements (excluding the principal coming due on the Bonds maturing 2029 after giving to mandatory sinking fund redemptions) on the Bonds to be outstanding after the issuance of the additional Bonds (including the additional Bonds to be issued).

Mandatory sinking fund redemption for principal and interest payment requirements to maturity using a fixed rate interest rate are as follows:

| | | | |
|--------------------------------|-------------|------------------|--|
| | \$7,815,000 | 6.00% | Term Bonds due from 2017 through June 1, 2029 |
| | | | Sales Tax Sharing Fixed Rate Revenue Refunding Bonds Series 2004 & 2012 |
| <u>Year Ending December 31</u> | | | <u>Principal</u> <u>Interest</u> <u>Total</u> |
| 2017 | \$ | 400,000 | \$ 456,900 \$ 856,900 |
| 2018 | | 425,000 | 432,150 857,150 |
| 2019 | | 450,000 | 405,900 855,900 |
| 2020 | | 480,000 | 378,000 858,000 |
| 2021 | | 510,000 | 348,300 858,300 |
| 2022-2026 | | 3,195,000 | 1,210,350 4,405,350 |
| 2027-2029 | | 2,355,000 | 217,350 2,572,350 |
| Total | \$ | <u>7,815,000</u> | \$ <u>3,448,950</u> \$ <u>11,263,950</u> |

NOTE 6 – ADMINISTRATION AND RELATED PARTIES

The District's expenditures/expenses for Administration consist primarily of payments to 640 Improvement Corporation (a Colorado Nonprofit Corporation) for administration and management services. These payments are made pursuant to an informal agreement between the District and 640 Improvement Corporation that does not create an obligation for payment by the District. Payments are made at the discretion of the Board considering current debt service and available cash balances. During 2016, the District paid \$806,500 to 640 Improvement Corporation.

Three Directors of the District serve as Directors of 640 Improvement Corporation.

ONE HORSE BUSINESS IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE 7 – DEFICIT NET POSITION

For the year ended December 31, 2016, the District had a deficit net position balance of \$(1,980,268). The deficit balance results because initial issue costs of the 2004 bonds were written off; assets were transferred to other governmental entities; capital assets of the District decrease in value at a greater rate than Bond debt principal due to depreciation; and, spending exceeded revenue in prior years. The deficit is expected to remain until the District's bonds have been repaid.

NOTE 8 – TAX, SPENDING, AND DEBT LIMITATIONS

In November 1992, Colorado voters passed Amendment 1, referred to as the Taxpayer's Bill of Rights (TABOR), which added Section 20 to Article X of the Colorado Constitution. TABOR contains tax, spending, revenue, and debt limitations, which apply to the State of Colorado and all local governments.

Enterprises, defined as government-owned business authorized to issue revenue bonds and receiving less than 10% of annual revenue in grants from all state and local governments combined, are excluded from the provision of TABOR. The District does not receive revenues from property tax levies, but indirectly from sales tax revenues, not in excess of 10% of annual revenues received from local governments and state.

At a special election held on November 5, 2002, voters of the District authorized the District to collect, retain and expend the full amount of all taxes, fees, tolls, penalties, charges, assessments, non-federal grants and other revenues received by the District during 2002 and each year thereafter, without limitation by the revenue and spending limits of TABOR.

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.

NOTE 9 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Governmental Funds Balance Sheet / Net Assets – The following adjustments are included reconciling items in the Governmental Funds Balance Sheet/Net Assets:

| | | |
|--|----|--------------------|
| Total funds balance – Governmental Funds | \$ | 3,387,633 |
| Capital assets, net | | 2,370,613 |
| Deferred loss on refunding | | 114,561 |
| Bonds payable | | (7,815,000) |
| Accrued interest payable | | (38,075) |
| Total statement of activities – net position | \$ | <u>(1,980,268)</u> |

ONE HORSE BUSINESS IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE 9 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS – (continued)

Capital assets used in government activities are not financial resources and therefore are not reported in the funds. Bonds and accrued interest are not due and payable in the current period and, therefore, are not reported in the funds.

Statement of Governmental Fund Revenues, Expenditures and Changes in Fund Balances / Statement of Activities – The following adjustments are included as reconciling items in the Statement of Governmental Fund Revenues, Expenditures and Changes in Fund Balances/Statement of Activities:

| | | |
|-----------------------------------|----|-----------------|
| Total excess of revenues over | | |
| Expenditures – Governmental Funds | \$ | 653,057 |
| Depreciation | | (249,539) |
| Repayment of bond principal | | 380,000 |
| Interest | | <u>(10,125)</u> |
| Total change in net position of | | |
| Governmental activities | \$ | <u>773,393</u> |

Governmental funds report capital outlays as expenditures. As such, depreciation is not recorded. For the statement of activities, these costs are capitalized and depreciated over their estimated useful lives. The repayments of bond principal are expenditures in the statement of governmental fund revenues, expenditures and changes in fund balances; however, they are a reduction of liabilities in the statement of net assets. Interest is recorded as an expenditure when it is paid in the statement of governmental fund revenues, expenditure and changes in fund balances. Interest expense incurred but unpaid is accrued as a liability and expensed in the statement of net assets.

Note 10 – Evaluation of Subsequent Events

The District evaluated subsequent events through July 18, 2017, the date these financial statements were available to be issued.

On May 08, 2017, properties within the District experienced a significant hail storm which caused damage to certain properties located within the District. The District's source of revenues are sales taxes. The District receives approximately 65% of its total revenue from Colorado Mills. A significant portion of Colorado Mills will remain closed through approximately November 2017 which may impact the revenue received by the District for 2017.

OTHER SUPPLEMENTARY INFORMATION

One Horse Business Improvement District
STATEMENT 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> |
|--|----------------------------|-------------------------|---------------------|---|
| REVENUES | | | | |
| Interest income | \$ 40,000 | \$ 40,000 | \$ 40,138 | \$ 138 |
| Total Revenues | <u>40,000</u> | <u>40,000</u> | <u>40,138</u> | <u>138</u> |
| EXPENDITURES | | | | |
| Debt Service: | | | | |
| Interest | 480,300 | 480,300 | 480,300 | - |
| Principal | 380,000 | 380,000 | 380,000 | - |
| Paying Agent fees | 3,000 | 6,500 | 3,000 | 3,500 |
| Total Expenditures | <u>863,300</u> | <u>866,800</u> | <u>863,300</u> | <u>3,500</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | (823,300) | (826,800) | (823,162) | 3,638 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers in/(out) | <u>835,182</u> | <u>835,182</u> | <u>875,600</u> | <u>40,418</u> |
| Total Other Financing Sources (Uses) | <u>835,182</u> | <u>835,182</u> | <u>875,600</u> | <u>40,418</u> |
| NET CHANGE IN FUND BALANCE | 11,882 | 8,382 | 52,438 | 44,056 |
| FUND BALANCE: | | | | |
| BEGINNING OF YEAR | 1,523,338 | 1,523,338 | 1,562,887 | 39,549 |
| END OF YEAR | <u>\$ 1,535,220</u> | <u>\$ 1,531,720</u> | <u>\$ 1,615,325</u> | <u>\$ 83,605</u> |

The Notes to the Financial Statements and Independent Auditors' Report
are an integral part of these statements.