

BANNING LEWIS RANCH METROPOLITAN DISTRICT NO. 1
El Paso County, Colorado

FINANCIAL STATEMENTS
December 31, 2015

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Banning Lewis Ranch Metropolitan District No. 1
El Paso County, Colorado

We have audited the accompanying financial statements of the governmental activities and each major fund of Banning Lewis Ranch Metropolitan District No. 1 ("District"), as of December 31, 2015, and for the year then ended, 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, 2015, 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
September 23, 2016

BASIC FINANCIAL STATEMENTS

BANNING LEWIS RANCH METROPOLITAN DISTRICT NO. 1
STATEMENT OF NET POSITION
December 31, 2015

	<u>Governmental Activities</u>
ASSETS	
Cash and investments	\$ 11,095
Cash and investments - Restricted	715,259
Accounts receivable - District operating fees	109,389
Accounts receivable - Other	7,560
Due from Banning Lewis Ranch MD No. 2	9,321
Due from Banning Lewis Ranch MD No. 3	30,688
Due from Banning Lewis Ranch Regional MD	1,954
Prepaid expenses	4,815
Capital assets, not being depreciated:	
Parks and recreation	9,484,178
Capital assets, net:	
Recreation center	3,902,185
Total assets	<u>14,276,444</u>
LIABILITIES	
Accounts payable	230,919
Due to BLR Foundation	2,066
District operating fees deposit	8,177
Landscape deposit	133,250
Total liabilities	<u>374,412</u>
NET POSITION	
Net investment in capital assets	13,386,363
Restricted for:	
Emergency reserves	42,900
Debt service	532,691
Unrestricted	(59,922)
Total net position	<u><u>\$ 13,902,032</u></u>

These financial statements should be read only in connection with
the accompanying notes to financial statements.

BANNING LEWIS RANCH METROPOLITAN DISTRICT NO. 1
STATEMENT OF ACTIVITIES
Year Ended December 31, 2015

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Position</u>
	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	
Primary government:					
Government activities:					
General government, including depreciation	\$ 1,983,270	\$ 1,049,568	\$ 411,721	\$ -	\$ (521,981)
	<u>\$ 1,983,270</u>	<u>\$ 1,049,568</u>	<u>\$ 411,721</u>	<u>\$ -</u>	<u>(521,981)</u>
General revenues:					
Banning Lewis Ranch Regional MD - Debt Service				194,428	
Net investment income				1,219	
Design review fees				17,875	
Total general revenues				<u>213,522</u>	
Change in net position				(308,459)	
Net position - Beginning				14,210,491	
Net position - Ending				<u>\$ 13,902,032</u>	

These financial statements should be read only in connection with
the accompanying notes to financial statements.

BANNING LEWIS RANCH METROPOLITAN DISTRICT NO. 1
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2015

	General	Debt Service Regional	Capital Projects	Total Governmental Funds
ASSETS				
Cash and investments	\$ 11,095	\$ -	\$ -	\$ 11,095
Cash and investments - Restricted	184,327	530,932	-	715,259
Accounts receivable - District operating fees	109,389	-	-	109,389
Accounts receivable - Other	7,560	-	-	7,560
Due from Banning Lewis Ranch MD No. 2	9,321	-	-	9,321
Due from Banning Lewis Ranch MD No. 3	30,688	-	-	30,688
Due from Banning Lewis Ranch Regional MD	195	1,759	-	1,954
Prepaid expenses	4,815	-	-	4,815
TOTAL ASSETS	\$ 357,390	\$ 532,691	\$ -	\$ 890,081
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 230,919	\$ -	\$ -	\$ 230,919
Due to Banning Lewis Ranch Foundation	2,066	-	-	2,066
Landscape deposit	133,250	-	-	133,250
District operating fees deposit	8,177	-	-	8,177
Total liabilities	374,412	-	-	374,412
FUND BALANCES				
Nonspendable:				
Prepaid expenditures	4,815	-	-	4,815
Restricted for:				
Emergency reserves	42,900	-	-	42,900
Debt service	-	532,691	-	532,691
Unassigned:				
General government	(64,737)	-	-	(64,737)
Total fund balances	(17,022)	532,691	-	515,669
TOTAL LIABILITIES AND FUND BALANCES	\$ 357,390	\$ 532,691	\$ -	

Amounts reported for 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.

