

WATERVIEW 1 METROPOLITAN DISTRICT

El Paso County, Colorado

FINANCIAL STATEMENTS

December 31, 2017

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Waterview I Metropolitan District
El Paso County, Colorado

We have audited the accompanying financial statements of the governmental activities and each major fund of Waterview I Metropolitan District ("District"), as of and for the year ended December 31, 2017, 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 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 District as of December 31, 2017, 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 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 which 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 the District's basic financial statements. The supplementary information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

BiggsKofford, P.C.

Colorado Springs, Colorado
October 1, 2018

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BASIC FINANCIAL STATEMENTS

WATERVIEW 1 METROPOLITAN DISTRICT
STATEMENT OF NET POSITION
DECEMBER 31, 2017

	<u>Governmental Activities</u>
<u>ASSETS</u>	
Cash and investments	\$ 95,001
Cash and investments - restricted	338,330
Accounts receivable - County Treasurer	5,380
Property taxes receivable	561,752
Prepaid expenses	4,664
Capital assets - construction in progress	<u>15,189,292</u>
 Total assets	 <u>16,194,419</u>
<u>LIABILITIES</u>	
Accounts payable	29,093
Accrued interest payable	848,177
Developer advances	10,000
Noncurrent liabilities:	
Due within one year	125,000
Due in more than one year	<u>18,357,875</u>
 Total liabilities	 <u>19,370,145</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>	
Deferred tax revenues	<u>561,752</u>
 Total deferred inflows of resources	 <u>561,752</u>
<u>NET POSITION</u>	
Restricted for:	
Debt service	330,076
Emergency reserve	5,450
Unrestricted	<u>(4,073,004)</u>
 Total net position	 <u><u>\$ (3,737,478)</u></u>

The accompanying notes and independent auditor's report
should be read with this financial statement.

WATERVIEW 1 METROPOLITAN DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2017

	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net Revenue and Change in Net Position of Primary Government - Governmental Activities</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
FUNCTIONS/PROGRAMS				
PRIMARY GOVERNMENT:				
General government	\$ 152,692	\$ -	\$ -	\$ (152,692)
Fees	-	181,612	-	181,612
Interest and related costs on long-term debt	1,027,703	-	-	(1,027,703)
Total primary government	\$ 1,180,395	\$ 181,612	\$ -	(998,783)
GENERAL REVENUES:				
Property taxes				513,520
Specific ownership taxes				69,578
Investment earnings				3,264
Total general revenues				586,362
Changes in net position				(412,421)
Net position, beginning of year				(3,325,057)
Net position, end of year				\$ (3,737,478)

The accompanying notes and independent auditor's report should be read with this financial statement.

WATERVIEW 1 METROPOLITAN DISTRICT
BALANCE SHEETS
GOVERNMENTAL FUNDS
DECEMBER 31, 2017

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>			
Cash and investments	\$ 95,001	\$ -	\$ 95,001
Cash and investments - restricted	-	338,330	338,330
Accounts receivable - County Treasurer	-	5,380	5,380
Property tax receivable	-	561,752	561,752
Prepaid expenses	4,664	-	4,664
Due from Debt Service Fund	13,634	-	13,634
Total assets	<u>\$ 113,299</u>	<u>\$ 905,462</u>	<u>1,018,761</u>
<u>LIABILITIES</u>			
Accounts payable	29,093	-	29,093
Due to General Fund	-	13,634	13,634
Total liabilities	<u>29,093</u>	<u>13,634</u>	<u>42,727</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Deferred property tax revenues	-	561,752	561,752
Total deferred inflows of resources	<u>-</u>	<u>561,752</u>	<u>561,752</u>
<u>FUND BALANCE</u>			
Nonspendable:			
Prepaid expenditures	4,664	-	4,664
Restricted for:			
Debt service	-	330,076	330,076
Emergency reserve	5,450	-	5,450
Unassigned:			
General government	74,092	-	74,092
Total fund balances	<u>84,206</u>	<u>330,076</u>	<u>414,282</u>
Total liabilities and fund balances	<u>\$ 113,299</u>	<u>\$ 905,462</u>	

Amounts reported in governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:

 Construction in process 15,189,292

Long-term liabilities (and the related deferred outflows of resources), including bonds and notes payable are not due and payable in the current period and, therefore, are not reported in the funds:

 Long-term debt obligations (18,482,875)

 Developer advances (10,000)

 Accrued interest payable (848,177)

Net position of governmental activities \$ (3,737,478)

The accompanying notes and independent auditor's report should be read with this financial statement.

