

STERLING RANCH COMMUNITY AUTHORITY BOARD
Douglas County, Colorado

FINANCIAL STATEMENTS
December 31, 2016

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**Haynie &
Company**

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Independent Auditor's Report

To the Board of Directors
Sterling Ranch Community Authority Board

We have audited the accompanying financial statements of the governmental activities and the major funds of Sterling Ranch Community Authority Board as of and for the year ended December 31, 2016 and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major funds of Sterling Ranch Community Authority Board, as of December 31, 2016 and the respective changes in financial position and the budgetary comparison for the General Fund and Special Revenue – Water and Wastewater Service Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other-Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Sterling Ranch Community Authority Board's financial statements as a whole. The supplementary information section is presented for purposes of additional analysis and is not a required part of the financial statements.

The supplementary information as listed in the table of contents 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 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.



Littleton, Colorado
June 28, 2017

BASIC FINANCIAL STATEMENTS

STERLING RANCH COMMUNITY AUTHORITY BOARD
STATEMENT OF NET POSITION
December 31, 2016

	<u>Governmental Activities</u>
ASSETS	
Cash and investments	\$ 12,999
Cash and investments - Restricted	10,894,166
Prepaid expenses	16,989
Receivables	1,690,687
Douglas County Warranty Bond	692,486
Capital assets, not being depreciated	<u>52,885,594</u>
Total assets	<u>66,192,921</u>
LIABILITIES	
Accounts payable	3,547,570
Retainage payable	2,632,554
Hydrant meter deposit	7,800
Accrued interest payable	264,495
Long-term liabilities	
Due in more than one year	<u>48,955,533</u>
Total liabilities	<u>55,407,952</u>
NET POSITION	
Restricted for:	
Emergency reserves	3,700
Debt service	841,220
Capital projects	59,246
Unrestricted	<u>9,880,803</u>
Total net position	<u><u>\$ 10,784,969</u></u>

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

STERLING RANCH COMMUNITY AUTHORITY BOARD
STATEMENT OF ACTIVITIES
Year Ended December 31, 2016

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense)</u> <u>Revenue and</u> <u>Changes in</u> <u>Net Position</u>
		<u>Charges</u> <u>for</u> <u>Services</u>	<u>Operating</u> <u>Grants and</u> <u>Contributions</u>	<u>Capital</u> <u>Grants and</u> <u>Contributions</u>	<u>Governmental</u> <u>Activities</u>
Primary government:					
Government activities:					
General government - operations and maintenance	\$ 1,692,415	\$ 871,885	\$ -	\$ -	\$ (820,530)
Public works	-	-	-	10,275,000	10,275,000
Finished Lots/Builder improvements	12,808,868	-	-	9,295,868	(3,513,000)
Interest and related costs on long-term debt	2,974,498	-	238	685,000	(2,289,260)
	<u>\$ 17,475,781</u>	<u>\$ 871,885</u>	<u>\$ 238</u>	<u>\$ 20,255,868</u>	<u>3,652,210</u>
General revenues:					
					158
					2
					18,466
					<u>18,626</u>
					3,670,836
					<u>7,114,133</u>
					<u>\$ 10,784,969</u>

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

STERLING RANCH COMMUNITY AUTHORITY BOARD
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2016

	<u>General</u>	<u>Special Revenue - Water and Wastewater Services</u>	<u>Debt Service - 2015 Bonds</u>	<u>Capital Projects - General and Preconstruction</u>	<u>Capital Projects - Filing 1 Trunk Improvements</u>	<u>Capital Projects - Filing 1 Finished Lots</u>	<u>Total Governmental Funds</u>
ASSETS							
Cash	\$ 5,199	\$ 7,800	\$ -	\$ -	\$ -	\$ -	\$ 12,999
Cash and investments - Restricted	3,700	-	5,340,853	3,434	3,979,948	1,566,231	10,894,166
Prepaid expenses	16,989	-	-	-	-	-	16,989
Receivables	1	113,056	2	-	155,000	1,422,628	1,690,687
Due from other Funds	-	-	-	-	65,266	-	65,266
Deposits - SIA/Douglas County	-	-	-	-	692,486	-	692,486
TOTAL ASSETS	<u>\$ 25,889</u>	<u>\$ 120,856</u>	<u>\$ 5,340,855</u>	<u>\$ 3,434</u>	<u>\$ 4,892,700</u>	<u>\$ 2,988,859</u>	<u>\$ 13,372,593</u>
LIABILITIES AND FUND BALANCES							
LIABILITIES							
Accounts payable	\$ 127,556	\$ 92,861	\$ -	\$ 642,163	\$ 1,197,607	\$ 1,487,383	\$ 3,547,570
Retainage payable	-	-	-	-	1,907,892	724,662	2,632,554
Due to other Funds	65,266	-	-	-	-	-	65,266
Hydrant meter deposits	-	7,800	-	-	-	-	7,800
Total liabilities	<u>192,822</u>	<u>100,661</u>	<u>-</u>	<u>642,163</u>	<u>3,105,499</u>	<u>2,212,045</u>	<u>6,253,190</u>
FUND BALANCES							
Nonspendable							
Prepaid expenses	16,989	-	-	-	-	-	16,989
Restricted							
Emergency reserve	3,700	-	-	-	-	-	3,700
Debt service	-	-	5,340,855	-	-	-	5,340,855
Capital projects	-	-	-	-	1,787,201	776,814	2,564,015
Unassigned							
General government	(187,622)	20,195	-	-	-	-	(167,427)
Capital projects (funded in subsequent year)	-	-	-	(638,729)	-	-	(638,729)
Total fund balances	<u>(166,933)</u>	<u>20,195</u>	<u>5,340,855</u>	<u>(638,729)</u>	<u>1,787,201</u>	<u>776,814</u>	<u>7,119,403</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 25,889</u>	<u>\$ 120,856</u>	<u>\$ 5,340,855</u>	<u>\$ 3,434</u>	<u>\$ 4,892,700</u>	<u>\$ 2,988,859</u>	