Capital assets, net	13,386,363
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Net position of governmental activities	\$ 13,902,032
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These financial statements should be read only in connection with the accompanying notes to financial statements.

BANNING LEWIS RANCH METROPOLITAN DISTRICT NO. 1
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES (DEFICITS) - GOVERNMENTAL FUNDS
Year Ended December 31, 2015

	<u>General</u>	<u>Debt Service Regional</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
REVENUES				
District operating fees	\$ 1,038,605	\$ -	\$ -	\$ 1,038,605
Net investment income	379	840	-	1,219
Design review fee	17,875	-	-	17,875
Ranch house rentals	10,963	-	-	10,963
Transfer from BLR MD No. 2 - O&M taxes	340,093	-	-	340,093
Transfer from BLR MD No. 3 - Developer advance	50,000	-	-	50,000
Transfer from BLR MD No. 3 - O&M taxes	25	-	-	25
Transfer from BLR Regional MD - O&M taxes	21,603	-	-	21,603
Transfer from BLR Regional MD - DS taxes	-	194,428	-	194,428
Total revenues	<u>1,479,543</u>	<u>195,268</u>	<u>-</u>	<u>1,674,811</u>
EXPENDITURES				
Current				
Accounting	131,098	-	951	132,049
Audit	12,050	-	-	12,050
Billing services	46,360	-	-	46,360
Community management	28,539	-	-	28,539
Design review fee	8,232	-	-	8,232
District management	78,525	-	-	78,525
Dues and memberships	3,379	-	-	3,379
Engineering & consulting	1,905	-	-	1,905
Insurance and bonds	21,000	-	-	21,000
Legal	37,525	-	-	37,525
Miscellaneous	3,277	-	-	3,277
Other repairs & maintenance	13,621	-	-	13,621
Broadband access	394,350	-	-	394,350
Trash removal and recycle	141,608	-	-	141,608
Landscape maintenance - Village 1	473,519	-	-	473,519
Recreation center	322,443	-	-	322,443
Swimming pool - Village 1	21,235	-	-	21,235
Swimming pool - Village 2	67,728	-	-	67,728
Total expenditures	<u>1,806,394</u>	<u>-</u>	<u>951</u>	<u>1,807,345</u>
EXCESS OF REVENUES OVER (UNDER)				
EXPENDITURES	<u>(326,851)</u>	<u>195,268</u>	<u>(951)</u>	<u>(132,534)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	760	-	-	760
Transfers out	-	-	(760)	(760)
Total other financing sources (uses)	<u>760</u>	<u>-</u>	<u>(760)</u>	<u>-</u>
NET CHANGE IN FUND BALANCES				
	(326,091)	195,268	(1,711)	(132,534)
FUND BALANCES -				
BEGINNING OF YEAR	<u>309,069</u>	<u>337,423</u>	<u>1,711</u>	<u>648,203</u>
FUND BALANCES (DEFICITS) -				
END OF YEAR	<u>\$ (17,022)</u>	<u>\$ 532,691</u>	<u>\$ -</u>	<u>\$ 515,669</u>

These financial statements should be read only in connection with
the accompanying notes to financial statements.

**BANNING LEWIS RANCH METROPOLITAN DISTRICT NO. 1
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES (DEFICITS) OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended December 31, 2015**

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

Net change in fund balances - Total governmental funds	\$ (132,534)
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Governmental funds report capital outlay as expenditures. In the statement of activities, capital outlay is not reported as an expenditure. However, the statement of activities will report as depreciation expense the allocation of the cost of any depreciable asset over the estimated useful life of the asset.

Depreciation	<u>(175,925)</u>
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Changes in net position of governmental activities	<u><u>\$ (308,459)</u></u>
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These financial statements should be read only in connection with
the accompanying notes to financial statements.