WATERVIEW 1 METROPOLITAN DISTRICT
STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2017

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
<u>REVENUES</u>			
Property taxes	\$ -	\$ 513,520	\$ 513,520
Specific ownership taxes	-	69,578	69,578
Fees	181,612	-	181,612
Investment income	-	3,264	3,264
Total revenues	<u>181,612</u>	<u>586,362</u>	<u>767,974</u>
<u>EXPENDITURES</u>			
General:			
Audit	7,500	-	7,500
Bank charges	159	-	159
Dues and subscriptions	544	-	544
Electricity	2,328	-	2,328
Insurance	4,306	-	4,306
Landscape maintenance/repairs	1,192	-	1,192
Management services	49,264	-	49,264
Meeting expenses	2,128	-	2,128
Postage and mail	57	-	57
Professional fees - legal	41,450	-	41,450
Trash service	33,595	-	33,595
Capital outlay	-	-	-
Debt service:			
Treasurer's fees	-	7,712	7,712
Bond principal - Series 2016	-	50,000	50,000
Note principal - Series 2012A	-	550,000	550,000
Interest expense	-	389,300	389,300
Trustee fees	-	2,582	2,582
Total expenditures	<u>142,523</u>	<u>999,594</u>	<u>1,142,117</u>
Excess (deficit) of revenues over expenditures	<u>39,089</u>	<u>(413,232)</u>	<u>(374,143)</u>
<u>OTHER FINANCING SOURCES (USES)</u>			
Transfer from other funds	-	503,503	503,503
Transfer to other funds	(503,503)	-	(503,503)
Total other financing sources (uses)	<u>(503,503)</u>	<u>503,503</u>	<u>-</u>
Net change in fund balances	(464,414)	90,271	(374,143)
Fund balances, beginning of year	<u>548,620</u>	<u>239,805</u>	<u>788,425</u>
Fund balances, end of year	<u>\$ 84,206</u>	<u>\$ 330,076</u>	<u>\$ 414,282</u>

The accompanying notes and independent auditor's report
should be read with this financial statement.

WATERVIEW 1 METROPOLITAN DISTRICT
RECONCILIATION OF THE STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2017

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds \$ (374,143)

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

Principal payment - Series 2016 Bonds	50,000
Principal payment - Series 2012A Note	550,000
Premium amortization	28,267

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Change in accrued interest payable	(666,545)
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Changes in net position of governmental activities \$ (412,421)

The accompanying notes and independent auditor's report should be read with this financial statement.

WATERVIEW 1 METROPOLITAN DISTRICT
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
YEAR ENDED DECEMBER 31, 2017

	Amounts Budgeted		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
O&M Fee assessments	\$ 106,350	\$ -	\$ -	\$ -
Reimbursed expenses	108,000	-	-	-
Trash assessments	82,953	-	-	-
Storm sewer	13,500	-	-	-
Fees	-	182,000	181,612	(388)
Total revenues	<u>310,803</u>	<u>182,000</u>	<u>181,612</u>	<u>(388)</u>
EXPENDITURES				
Audit	-	-	7,500	(7,500)
Bad debt	5,000	5,000	-	5,000
Bank charges	200	200	159	41
Capital improvements	5,000	5,000	-	5,000
Contingency	500	500	-	500
Dues and subscriptions	47	47	544	(497)
Electricity	9,000	9,000	2,328	6,672
General administrative fees	7,000	7,000	-	7,000
Insurance	1,800	1,800	4,306	(2,506)
Landscape maintenance/repairs	11,000	11,000	1,192	9,808
Mailbox maintenance	500	500	-	500
Mailbox snow removal	2,000	2,000	-	2,000
Management services	42,567	42,567	49,264	(6,697)
Meeting expenses	750	750	2,128	(1,378)
Newsletter	380	380	-	380
Operating expenses/depreciation	5,000	5,000	-	5,000
Postage and mail	3,000	3,000	57	2,943
Professional fees - legal	49,000	49,000	41,450	7,550
Repairs and testing	10,000	10,000	-	10,000
Storm water	13,500	13,500	-	13,500
Tax preparation	355	355	-	355
Trash service	82,953	82,953	33,595	49,358
Website	720	720	-	720
Total expenditures	<u>250,272</u>	<u>250,272</u>	<u>142,523</u>	<u>107,749</u>
Excess (deficit) of revenues over expenditures	<u>60,531</u>	<u>(68,272)</u>	<u>39,089</u>	<u>107,361</u>
OTHER FINANCING SOURCES (USES)				
Transfer to Debt Service Fund	-	(503,503)	(503,503)	-
Total other financing sources (uses)	-	(503,503)	(503,503)	-
Net change in fund balance	<u>\$ 60,531</u>	<u>\$ (571,775)</u>	<u>(464,414)</u>	<u>\$ 107,361</u>
Fund balance, beginning of year			<u>548,620</u>	
Fund balance, end of year			<u>\$ 84,206</u>	

The accompanying notes and independent auditor's report
should be read with this financial statement.