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.	52,885,594
Long-term liabilities are not due and payable in the current period, and therefore, are not recorded as liabilities in the funds.	
Bonds payable	(23,351,977)
Accrued interest payable - Bonds	(264,495)
Advances payable to SR Entities	(23,209,546)
Accrued interest payable - Advances from SR Entities	(2,394,010)
Net position of governmental activities	<u>\$ 10,784,969</u>

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

STERLING RANCH COMMUNITY AUTHORITY BOARD
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended December 31, 2016

	General	Special Revenue - Water and Wastewater Services	Debt Service - 2015 Bonds	Capital Projects - General and Preconstruction	Capital Projects - Filing 1 Trunk Improvements	Capital Projects - Filing 1 Finished Lots	Total Governmental Funds
REVENUES							
Design and landscape review fees	\$ 119,950	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 119,950
Transfer from Sterling Ranch District No. 2	158	-	238	-	-	-	396
Transfer from Sterling Ranch District No. 7	2	-	-	-	-	-	2
Facilities fees	-	-	685,000	-	1,370,000	-	2,055,000
Tap fees	-	-	-	-	8,905,000	-	8,905,000
Builder funds	-	-	-	-	-	8,900,607	8,900,607
Sidewalk funds	-	-	-	-	-	395,261	395,261
Water usage - Construction	-	751,935	-	-	-	-	751,935
Net investment income	-	-	523	-	13,221	4,722	18,466
Total revenues	<u>120,110</u>	<u>751,935</u>	<u>685,761</u>	<u>-</u>	<u>10,288,221</u>	<u>9,300,590</u>	<u>21,146,617</u>
EXPENDITURES							
Current							
Accounting	20,798	-	-	91,036	26,549	-	138,383
Audit	1,650	-	-	4,950	-	-	6,600
Banking fees	-	-	-	-	577	253	830
CAB management	28,223	-	-	135,662	-	-	163,885
Election	2,839	-	-	-	-	-	2,839
Costs verification/certification	-	-	-	2,485	70,200	-	72,685
Dues and membership	1,794	-	-	-	-	-	1,794
Insurance	13,268	-	-	-	-	-	13,268
Legal	134,551	-	-	150,903	-	-	285,454
Legal - Special Counsel	-	-	-	606	-	-	606
Miscellaneous	2,947	-	-	-	-	-	2,947
Rates and fees studies	78,896	-	-	-	-	-	78,896
Design and landscape review	53,412	-	-	-	-	-	53,412
Furniture and fixtures	100,000	-	-	-	-	-	100,000
Other consultants	126,154	-	-	-	-	-	126,154
GIS licensing	96,922	-	-	-	-	-	96,922
Billing and administration	-	3,142	-	-	-	-	3,142
Water purchases - Dominion W & S	-	728,598	-	-	-	-	728,598
Costs of issuance - Promissory Notes	-	-	-	165,270	-	-	165,270
Debt service							
Bond interest	-	-	1,119,676	-	-	-	1,119,676
Capital outlay							
Public improvements	-	-	-	-	30,201,391	-	30,201,391
Other engineering	-	-	-	1,097,961	-	-	1,097,961
Finished Lots improvements	-	-	-	-	-	12,808,868	12,808,868
Total expenditures	<u>661,454</u>	<u>731,740</u>	<u>1,119,676</u>	<u>1,648,873</u>	<u>30,298,717</u>	<u>12,809,121</u>	<u>47,269,581</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(541,344)</u>	<u>20,195</u>	<u>(433,915)</u>	<u>(1,648,873)</u>	<u>(20,010,496)</u>	<u>(3,508,531)</u>	<u>(26,122,964)</u>
OTHER FINANCING SOURCES (USES)							
Advances from SR Entities:							
Cash advances	417,382	-	-	1,204,411	356,077	-	1,977,870
Installment Gap Funds	-	-	-	-	12,074,000	-	12,074,000
Release of Gap Funds	-	-	-	-	(7,079,952)	-	(7,079,952)
Repay cash advances	-	-	-	-	(52,191)	-	(52,191)
Total other financing sources (uses)	<u>417,382</u>	<u>-</u>	<u>-</u>	<u>1,204,411</u>	<u>5,297,934</u>	<u>-</u>	<u>6,919,727</u>
NET CHANGE IN FUND BALANCES	(123,962)	20,195	(433,915)	(444,462)	(14,712,562)	(3,508,531)	(19,203,237)
FUND BALANCES - BEGINNING OF YEAR	(42,971)	-	5,774,770	(194,267)	16,499,763	4,285,345	26,322,640
FUND BALANCES- END OF YEAR	<u>\$ (166,933)</u>	<u>\$ 20,195</u>	<u>\$ 5,340,855</u>	<u>\$ (638,729)</u>	<u>\$ 1,787,201</u>	<u>\$ 776,814</u>	<u>\$ 7,119,403</u>