BANNING LEWIS RANCH METROPOLITAN DISTRICT NO. 1
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES (DEFICITS) - BUDGET AND ACTUAL
Year Ended December 31, 2015

	<u>Budget Amounts</u>		<u>Actual</u> <u>Amounts</u>	<u>Variance with</u> <u>Final Budget</u> <u>Positive</u> <u>(Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
District operating fees	\$ 900,000	\$ 995,000	\$ 1,038,605	\$ 43,605
Net investment income	100	400	379	(21)
Design review fee	12,500	15,000	17,875	2,875
Other income	1,000	-	-	-
Ranch house rentals	-	15,000	10,963	(4,037)
Transfer from BLR MD No. 2 - O&M taxes	335,684	340,907	340,093	(814)
Transfer from BLR Regional MD - O&M taxes	21,440	21,586	21,603	17
Transfer from BLR MD No. 3 - Developer advance	510,000	248,000	50,000	(198,000)
Transfer from BLR MD No. 3 - O&M taxes	24	24	25	1
Total revenues	<u>1,780,748</u>	<u>1,635,917</u>	<u>1,479,543</u>	<u>(156,374)</u>
EXPENDITURES				
Accounting	60,000	130,000	131,098	(1,098)
Audit	8,400	12,050	12,050	-
Billing services	42,000	46,000	46,360	(360)
Community management	23,500	27,000	28,539	(1,539)
Design review fee	10,000	6,000	8,232	(2,232)
District management	45,000	70,000	78,525	(8,525)
Dues and memberships	3,000	3,379	3,379	-
Engineering & consulting	-	-	1,905	(1,905)
Insurance and bonds	20,000	19,550	21,000	(1,450)
Legal	25,000	32,000	37,525	(5,525)
Miscellaneous	3,000	2,500	3,277	(777)
Other repairs & maintenance	-	13,621	13,621	-
Broadband access	441,150	435,000	394,350	40,650
Trash removal and recycle	105,000	135,000	141,608	(6,608)
Landscape maintenance - Village 1	512,200	491,000	473,519	17,481
Recreation center	334,700	363,700	322,443	41,257
Swimming pool - Village 1	35,500	23,500	21,235	2,265
Swimming pool - Village 2	130,000	75,000	67,728	7,272
Contingency	-	14,700	-	14,700
Total expenditures	<u>1,798,450</u>	<u>1,900,000</u>	<u>1,806,394</u>	<u>93,606</u>
EXCESS OF REVENUES OVER (UNDER)				
EXPENDITURES	<u>(17,702)</u>	<u>(264,083)</u>	<u>(326,851)</u>	<u>(62,768)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	760	760
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>760</u>	<u>760</u>
EXCESS OF REVENUES AND OTHER				
FINANCING SOURCES OVER (UNDER)				
EXPENDITURES AND OTHER	<u>(17,702)</u>	<u>(264,083)</u>	<u>(326,091)</u>	<u>(62,008)</u>
FINANCING USES				
FUND BALANCES - BEGINNING				
OF YEAR	<u>57,097</u>	<u>309,069</u>	<u>309,069</u>	<u>-</u>
FUND BALANCES (DEFICITS) -				
END OF YEAR	<u>\$ 39,395</u>	<u>\$ 44,986</u>	<u>\$ (17,022)</u>	<u>\$ (62,008)</u>

These financial statements should be read only in connection with
the accompanying notes to financial statements.

BANNING LEWIS RANCH METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 1 - DEFINITION OF REPORTING ENTITY

Banning Lewis Ranch Metropolitan District No. 1 (the District), a quasi-municipal corporation and a political subdivision of the State of Colorado, was organized concurrently with Banning Lewis Ranch Metropolitan District Nos. 2 – 5, 7 (BLR MD Nos. 2 – 5 and 7), and Banning Lewis Regional Metropolitan District (BLR Regional MD) (collectively, the Districts) by order and decree of the District Court for the City of Colorado Springs, El Paso County, Colorado, on December 1, 2005, and is governed pursuant to provisions of the Colorado Special Districts Act (Title 32, Article 1, Colorado Revised Statutes). The Districts' service area is located entirely within the City of Colorado Springs, El Paso County, Colorado. The Districts operate under a Consolidated Service Plan to provide financing for the design, acquisition, installation and construction of public improvements and services, including street improvements, parks and recreational facilities, water supply, wastewater facilities, traffic and safety controls, public transportation, fire protection, mosquito control and television relay. Pursuant to the Service Plan, the District is intended to serve as the Operating District related to BLR MD Nos. 2 – 5 and 7 and BLR Regional MD, the Taxing Districts.