WATERVIEW 1 METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

1. DEFINITION OF REPORTING ENTITY

Waterview I Metropolitan District ("District"), a quasi-municipal corporation and political subdivision of the State of Colorado, was formed on November 28, 2005, and is governed pursuant to provisions of the Colorado Special District Act. The District's service area is located in El Paso County ("County"), Colorado. The District was established to provide financing for the acquisition, construction, and installation of streets, traffic and safety controls, parks and recreational activities, water and sewer, and storm drainage.

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 and a potential for the organization to provide specific financial benefits or burdens and fiscal dependency.

The District is not financially accountable for any other organization nor is the District a component unit of any other primary governmental entity.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Government-wide and fund financial statements

The government-wide financial statements include the statement of net position and the statement of activities. These financial statements include all of the activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are normally supported by property taxes and intergovernmental revenues.

The statement of net position reports all financial and capital resources of the District. The difference between the assets plus deferred outflows of resources and liabilities plus deferred inflows of resources of the District is reported as net position.

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.

Separate financial statements are provided for the governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

See independent auditor's report

WATERVIEW 1 METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement focus, basis of accounting and financial statement position

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 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 collectable 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 major sources of revenue susceptible to accrual are property taxes. All other revenue items are considered to be measurable and available only when cash is received by the District. Expenditures, other than interest on long-term obligations are recorded when the liability is incurred or the long-term obligation is due.

The District reports the following major governmental funds:

General fund - The general fund is used to account for all financial resources of the District except those required to be accounted for in another fund.

Debt service fund - The debt service fund accounts for the servicing of general long-term debt and revenues generated and received by the District that are required to be used in payment of long-term debt.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

Budgets

In accordance with state budget law, the District's board of directors holds public hearings in the fall each year to approve the budget and appropriate the funds for the ensuing year. The appropriation is at the total fund expenditures and other financing uses level and lapses at year-end. 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 Board of Directors approved supplemental appropriations in the General Fund from \$250,272 to \$753,775 to account for a transfer to the Debt Service Fund and in the Debt Service Fund from \$989,300 to \$999,600 to account for treasurer's fees and trustee fees incurred in 2017.

Pooled cash and investments

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

Investments are carried at fair value.

See independent auditor's report

WATERVIEW 1 METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 column 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. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

Capital assets which are anticipated to be conveyed to other governmental entities are recorded as construction in progress, and are not included in the calculation of net position invested in capital assets, net of related debt component of the District's net position.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

Property taxes

Property taxes are levied by the District's board of directors. The levy is based on assessed valuations determined by the County Assessor generally as of January 1 of each year. The levy is normally set by December 15 and attaches as an enforceable lien as of January 1 of the following year. The County Treasurer collects the determined taxes during the ensuing calendar year. The taxes are payable by April or, at the taxpayer's election, in February and June in equal installments. Delinquent taxpayers are notified in August and generally sales of the tax liens on delinquent properties are held in November or December. The County Treasurer remits the taxes collected to the District monthly.

Property taxes, net of estimated uncollectible taxes, are recorded initially as deferred revenues in the year they are levied and measurable. The deferred property tax revenues are recorded as revenues in the year they are available or collected.

Deferred inflows of resources

In addition to liabilities, the statement of net position reports 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. Accordingly, the item incremental property tax revenue is deferred and recognized as an inflow of resources in the period that the amounts become available.

Fund equity

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

See independent auditor's report

WATERVIEW 1 METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund equity (continued)

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

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

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

Assigned fund balance - The portion of fund balance that is constrained by the government's intent to be used for specific purposes, but is neither restricted nor committed. Intent is expressed by the board of directors to be used for a specific purpose. Constraints imposed on the use of assigned amounts are more easily removed or modified than those imposed on amounts that are classified as committed.