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

**STERLING RANCH COMMUNITY AUTHORITY BOARD
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended December 31, 2016**

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

Net change in fund balances - Total governmental funds \$ (19,203,237)

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.

Capital outlay - current year 31,483,352

The issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The net effect of these differences in the treatment of long-term debt and related items is as follows:

Amortization of bond discount	(10,161)
Advances from SR Entities	(14,051,870)
Repayment - Advances from SR Entities	52,191
Release of Gap Funds	7,079,952

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.

Accrued interest on advances from SR Entities - Change in liability	(1,514,669)
Accrued interest on Bonds - Change in liability	<u>(164,722)</u>

Changes in net position of governmental activities	<u><u>\$ 3,670,836</u></u>
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These financial statements should be read only in connection with
the accompanying notes to financial statements.

**STERLING RANCH COMMUNITY AUTHORITY BOARD
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
Year Ended December 31, 2016**

	<u>Budget Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Transfer from Sterling Ranch District No. 2	\$ 158	\$ 158	\$ 158	\$ -
Transfer from Sterling Ranch District No. 7	2	2	2	-
Street lighting charge	750	750	-	(750)
Design and landscape review fees	100,000	120,000	119,950	(50)
Covenant review fees	10,000	10,000	-	(10,000)
Total revenues	<u>110,910</u>	<u>130,910</u>	<u>120,110</u>	<u>(10,800)</u>
EXPENDITURES				
General and administration				
Accounting	24,000	24,000	20,798	3,202
Audit	2,000	1,700	1,650	50
CAB management	32,000	32,000	28,223	3,777
Contingency	44,000	-	-	-
Dues and membership	2,000	2,000	1,794	206
Election	2,000	3,000	2,839	161
Insurance	13,000	14,000	13,268	732
Legal	120,000	135,000	134,551	449
Miscellaneous	6,000	6,000	2,947	3,053
Rates and fees studies	-	80,000	78,896	1,104
Operations and maintenance				
Parks and recreation - operations	100,000	-	-	-
Utilities	25,000	-	-	-
General maintenance	25,000	-	-	-
Snow removal	10,000	-	-	-
Office lease	10,000	-	-	-
Design and landscape review	100,000	60,000	53,412	6,588
Covenant review and management	10,000	-	-	-
Furniture and fixtures	-	110,000	100,000	10,000
Other consultants	-	130,000	126,154	3,846
GIS licensing	-	110,000	96,922	13,078
Operations & maintenance contingency	100,000	-	-	-
Total expenditures	<u>625,000</u>	<u>707,700</u>	<u>661,454</u>	<u>46,246</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(514,090)</u>	<u>(576,790)</u>	<u>(541,344)</u>	<u>35,446</u>
OTHER FINANCING SOURCES (USES)				
SR Entities cash advances	514,090	621,761	417,382	(204,379)
Total other financing sources (uses)	<u>514,090</u>	<u>621,761</u>	<u>417,382</u>	<u>(204,379)</u>
NET CHANGE IN FUND BALANCES	-	44,971	(123,962)	(168,933)
FUND BALANCES - BEGINNING OF YEAR	<u>2,000</u>	<u>(42,971)</u>	<u>(42,971)</u>	<u>-</u>
FUND BALANCES - END OF YEAR	<u>\$ 2,000</u>	<u>\$ 2,000</u>	<u>\$ (166,933)</u>	<u>\$ (168,933)</u>

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

**STERLING RANCH COMMUNITY AUTHORITY BOARD
SPECIAL REVENUE - WATER AND
WASTEWATER SERVICES FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
Year Ended December 31, 2016**

	<u>Budget Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Water usage - Construction	\$ -	\$ 800,000	\$ 751,935	\$ (48,065)
Total revenues	<u>-</u>	<u>800,000</u>	<u>751,935</u>	<u>(48,065)</u>
EXPENDITURES				
Billing and administration	-	7,000	3,142	3,858
Water purchase - Dominion W & S	-	793,000	728,598	64,402
Total expenditures	<u>-</u>	<u>800,000</u>	<u>731,740</u>	<u>68,260</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	-	-	20,195	20,195
FUND BALANCES - BEGINNING OF YEAR	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES - END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,195</u>	<u>\$ 20,195</u>

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

STERLING RANCH COMMUNITY AUTHORITY BOARD
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 1 - DEFINITION OF REPORTING ENTITY

Sterling Ranch Community Authority Board (CAB) was organized in January 2014 to own, operate and maintain all public improvements within the boundaries of the Sterling Ranch Colorado Metropolitan District Nos. 1 through 7 (collectively, the Districts), under the Sterling Ranch Community Authority Board Establishment Agreement (the CABEA) entered into by the Districts. See Note 10 - Agreements for additional information on the CABEA.