The District follows the Governmental Accounting Standards Board (GASB) accounting pronouncements, which provide guidance for determining which governmental activities, organizations and functions should be included within the financial reporting entity. GASB pronouncements set forth the financial accountability of a governmental organization's elected governing body as the basic criterion for including a possible component governmental organization in a primary government's legal entity. Financial accountability includes, but is not limited to, appointment of a voting majority of the organization's governing body, ability to impose its will on the organization, a potential for the organization to provide specific financial benefits or burdens and fiscal dependency.

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The more significant accounting policies of the District are described as follows:

Government-wide and Fund Financial Statements

The government-wide financial statements include the statement of net position and the statement of activities. These financial statements include all of the activities of the District. 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 sum of assets and deferred outflows of resources and the sum of liabilities and deferred inflows of resources is reported as net position.

BANNING LEWIS RANCH METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 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 major sources of revenue susceptible to accrual are intergovernmental revenues. All other revenue items are considered to be measurable and available only when cash is received by the District. The District determined that Developer advances are not considered as revenue susceptible to accrual. 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:

The General Fund is the District's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Debt Service Fund – Regional accounts for the resources accumulated and payments made for the principal and interest on long-term general obligation debt of the Banning Lewis Ranch Regional Metropolitan District.

The Capital Projects Fund is used to account for financial resources to be used for the acquisition and construction of capital equipment and facilities.

BANNING LEWIS RANCH METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budgets

In accordance with the State Budget Law, the District's Board of Directors holds public hearings in the fall each year to approve the budget and appropriate the funds for the ensuing year. The appropriation is at the total fund expenditures 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 District amended its annual budget for the year ended December 31, 2015.

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 total cash and investments.

Investments are carried at fair value.

District Operating Fees

During 2015, the District collected a fee of \$108.50 per month from the homeowners of the Northtree Village in BLR MD No. 2 to pay for the costs of broadband access, trash removal and recycling, and to cover a portion of the Northtree Recreation Center expenditures. A fee of \$66 per month was collected from the homeowners of the Northtree Village No. 2 in BLR MD No. 3 to pay for the costs of trash removal and recycling and to cover a portion of the recreation expenditures. For 2016, the District increased each operating fee by \$10.00 per month.

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g. roads, 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.

BANNING LEWIS RANCH METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 investment in capital assets 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 fixed assets, as applicable. Until either construction is completed for the capital assets that the District will operate and maintain or until such time capital assets are conveyed to the City, capital assets of the District are recorded as construction in progress.

Depreciation expense has been computed on the Recreation center using the straight-line method over the estimated economic useful life of 30 years.

Equity

Net Position

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

Fund Balance

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

- *Nonspendable fund balance* – The portion of fund balance that cannot be spent because it is either not in spendable form (such as prepaid amounts or inventory) or 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.

BANNING LEWIS RANCH METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- *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 practice to use the most restrictive classification first.

Deficits

The following individual fund had a deficit reported in the fund financial statements as of December 31, 2015:

General Fund	\$ <u>(17,022)</u>
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The deficit will be eliminated by Developer advances in 2016.

NOTE 3 - CASH AND INVESTMENTS

Cash and investments as of December 31, 2015, are classified in the accompanying financial statements as follows:

Statement of net position:

Cash and investments	\$ 11,095
Cash and investments - Restricted	<u>715,259</u>
Total cash and investments	<u>\$ 726,354</u>

Cash and investments as of December 31, 2015, consist of the following:

Deposits with financial institutions	\$ 116,700
Investments	<u>609,654</u>
Total cash and investments	<u>\$ 726,354</u>

Deposits with Financial Institutions

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. PDPA allows the institution to create a single collateral pool for all public funds. The pool for all the uninsured public deposits as a group is to be maintained by another institution or held in trust. The market value of the collateral must be at least 102% of the aggregate uninsured deposits.