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

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

3. CASH AND INVESTMENTS

Cash and investments are classified in the accompanying financial statements as follows:

Statement of net position:

Cash and investments	\$ 95,001
Cash and investments - restricted	<u>338,330</u>
	<u><u>\$ 433,331</u></u>

Cash and investments as of December 31, 2017 consist of the following:

Deposits with financial institutions	\$ 95,001
Investments	<u>338,330</u>

Deposits with financial institutions	<u><u>\$ 433,331</u></u>
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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. The eligible collateral is determined by the PDPA. The PDPA allows the institution to create a single collateral pool for all public funds. The pool for all the uninsured public deposits as a group is to be maintained by another institution or held in trust. The market value of the collateral must be 102% of the aggregate uninsured deposits.

See independent auditor's report

WATERVIEW 1 METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

3. CASH AND INVESTMENTS (CONTINUED)

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.

Investments

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

The District generally limits its concentration of investments to those which are believed to have minimal credit risk, minimal interest rate risk and no foreign currency risk. Additionally, the District is not subject to concentration risk disclosure requirements or subject to investment custodial credit risk for investments that are in the possession of another party.

Colorado revised statutes limit investment maturities to five years or less unless otherwise formally approved by the board of directors. Such actions are generally associated with a debt service reserve or sinking fund requirements.

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

- Obligations of the United States and certain United States government agency securities.
- Certain international agency securities
- General obligation and revenue bonds of United States local government entities
- Bankers' acceptances of certain banks
- Commercial paper
- Written repurchase agreements collateralized by certain authorized securities
- Certificates of deposit in Colorado PDPA approved banks or savings banks
- Certain money market funds
- Guaranteed investment contracts
- * Local government investment pools

As of December 31, 2017 District #2 had the following investments:

<u>Investment</u>	<u>Maturity</u>	<u>Fair Value</u>
Colorado Local Government Liquid Asset Trust (COLOTRUST)	Weighted average under 60 days	<u>\$ 338,330</u>

See independent auditor's report

WATERVIEW 1 METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

3. CASH AND INVESTMENTS (CONTINUED)

Investments (continued)

COLOTRUST

The District invested in the Colorado Local Government Liquid Asset Trust ("COLOTRUST") (the "Trust"), an investment vehicle established for local government entities in Colorado to pool surplus funds. The State Securities Commissioner administers and enforces all State statutes governing the Trust. The Trust operates similarly to a money market fund and each share is equal in value to \$1.00. The Trust offers shares in two portfolios, COLOTRUST PRIME and COLOTRUST PLUS+. Both portfolios may invest in U.S. Treasury securities and repurchase agreements collateralized by U.S. Treasury securities. COLOTRUST PLUS+ may also invest in certain obligations of U.S. government agencies, highest rated commercial paper and any security allowed under CRS 24-75-601. A designated custodial bank serves as custodian for the Trust's portfolios pursuant to a custodian agreement. The custodian acts as safekeeping agent for the Trust's investment portfolios and provides services as the depository in connection with direct investments and withdrawals. The custodian's internal records segregate investments owned by the Trust. COLOTRUST is rated AAAM by Standard & Poor's. COLOTRUST records its investments at fair value and the District records its investment in COLOTRUST using the net asset value method. There are no unfunded commitments, the redemption frequency is daily and there is no redemption notice period.

4. CAPITAL ASSETS

Capital assets consist of construction in progress of roads, water and wastewater systems. Capital asset activity for the year ended December 31, 2017 is as follows:

	Balance 1/1/2017	Additions/ Reclass- ifications	Dispositions/ Reclass- ifications	Balance 12/31/17
Construction in progress	\$ 15,189,292	\$ -	\$ -	\$ 15,189,292
Capital assets, net	<u>\$ 15,189,292</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 15,189,292</u>

It is the District's intention that the operation and maintenance of the water supply and waste water systems will be transferred to the local water and sanitation districts (see Note 7) and the main road will be deeded to the County.

5. LONG-TERM OBLIGATIONS

Developer advances

On August 29, 2007, the District entered into an agreement with the initial developer. The developer agreed to advance funds to the District for operations, maintenance expenses and capital costs pursuant to the terms of the agreement. The agreement is subject to renewal on an annual basis as deemed appropriate by the developer. Such advances plus interest at a rate of 8.00% per annum are to be reimbursed by the District with the proceeds of any future available revenues, including but not limited to the proceeds of bonds, fees and taxes or the issuance of water and wastewater taps of the District. Any reimbursement is subject to annual appropriation by the District and is contingent upon the District's ability to generate sufficient revenues, after payment of annual operating expenditures and debt service requirements. This agreement was terminated effective February 9, 2012.