The CAB 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 members of the Board of Directors for the CAB are appointed by the Districts, and the CAB is financially accountable for the Districts but the CAB is not considered a component unit of any other primary governmental entity, including the Districts, nor are any of the Districts considered a component unit of the CAB.

At December 31, 2016, the CAB had no employees and all operations and administrative functions were contracted.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The more significant accounting policies of the CAB 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. Both statements distinguish between governmental activities, which normally are supported by taxes and intergovernmental revenues, and business-type activities, which rely to a significant extent on fees and charges for support.

The statement of net position reports all financial and capital resources of the CAB. The difference between the assets and liabilities of the CAB 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.

STERLING RANCH COMMUNITY AUTHORITY BOARD
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Other revenues not properly included among program revenues are reported as general revenues.

Separate financial statements are provided for 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 CAB considers revenues to be measurable and available (hence recognized at year-end) if they are collected within 60 days of the end of the current fiscal period. The major sources of revenue susceptible to accrual are service fees and Builder Funds. All other revenue items are considered to be measurable and available only when cash is received by the CAB. The CAB has 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 CAB reports the following major governmental funds:

The General Fund is the CAB'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 Special Revenue Fund is used to account for revenues earned and expenditures incurred in connection with the water and wastewater services of the CAB.

The Debt Service Fund - 2015 Bonds accounts for the resources accumulated and payments made for principal and interest on long-term debt of the governmental funds.

The Capital Projects Fund - General and Preconstruction is used to account for financial resources to be used for the acquisition and construction of public improvements related to all filings within the Districts.

The Capital Projects Fund - Filing 1 - Trunk Improvements are used to account for financial resources to be used for the acquisition and construction of public improvements within Filing 1.

STERLING RANCH COMMUNITY AUTHORITY BOARD
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Capital Projects Fund - Filing 1 - Finished Lots Improvements is used to account for financial resources to be used for the acquisition and construction of finished lots or Builder improvements within Filing 1, which are being accounted for and administered by the CAB.

Budgets

In accordance with the State Budget Law, the CAB's Board of Directors holds public hearings in the fall of each year to approve the budget and appropriate the funds for the ensuing year. The appropriation is at the total fund expenditures and financing uses level and lapses at year-end. The CAB'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 CAB has amended its annual budget for the year ended December 31, 2016.

Pooled Cash and Investments

The CAB 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.

Investments are carried at fair value.

Amortization

Original Issue Discount/Premium

In the government-wide financial statements, bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method.

Capital Assets

Capital assets are reported in the applicable governmental activities column in the government-wide financial statements. Capital assets are defined by the CAB 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, as well as capital assets being constructed which the CAB may operate and maintain, are recorded as construction in progress. Construction in progress is not being depreciated and is not included in the calculation of Net Investment in Capital Assets component of the CAB's net position.

STERLING RANCH COMMUNITY AUTHORITY BOARD
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. Depreciation expense is computed using the straight-line method over the estimated useful lives.

Equity

Net Position

For government-wide presentation purposes, when both restricted and unrestricted resources are available for use, it is the CAB's practice to use restricted resources first, then unrestricted resources as they are needed (see Note 6).

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.
- *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 as to the funds 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 CAB's practice to use the most restrictive classification first.

STERLING RANCH COMMUNITY AUTHORITY BOARD
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deficits

The General Fund and the Capital Projects – General and Preconstruction Fund each reported a deficit in the fund financial statements as of December 31, 2016. The deficits will be eliminated by the receipt of funds advanced by SR Entities in 2017.

NOTE 3 - CASH AND INVESTMENTS

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

Statement of net position:

Cash and investments	\$ 12,999
Cash and investments – restricted	<u>10,894,166</u>
Total cash and investments	<u>\$ 10,907,165</u>

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

Deposits with financial institutions	\$ 4,869,419
Investments	<u>6,037,746</u>
Total cash and investments	<u>\$ 10,907,165</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. \$250,000 is insured through the FDIC and the balance is collateralized in single institution pools pursuant to PDPA.

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, 2016, the CAB's cash deposits had a bank balance of \$5,410,921 and carrying balance of \$4,869,419.

Investments

The CAB has adopted a formal investment policy by which it follows state statutes regarding investments.

**STERLING RANCH COMMUNITY AUTHORITY BOARD
NOTES TO FINANCIAL STATEMENTS
December 31, 2016**

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

The CAB 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 CAB 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 pools

Fair Value Measurement and Application

The CAB 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; and Level 3 inputs are significant unobservable inputs. Investments not measured at fair value and not categorized include governmental money market funds (PFM Funds Governmental Select series); money market funds (generally held by Bank Trust Departments in their role as paying agent or trustee); and CSAFE which record their investments at amortized cost.