BANNING LEWIS RANCH METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 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.

At December 31, 2015, the District's cash deposits had a bank balance and a carrying balance of \$116,700.

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 noted with an asterisk (*) below, 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 or investment custodial risk disclosure requirements for investments that are in the possession of another party.

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

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

- . Obligations of the United States, certain U.S. government agency securities and securities of the World Bank
- . General obligation and revenue bonds of U.S. local government entities
- . Certain certificates of participation
- . Certain securities lending agreements
- . Bankers' acceptances of certain banks
- . Commercial paper
- . Written repurchase agreements and certain reverse repurchase agreements collateralized by certain authorized securities
- . Certain money market funds
- . Guaranteed investment contracts
- * Local government investment pool

As of December 31, 2015, the District had the following investments:

Investment	Maturity	Fair Value
Colorado Liquid Asset Trust (COLOTRUST)	Weighted average under 60 days	<u>\$ 609,654</u>

BANNING LEWIS RANCH METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

COLOTRUST

The District invested in the Colorado Local Government Liquid Asset Trust (Colotrust), 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 Colotrust. Colotrust operates similarly to a money market fund and each share is equal in value to \$1.00. Colotrust offers two portfolios, COLOTRUST PRIME and COLOTRUST PLUS+. Both portfolios may invest in U.S. Treasury securities, certain obligations of agencies of the U.S. government and written purchase agreements collateralized by U.S Treasury securities or certain obligations of U.S government agencies. COLOTRUST PLUS+ may also invest in highest rated commercial paper and any security allowed under CRS 24-75-601. A designated custodial bank serves as a custodian for Colotrust's portfolios pursuant to a custodian agreement.

The custodian acts as a safekeeping agent for Colotrust'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 Colotrust. Colotrust is rated AAAM by Standard & Poor's.

BANNING LEWIS RANCH METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 4 - CAPITAL ASSETS

An analysis of the changes in capital assets for the year ended December 31, 2015, follows:

	<u>Balance at December 31, 2014</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at December 31, 2015</u>
Governmental activities				
Capital assets, not being depreciated:				
Parks and recreation	\$ 9,484,178	\$ -	\$ -	\$ 9,484,178
Total capital assets, not being depreciated	<u>9,484,178</u>	<u>-</u>	<u>-</u>	<u>9,484,178</u>
Capital assets, being depreciated:				
Recreation center	5,277,727	-	-	5,277,727
Total capital assets, being depreciated	<u>5,277,727</u>	<u>-</u>	<u>-</u>	<u>5,277,727</u>
Less accumulated depreciation for:				
Recreation center	(1,199,617)	(175,925)	-	(1,375,542)
Total accumulated depreciation	<u>(1,199,617)</u>	<u>(175,925)</u>	<u>-</u>	<u>(1,375,542)</u>
Total capital assets, being depreciated, net	<u>4,078,110</u>	<u>(175,925)</u>	<u>-</u>	<u>3,902,185</u>
Governmental activities capital assets, net	<u>\$ 13,562,288</u>	<u>\$ (175,925)</u>	<u>\$ -</u>	<u>\$ 13,386,363</u>

Depreciation expense was charged to the general government function/program of the District for the year ended December 31, 2015, in the amount of \$175,925.

BANNING LEWIS RANCH METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 5 - DEBT AUTHORIZATION

On November 1, 2005, a majority of the qualified electors of the District authorized the issuance of indebtedness in an amount not to exceed \$929,500,000 for infrastructure improvements and operations, such debt to bear interest at a rate not in excess of 18% per annum.