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WATERVIEW 1 METROPOLITAN DISTRICT
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5. LONG-TERM OBLIGATIONS (CONTINUED)

Series 2016A General Obligation Taxable Subordinate Promissory Note

On October 14, 2016, the District entered into a promissory note agreement with the developer for \$8,726,666, bearing interest at 8% per annum and maturing on December 31, 2051. If, on the maturity date, any principal or interest on the note remains outstanding, the note will be cancelled and no further amounts will be due or payable. This promissory note agreement replaces the principal balance and accrued interest of a previous 2012A note payable agreement. The principal balance on this promissory note is \$8,176,667 and accrued interest is \$815,860 as of December 31, 2017.

Payments on this promissory note payable are subordinate to those for the Series 2016 bonds below and are subject to available cash flows. Accordingly, no maturity schedule has been included.

Series 2016 General Obligation Limited Tax Refunding Bonds

On October 13, 2016, the District issued Series 2016 Limited Tax General Obligation Bonds in the amount of \$9,540,000. The bond proceeds were used to repay the 2013 General Obligation Limited Tax Refunding Bonds in their entirety and to repay \$7,640,000 of the Series 2012A General Obligation Taxable Subordinate Promissory Note and accumulated interest. The bonds bear a variable interest rate ranging from 3.00% to 5.00% percent per annum. The interest payments are due to bondholders semi-annually on June 1 and December 1, beginning December 1, 2016. Principal payments are due each December 1, beginning December 1, 2017. The bonds mature December 1, 2046.

A Reserve Fund is required to be maintained at all times in the amount of the Required Reserve which will be an amount equal to 50% of the maximum annual debt service requirements of the Series 2016 Limited Tax General Obligation Bonds and such Reserve Fund was fully funded in such amount upon issuance of such Bonds.

The following is a summary of changes in long-term obligations of the District during the year ended December 31, 2017:

	Balance 1/1/2017	Additions	Reductions	Balance 12/31/2017
Developer advances	\$ 10,000	\$ -	\$ -	\$ 10,000
2016A Note	8,726,667	-	(550,000)	8,176,667
2016 Bonds	9,540,000	-	(50,000)	9,490,000
Bond Issuance Premium	844,475	-	(28,267)	816,208
	<u>\$ 19,121,142</u>	<u>\$ -</u>	<u>\$ (628,267)</u>	<u>\$ 18,492,875</u>

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WATERVIEW 1 METROPOLITAN DISTRICT
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5. LONG-TERM OBLIGATIONS (CONTINUED)

Annual requirements to amortize 2016 Bonds are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 125,000	\$ 387,800	\$ 512,800
2019	125,000	384,050	509,050
2020	150,000	380,300	530,300
2021	150,000	375,800	525,800
2022	150,000	371,300	521,300
2023-2027	1,030,000	1,749,500	2,779,500
2028-2032	1,280,000	1,522,100	2,802,100
2033-2037	1,650,000	1,193,750	2,843,750
2038-2042	2,265,000	726,500	2,991,500
2043-2046	2,565,000	225,387	2,790,387
Total	<u>\$ 9,490,000</u>	<u>\$ 7,316,487</u>	<u>\$ 16,806,487</u>

6. NET POSITION

The District has net position consisting of two components - restricted and unrestricted net position.

Restricted positions include the net position that is subject to restrictions for use either by external restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The District had restricted net position of as of December 31, 2017 as follows:

	<u>Government Activities</u>
Restricted net position:	
Debt service (see Note 5)	\$ 330,076
Emergencies (see Note 11)	<u>5,450</u>
	<u>\$ 5,450</u>

The District's unrestricted net position as of December 31, 2017 totaled the deficit of \$4,073,004. This deficit amount was a result of the District being responsible for the repayment of general obligation bonds.

7. INCLUSION AGREEMENT

The owner of the real property located within the District's boundaries entered into an inclusion agreement with the local water and sanitation districts under which the property is included within the local districts' service boundaries. Upon the establishment of Waterview I Metropolitan District, the rights and obligations of the inclusion agreement were assigned to the District.

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WATERVIEW 1 METROPOLITAN DISTRICT
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7. INCLUSION AGREEMENT (CONTINUED)

Under the terms of the agreement, the District is responsible for the construction of, and payment for 1) the water delivery and distribution system as necessary to properly supply and distribute water from the local water districts' facilities to the property and 2) the wastewater collection lines and system as necessary to properly collect the wastewater from the property and connect to the sanitation districts' wastewater collection system. The District will pay water and wastewater tap fees, and water development fees for water services to the property when the water and wastewater services are requested to be made available to the individual lots within the property. The local districts will then provide water and sanitation services to the property.