As of December 31, 2016, the CAB had the following investments:

Investment	Maturity	Fair Value
Federated Treasury Obligations Fund	13 months or less	<u>\$ 6,037,746</u>

STERLING RANCH COMMUNITY AUTHORITY BOARD
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

Federated Treasury Obligations Fund

At December 31, 2016, the debt service funds that were held in trust by United Missouri Bank were invested in the Federated Treasury Obligations Fund. This portfolio is a money market mutual fund which invests in U.S. Treasury obligations, which are fully guaranteed as to principal and interest by the United States, with maturities of 13 months or less and repurchase agreements collateralized by U.S. Treasury obligations. The Federated Treasury Obligation Fund is rated AAAM by Standard & Poor's.

NOTE 4 - CAPITAL ASSETS

The following is an analysis of the changes in the CAB's capital assets for the year ended December 31, 2016:

	<u>Balance at December 31, 2015</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at December 31, 2016</u>
Governmental Activities:				
Capital assets, not being depreciated				
<u>Construction in progress:</u>				
Streets	\$ 6,718,902	\$ 6,625,083	\$ -	\$ 13,343,985
Sanitation	4,373,904	10,345,605	-	14,719,509
Storm Sewer	208,038	9,438,127	-	9,646,165
Water	4,954,280	7,678,295	-	12,632,575
Traffic & Safety	-	2,176,296	-	2,176,296
Parks and Recreation (Landscaping)	-	183,064	-	183,064
Other engineering and management	5,147,118	-	5,147,118	-
<u>Not yet placed in service:</u>				
Information Trailer	-	184,000	-	184,000
	<u>\$ 21,402,242</u>	<u>\$ 36,630,470</u>	<u>\$ 5,147,118</u>	<u>\$ 52,885,594</u>

STERLING RANCH COMMUNITY AUTHORITY BOARD
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 5 - LONG-TERM OBLIGATIONS

The following is an analysis of the changes in the CAB's long-term obligations as of December 31, 2016:

	<u>Balance at December 31, 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at December 31, 2016</u>	<u>Due Within One Year</u>
General Obligation - Limited Tax Bonds:					
Senior - Series 2015A	\$ 21,500,000	\$ -	\$ -	\$21,500,000	\$ -
Senior - Bond issue discount	(248,184)	-	(10,161)	(238,023)	11,052
Subordinate - Series 2015B	<u>2,090,000</u>	<u>-</u>	<u>-</u>	<u>2,090,000</u>	<u>-</u>
Total bonds payable	<u>23,341,816</u>	<u>-</u>	<u>(10,161)</u>	<u>23,351,977</u>	<u>11,052</u>
Advances payable to SR Entities:					
Operations	412,900	417,382	-	830,282	-
Capital - General	2,353,922	1,204,411	-	3,558,333	-
Capital - Trunk	6,212,733	12,430,077	7,132,143	11,510,667	-
Operations - paid by SR Entities	91,090	-	-	91,090	-
Capital - General - paid by SR Entities	66,311	-	-	66,311	-
Capital - Trunk - paid by SR Entities	2,356,762	-	-	2,356,762	-
Capital - General - certified and acquired	4,544,709	-	-	4,544,709	-
Capital - Trunk - certified and acquired	251,392	-	-	251,392	-
Accrued interest payable to SR Entities	<u>879,341</u>	<u>1,514,669</u>	<u>-</u>	<u>2,394,010</u>	<u>-</u>
Total advances - SR Entities	<u>17,169,160</u>	<u>15,566,539</u>	<u>7,132,143</u>	<u>25,603,556</u>	<u>-</u>
	<u>\$ 40,510,976</u>	<u>\$ 15,566,539</u>	<u>\$ 7,121,982</u>	<u>\$ 48,955,533</u>	<u>\$ 11,052</u>

General Obligation Bonds

\$21,500,000 Limited Tax Supported Revenue Senior Bonds, Series 2015A, dated December 30, 2015, (the Senior Bonds) with interest of 5.50% and 5.75%, payable semi-annually on June 1 and December 1, beginning on June 1, 2016. Annual mandatory sinking fund principal payments are due on December 1, beginning on December 1, 2020. The Bonds mature on December 1, 2035, and December 1, 2045, and are subject to redemption prior to maturity, at the option of the Issuer, as a whole or in integral multiples of \$1,000, in any order of maturity and in whole or partial maturities, on December 1, 2020, and on any date thereafter, upon payment of par, accrued interest, and a redemption premium of a percentage of the principal amount so redeemed, as follows:

<u>Date of Redemption</u>	<u>Redemption Premium</u>
December 1, 2020, to November 30, 2021	3.00%
December 1, 2021, to November 30, 2022	2.00%
December 1, 2022, to November 30, 2023	1.00%
December 1, 2023, and thereafter	0.00%

STERLING RANCH COMMUNITY AUTHORITY BOARD
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 5 - LONG-TERM OBLIGATIONS (CONTINUED)

The proceeds from the sale of the Senior and Subordinate Bonds were used for the purposes of: (i) funding and reimbursing a portion of the costs of acquiring, constructing, and installing certain public infrastructure improvements; (ii) funding a restricted project account; (iii) providing capitalized interest for the Senior Bonds; (iv) funding a Reserve Fund securing the Senior Bonds; and (v) paying costs of issuance of the Bonds.