At December 31, 2015, the District had authorized but unissued indebtedness in the following amounts allocated for the following purposes:

	Amount Authorized on November 1, 2005	Authorization Used	Authorized But Unissued at December 31, 2015
Street improvements	\$ 84,500,000	\$ -	\$ 84,500,000
Water	84,500,000	-	84,500,000
Sanitation	84,500,000	-	84,500,000
Traffic and safety	84,500,000	-	84,500,000
Fire protection, ambulance service	84,500,000	-	84,500,000
Park and recreation	84,500,000	-	84,500,000
Mosquito control	84,500,000	-	84,500,000
Television relay and translation	84,500,000	-	84,500,000
Public transportation	84,500,000	-	84,500,000
Operations and maintenance	84,500,000	-	84,500,000
Debt refunding	84,500,000	-	84,500,000
	<u>\$ 929,500,000</u>	<u>\$ -</u>	<u>\$ 929,500,000</u>

Pursuant to the Consolidated Service Plan, BLR MD No. 2 is only permitted to issue debt up to \$84,500,000. BLR MD Nos. 3 – 5 and 7 and BLR Regional MD will be permitted to issue additional debt only at such time that such additional debt is approved by the City and that repayment of such additional debt can be accomplished only to the extent of the maximum permitted residential or commercial mill levy of 30.000 mills and 50.000 mills, respectively, as may be adjusted by a change in the ratio of actual valuation.

BANNING LEWIS RANCH METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 6 - NET POSITION

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

Net investment in capital assets consists of capital assets, net of accumulated depreciation. As of December 31, 2015, the District had net investment in capital assets calculated as follows:

	Governmental Activities
Net investment in capital assets:	
Capital assets, net	\$ 13,386,363
Net investment in capital assets	\$ 13,386,363

Restricted assets include amounts that are restricted for use either externally 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 as of December 31, 2015, as follows:

	Governmental Activities
Restricted net position:	
Emergency Reserves (see Note 11)	\$ 42,900
Debt service	532,691
	\$ 575,591

The District's unrestricted net position as of December 31, 2015, totaled \$(59,922). This deficit amount was a result of the District incurring expenditures in excess of revenues in 2015.

NOTE 7 - RELATED PARTIES

The Developer of the property which constitutes the District is MREC Oakwood Colorado Ranch LLC. The members of the Board of Directors are officers of, employees of, or otherwise associated with the Developer and may have conflicts of interest in dealing with the District.

BANNING LEWIS RANCH METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 8 - INTERGOVERNMENTAL AGREEMENTS

District Facilities Agreement

Effective as of January 1, 2007, the District and BLR MD No. 2 entered into a District Facilities Agreement (2007 Agreement) wherein the District has agreed to construct, own, operate and maintain facilities benefitting both the District and BLR MD No. 2. BLR MD No. 2 has agreed to pay for the costs of operation and maintenance of such facilities from: 1) the imposition of a mill levy not to exceed 20.000 mills, adjusted to account for constitutional and legislative changes, including new exemptions, in the manner, method or base percentage calculation for the computation of assessed values of taxable property, provided that the levy shall never exceed 50.000 mills, 2) to the extent that the 20.000 mills are insufficient to pay the costs of operations, from the imposition of fees assessed and collected from each single family lot and from each multi-family unit, and from each square foot of commercial development, their pro rata share of the operating costs, and 3) from any other revenues BLR MD No. 2 may have legally available to pay for such costs.

Effective as of December 1, 2014, the District and BLR MD No. 3 entered into a District Facilities Agreement (2014 Agreement) wherein the District has agreed to construct, own, operate and maintain facilities benefitting both the District and BLR MD No. 3. BLR MD No. 3 has agreed to pay for the costs of operation and maintenance of such facilities from: 1) the imposition of a mill levy not to exceed 20.000 mills, adjusted to account for constitutional and legislative changes, including new exemptions, in the manner, method or base percentage calculation for the computation of assessed values of taxable property, provided that the levy shall never exceed 50.000 mills, 2) to the extent that the 20.000 mills are insufficient to pay the costs of operations, from the imposition of fees assessed and collected from each single family lot and from each multi-family unit, and from each square foot of commercial development, their pro rata share of the operating costs, and 3) from any other revenues BLR MD No. 3 may have legally available to pay for such costs.