8. RELATED PARTIES

Certain members of the board of directors of the District are employees, owners of or otherwise associated with the developer and may have conflicts of interest in dealing with the District.

9. ECONOMIC DEPENDENCY

The District has not yet established a revenue base sufficient to pay operational and capital expenditures and meet debt service requirements. Until an independent revenue base is established, continuation of operations in the District and construction of public improvements will be dependent upon funding by contributions or the issuance of debt.

10. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, thefts of, damage to, or destruction of assets; errors or omissions; injuries to contractors; or acts of God.

The District is a member of the Colorado Special Districts Property and Liability Pool ("Pool") as of December 31, 2017. The Pool is an organization created by intergovernmental agreement to provide property, liability, public officials liability, boiler and machinery and workers compensation coverage to its members. Settled claims have not exceeded this coverage in any of the past three fiscal years.

The District pays annual premiums to the Pool for liability, property and public officials liability coverage. In the event aggregated losses incurred by the Pool exceed amounts recoverable from reinsurance contracts and funds accumulated by the Pool, the Pool may require additional contributions from the Pool members. Any excess funds which the Pool determines are not needed for purposes of the Pool may be returned to the members pursuant to a distribution formula.

11. TAX, SPENDING AND DEBT LIMITATIONS

Article X, Section 20 of the Colorado Constitution, commonly known as the Taxpayer's Bill of Rights ("TABOR"), contains tax, spending, revenue and debt limitations which apply to the State of Colorado and all local governments within the State of Colorado.

Spending and revenue limits are determined based on the prior 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. Revenues in excess of the fiscal year spending limit must be refunded unless the voters approve retention of such revenues. The District's voters approved a ballot issue allowing the District to retain all revenues.

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WATERVIEW 1 METROPOLITAN DISTRICT
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11. TAX, SPENDING AND DEBT LIMITATIONS (CONTINUED)

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. 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 likely require judicial interpretation.

12. RESTATEMENT OF BEGINNING NET POSITION

The beginning balance of net position has been restated from previously issued financial statements to correct for errors. The statement of net position as of December 31, 2016 understated capital assets – construction in progress by \$1,079,703, understated noncurrent liabilities (2016A note payable) by \$3,921,014 and understated related accrued interest payable by \$65,980. The statement of activities for the year ended December 31, 2016 understated interest and related costs on long-term debt by \$2,907,291. There was no impact to the governmental fund financial statements. The effects of the correction on the government-wide financial statements as of and for the year ended December 31, 2017 are as follows:

Net position - December 31, 2016, as originally stated	\$ (417,766)
Restatement	<u>(2,907,291)</u>
Net position - December 31, 2016, as restated	<u>\$ (3,325,057)</u>

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SUPPLEMENTARY INFORMATION

WATERVIEW 1 METROPOLITAN DISTRICT
DEBT SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
YEAR ENDED DECEMBER 31, 2017

	<u>Amounts Budgeted</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<u>REVENUES</u>				
Property taxes	\$ 513,558	\$ 512,558	\$ 513,520	\$ 962
Specific ownership taxes	-	70,000	69,578	(422)
Investment income	-	3,200	3,264	64
Total revenues	<u>513,558</u>	<u>585,758</u>	<u>586,362</u>	<u>604</u>
<u>EXPENDITURES</u>				
Treasurer's fees	-	7,700	7,712	(12)
Bond principal - Series 2016	439,300	50,000	50,000	-
Note principal - Series 2012A	550,000	550,000	550,000	-
Interest expense	-	389,300	389,300	-
Trustee fees	-	2,600	2,582	18
Total expenditures	<u>989,300</u>	<u>999,600</u>	<u>999,594</u>	<u>6</u>
Excess (deficit) of revenues over expenditures	<u>(475,742)</u>	<u>(413,842)</u>	<u>(413,232)</u>	<u>610</u>
<u>OTHER FINANCING SOURCES (USES)</u>				
Transfer from General Fund	-	503,503	503,503	-
Total other financing sources	<u>-</u>	<u>503,503</u>	<u>503,503</u>	<u>-</u>
Net change in fund balance	<u>\$ (475,742)</u>	<u>\$ 89,661</u>	<u>\$ 90,271</u>	<u>\$ 610</u>
Fund balance, beginning of year			<u>239,805</u>	
Fund balance, end of year			<u><u>\$ 330,076</u></u>	

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