The Senior Bonds are secured by and payable from Senior Pledged Revenues consisting of moneys derived from the following sources, net of any costs of collection: (i) the Sterling Ranch Colorado Metropolitan District No. 2 Senior Required Mill Levy Revenue and all other Required Mill Levy Revenues (but excluding the District No. 2 Subordinate Required Mill Levy Revenue pledged to the Series 2015B Subordinate Bonds and any other Subordinate Bonds); (ii) the portion of the Specific Ownership Taxes attributable to the imposition by District No. 2 of the District No. 2 Senior Required Mill Levy; (iii) Pledged Facilities Fee Revenues; (iv) any other legally available amounts that the Issuer may designate by resolution of the Board, to be paid to the Trustee for deposit into the Senior Revenue Fund; or otherwise held under the Senior Indenture; and (v) all income or other gain, if any, from investment of the foregoing. The Senior Bonds are also secured by amounts held in the Senior Reserve Fund, which was funded upon issuance of the Senior Bonds in the amount of the Required Reserve equal to \$1,798,863, and amounts accumulated in the Surplus Fund, if any.

The CAB as Issuer covenants in the Senior Indenture to require District No. 2 to impose (under the Pledge Agreement) the District No. 2 Senior Required Mill Levy upon all taxable property of District No. 2 in accordance with the Pledge Agreement. The Senior Indenture requires that a Senior Required Mill Levy be imposed in an amount sufficient (net of collection costs and taking into account amounts then on deposit in the Surplus Fund and Senior Bond Fund) to pay the principal of, premium if any, and interest on the Senior Bonds and any other Senior Bonds, as the same become due and payable, and to replenish the Senior Reserve Fund to the Senior Reserve Fund Requirement, but not in excess of 50 mills, subject to adjustment for changes occurring after August 27, 2013, in the method of calculating assessed valuation and, for so long as the Surplus Fund is less than the Maximum Surplus Amount (or if any portion of the Surplus Fund is taken into account in setting the District No. 2 Senior Required Mill Levy), not less than 45 mills (subject to adjustment).

STERLING RANCH COMMUNITY AUTHORITY BOARD
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 5 - LONG-TERM OBLIGATIONS (CONTINUED)

The District's long-term G.O. Senior Bonds obligations will mature as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ -	\$ 1,217,775	\$ 1,217,775
2018	-	1,217,775	1,217,775
2019	-	1,217,775	1,217,775
2020	55,000	1,217,775	1,272,775
2021	230,000	1,214,750	1,444,750
2022-2026	1,640,000	5,847,975	7,487,975
2027-2031	2,545,000	5,302,925	7,847,925
2032-2036	3,805,000	4,472,425	8,277,425
2037-2041	5,460,000	3,219,138	8,679,138
2042-2045	7,765,000	1,299,500	9,064,500
	<u>\$ 21,500,000</u>	<u>\$ 26,227,813</u>	<u>\$ 47,727,813</u>

\$2,090,000 Limited Tax Supported Revenue Subordinate Bonds, Series 2015B, dated December 30, 2015, (the Subordinate Bonds) with interest of 7.75%, payable annually from Subordinate Pledged Revenues on December 15, beginning on December 15, 2016. The Subordinate Bonds are structured as cash flow bonds meaning that there are no scheduled payments of interest or principal prior to the final maturity date. Unpaid interest on the Subordinate Bonds compounds annually on each December 15. The Subordinate Bonds are also subject to redemption prior to maturity, at the option of the Issuer, on December 15, 2020, and on any date thereafter, upon payment of par, accrued interest, and a redemption premium of a percentage of the principal amount so redeemed, as follows:

<u>Date of Redemption</u>	<u>Redemption Premium</u>
December 15, 2020, to December 14, 2021	3.00%
December 15, 2021, to December 14, 2022	2.00%
December 15, 2022, to December 14, 2023	1.00%
December 15, 2023, and thereafter	0.00%

The Subordinate Bonds are secured by and payable solely from Subordinate Pledged Revenue, consisting of monies derived from the following sources, net of any costs of collection: (i) the District No. 2 Subordinate Required Mill Levy; (ii) the portion of the Specific Ownership Taxes attributable to the imposition by District No. 2 of the District No. 2 Subordinate Required Mill Levy; and (iii) any other legally available monies (other than Pledged Facilities Fees Revenues) which the Issuer determines, in its absolute discretion, to transfer to the Trustee for application as Subordinate Pledged Revenue.

STERLING RANCH COMMUNITY AUTHORITY BOARD
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 5 - LONG-TERM OBLIGATIONS (CONTINUED)

The Issuer covenants to require District No. 2 to impose (under the Pledge Agreement) the District No. 2 Subordinate Required Mill Levy. The Subordinate Indenture requires that a Subordinate Required Mill Levy be imposed in an amount equal to 45 mills (subject to adjustment) less the amount of the Senior Bond Mill Levy or such lesser mill levy which, when combined with other Subordinate Pledged Revenue legally available in the Subordinate Bond Fund, will permit the Subordinate Bonds to be fully funded for the next Bond Year and pay all of the principal and interest due on the Subordinate Bonds in full. As a result, the Subordinate Required Mill Levy will be zero until such time as the Senior Required Mill Levy and any other mill levy imposed to pay the Senior Bonds are less than 45 mills.