Financing Agreement

Effective January 1, 2011, the District entered into an Intergovernmental Financing Agreement with BLR Regional MD wherein the District has agreed to accept the rights and perform the obligations of BLR Regional MD under the Modified Wastewater Agreement with Colorado Springs Utilities, whereas both the District and BLR Regional MD have the power to finance public wastewater and related improvements. The District shall pay the costs, using funds paid to the District pursuant to this agreement, and such other revenues of the BLR Regional MD and the District as may be legally available to the District. Commencing on or before December 15, 2011, and continuing pursuant to the agreement, the BLR Regional MD shall levy the maximum debt mill levy and shall pay any and all amounts derived from the maximum debt mill levy to the District at least once per month. As of December 31, 2015, the District has collected and holds \$530,932 under this agreement.

BANNING LEWIS RANCH METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 9 - ECONOMIC DEPENDENCY

The District has not yet established a revenue base sufficient to pay operational and capital expenditures. Until an independent revenue base is established, continuation of operations in the District and construction of public improvements will be dependent upon funding by the Developer in the form of advances. During 2015, BLR MD No. 3 transferred Developer advances of \$50,000 to the District.

NOTE 10 - RISK MANAGEMENT

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

The District is a member of the Colorado Special Districts Property and Liability Pool (Pool) as of December 31, 2015. 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.

NOTE 11 - TAX, SPENDING AND DEBT LIMITATIONS

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

Spending and revenue limits are determined based on the prior year's Fiscal Year Spending adjusted for allowable increases based upon inflation and local growth. Fiscal Year Spending is generally defined as expenditures plus reserve increases with certain exceptions. Revenue in excess of the Fiscal Year Spending limit must be refunded unless the voters approve retention of such revenue.

On November 1, 2005, the District's voters authorized the District to increase property taxes \$8,000,000 annually, without limitation of rate and without regard to any spending, revenue raising or other limitations contained within Article X, Section 20 of the Colorado Constitutions (TABOR) or Section 29-1-301, C.R.S., to pay the District's operations, maintenance and other expenses. Additionally, the District's electors authorized the District to collect, spend or retain all revenue without regard to any limitations under TABOR.

BANNING LEWIS RANCH METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 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.

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.

This information is an integral part of the accompanying financial statements.

SUPPLEMENTARY INFORMATION

**BANNING LEWIS RANCH METROPOLITAN DISTRICT NO. 1
DEBT SERVICE FUND - REGIONAL
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
Year Ended December 31, 2015**

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES			
Investment income	\$ 600	\$ 840	\$ 240
Transfer from BLR Regional MD - DS taxes	192,565	194,428	1,863
Total revenues	<u>193,165</u>	<u>195,268</u>	<u>2,103</u>
EXPENDITURES			
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	193,165	195,268	2,103
FUND BALANCES - BEGINNING OF YEAR	<u>337,198</u>	<u>337,423</u>	<u>225</u>
FUND BALANCES - END OF YEAR	<u><u>\$ 530,363</u></u>	<u><u>\$ 532,691</u></u>	<u><u>\$ 2,328</u></u>

**BANNING LEWIS RANCH METROPOLITAN DISTRICT NO. 1
CAPITAL PROJECTS FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
Year Ended December 31, 2015**

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES			
Investment income	\$ 17	\$ -	\$ (17)
Transfer from BLR MD No. 3 - Developer advance	9,900,000	-	(9,900,000)
Transfer from BLR MD No. 3 - Facility fees - Village 2	100,000	-	(100,000)
Total revenues	<u>10,000,017</u>	<u>-</u>	<u>(10,000,017)</u>
EXPENDITURES			
General			
Accounting	1,000	951	49
Legal	1,800	-	1,800
Capital projects			
Capital outlay	10,000,000	-	10,000,000
Total expenditures	<u>10,002,800</u>	<u>951</u>	<u>10,001,849</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(2,783)</u>	<u>(951)</u>	<u>1,832</u>
OTHER FINANCING SOURCES (USES)			
Transfers out	-	(760)	(760)
Total other financing sources (uses)	<u>-</u>	<u>(760)</u>	<u>(760)</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(2,783)	(1,711)	1,072
FUND BALANCES - BEGINNING OF YEAR	<u>2,783</u>	<u>1,711</u>	<u>(1,072)</u>
FUND BALANCES - END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>