Sterling Ranch Community Authority Board Taxable Subordinate Limited Service Fee Revenue Promissory Note, Series 2016

On December 29, 2016, the CAB issued the Sterling Ranch Community Authority Board Taxable Subordinate Limited Service Fee Revenue Promissory Note, Series 2016 (the 2016 O&M Note) to Sterling Ranch LLC (SR LLC) in the maximum principal amount of \$21,000,000. The 2016 O&M Note is a fill-up note, has a maturity date of December 1, 2018, and interest on the outstanding principal amount accrues at a rate of 6.5% per annum. Interest payments shall be due on the fifteenth day of each calendar month, commencing on the first fifteenth day of the calendar month after the date that the CAB receives an initial advance for operation and maintenance costs pursuant to the 2017-2019 OFA with SR LLC. At December 31, 2016, there was no outstanding balance on the 2016 O&M Note.

Sterling Ranch Community Authority Board Taxable Limited Revenue Promissory Note, Series 2016

On December 29, 2016, the CAB issued the Taxable Subordinate Limited Revenue Promissory Note, Series 2016 (the 2016 Revenue Note) to SR LLC in the maximum principal amount of \$84,000,000. The 2016 Revenue Note is a fill-up note, has a maturity date of December 1, 2018, and interest on the outstanding principal amount accrues at a rate of 6.5% per annum. Interest payments shall be due on the fifteenth day of each calendar month, commencing on the first fifteenth day of the calendar month after the date that the CAB receives an initial advance for organizational expenses and public improvements pursuant to the SR LLC FFA. At December 31, 2016, there was no outstanding balance on the 2016 Revenue Note.

Funding and Reimbursement Agreements

See Note 10 for a summary of various funding and reimbursement agreements.

Authorized Debt

On November 5, 2013, the electors for the Districts authorized the issuance of indebtedness in an amount not to exceed \$19,800,000,000 per District for public improvements and refunding. On November 4, 2014, the electors of each District authorized an additional \$1,800,000,000 for security services and improvements.

STERLING RANCH COMMUNITY AUTHORITY BOARD
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 5 - LONG-TERM OBLIGATIONS (CONTINUED)

At December 31, 2016, with the issuance of the Series 2015 Bonds, District No. 2 had authorized but unissued indebtedness remaining in the amount of \$21,576,410,000 for public improvements and refunding.

In the future, the CAB may issue a portion or all of the remaining authorized but unissued general obligation debt on behalf of the Districts for purposes of providing public improvements to support development as it occurs within the Districts' service areas. The Service Plans for the Districts limit the aggregate amount of debt that they may issue together with any debt issued by the CAB to \$1,800,000,000.

NOTE 6 - NET POSITION

As of December 31, 2016, the CAB had net position consisting of two components - restricted and unrestricted.

The restricted component of net position consists of assets that are restricted for use as imposed either by external parties (i.e., creditors, grantors or contributors) or laws and regulations of other governments or laws through constitutional provisions or enabling legislation. The CAB had restricted net position as of December 31, 2016, as follows:

Restricted net position:

Emergencies (see Note 12)	\$ 3,700
Debt Service (see Note 5)	841,220
Capital Projects	59,246
	<u>\$ 904,166</u>

The District's unrestricted net position as of December 31, 2016 totaled \$9,880,803.

NOTE 7 – COMMITMENTS

Major Construction Commitment

As of December 31, 2016, the CAB had unexpended commitments from the Mortenson contract (see Note 10) of approximately \$35,136,521, of which \$2,632,554 was recorded as retainage payable.

STERLING RANCH COMMUNITY AUTHORITY BOARD
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 8 - RELATED PARTIES

Sterling Ranch LLC (SR LLC) and Sterling Ranch Development Company (Developer) are the owners of or hold options to acquire a significant portion of the properties comprising the service areas of the Districts. SR LLC, the Developer and Hobbs Investments LLC (Hobbs), a single member LLC for which the Developer is the manager and sole member (collectively with SR LLC and the Developer, the SR Entities) have each advanced funds to the CAB (See Note 5 and Note 10). The members of the Board of Directors of the CAB and the Districts hold direct or indirect ownership interests in the SR Entities or are otherwise associated with the SR Entities and may have conflicts of interest in dealing with the CAB and the Districts.

NOTE 9 - ECONOMIC DEPENDENCY

The CAB has not yet established a revenue base sufficient to pay for most of its operational and certain capital expenditures. Until an independent revenue base is established, continuation of the CAB's operation and financing of certain capital improvements are dependent upon funding from SR Entities.

NOTE 10 - AGREEMENTS

Sterling Ranch Community Authority Board Establishment Agreement (CABEA)

The Districts exist for the purposes of designing, acquiring, constructing, installing, financing, operating and maintaining certain streets, traffic and safety controls, water, sanitation, stormwater, parks and recreation, TV relay and translation, mosquito control, limited fire protection and security, all in accordance with their Service Plans.

Their Service Plans contemplated that the Districts, with the approval of their electors would enter into the CABEA. On November 5, 2013, the Districts' qualified electors voted in favor of the Districts entering into the CABEA pursuant to which the Districts established the CAB. The CABEA was entered into effective January 6, 2014. Pursuant to the CABEA, the CAB will furnish, operate and plan for certain Public Improvements and each District shall transfer certain revenues received by it in order to fund the operation and maintenance costs and capital costs of the Public Improvements. Each District has agreed, and their Service Plans provide, that the CAB will own, operate, maintain, finance and construct Public Improvements benefiting the Districts, and that the Districts will contribute to the costs of construction, operation and maintenance of such Public Improvements. It is the intent of the Districts that either the CAB or any of the Districts may, from time to time, issue its own debt and use proceeds to finance the Public Improvements and that the CAB will enter into contracts to construct the Public Improvements.

STERLING RANCH COMMUNITY AUTHORITY BOARD
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 10 - AGREEMENTS (CONTINUED)

Operation Funding Agreement with Hobbs Investments LLC

On December 17, 2015, with an effective date of January 1, 2016, the CAB entered into the 2016-2019 Operation Funding Agreement with Hobbs, as amended and restated in its entirety by that certain 2016-2025 Amended and Restated Operation Funding Agreement, entered into on November 15, 2016, with an effective date of January 1, 2016 (collectively, the Hobbs OFA), pursuant to which Hobbs agrees to advance funds to the CAB for certain operation and maintenance expenses on a periodic basis as needed for fiscal years 2016 through 2025. The maximum amount to be advanced for Operations and Maintenance Expenses pursuant to this agreement is Six Million Eight Hundred Fifty Thousand Dollars (\$6,850,000). The CAB agrees to repay these advances, pursuant to the priority established in the agreement, together with accrued interest at the rate of 8% per annum accruing from the date of deposit into the CAB's bank account or from the date of direct payment by Hobbs.

2017-2019 Operation Funding Agreement with Sterling Ranch, LLC

On November 15, 2016, with an effective date of January 1, 2017, the CAB entered into the 2017-2019 Operation Funding Agreement with SR LLC (the 2017-2019 OFA), pursuant to which SR LLC agrees to advance funds to the CAB or pay consultants directly on CAB's behalf for operation and maintenance expenses on a periodic basis as incurred from January 1, 2017 through December 31, 2019. The CAB agrees to repay these advances together with accrued interest at the rate of 6.5% per annum accruing from the date the funds were advanced directly to the CAB by SR LLC and annotated on the Sterling Ranch Community Authority Board Taxable Subordinate Limited Service Fee Revenue Promissory Note, Series 2016 (the 2016 Operating Promissory Note). For amounts advanced to a third party on behalf of the CAB, the amount due for repayment by the CAB shall be annotated on the 2016 Operating Promissory Note upon verification by the CAB's accountant or the CAB's engineer, as appropriate, that the amount expended was paid on a cost that would be eligible for funding by the CAB, and in an amount that is customary for such product or service. Interest shall accrue on amounts advanced to a third party on behalf of the CAB from the date of verification. The maximum amount to be advanced for operation and maintenance expenses pursuant to the 2017-2019 OFA is Twenty-One Million Dollars (\$21,000,000).

Facilities Funding and Acquisition Agreement with Hobbs Investments LLC

On June 29, 2015, with an effective date of June 29, 2015, the CAB entered into the Facilities Funding and Acquisition Agreement with Hobbs, as amended and restated in its entirety by that certain Amended and Restated Facilities Funding and Acquisition Agreement entered into on August 11, 2015, with an effective date of July 31, 2015 (collectively, the Hobbs FFAA) pursuant to which Hobbs agrees to make advances not to exceed \$30,000,000 to the CAB for the purpose of funding the construction and/or acquisition of public improvements. Hobbs agrees to make such advances on a periodic basis as needed beginning July 31, 2015, through December 31, 2019. The Hobbs FFAA does not constitute debt, but is an annual appropriations agreement intended to be repaid through future bond issuances.

**STERLING RANCH COMMUNITY AUTHORITY BOARD
NOTES TO FINANCIAL STATEMENTS
December 31, 2016**

NOTE 10 - AGREEMENTS (CONTINUED)

Facilities Funding Agreement with Sterling Ranch, LLC

On November 15, 2016, the CAB entered into a Facilities Funding Agreement with SR LLC (the SR LLC FFA), pursuant to which SR LLC agrees to make advances not to exceed \$84,000,000 to the CAB for the following purposes: organizational expenses and public improvements. Interest on funds advanced or to pay for improvements (from the date of verification) accrue at 6.5% per annum. The CAB agrees that its obligation to repay the advances to SR LLC shall be as set forth in the Taxable Subordinate Limited Revenue Promissory Note, Series 2016 (the 2016 Capital Promissory Note). The SR LLC FAA does not constitute debt, but is an annual appropriations agreement intended to be repaid through future bond issuances.

Water and Wastewater Service Agreement for Sterling Ranch

The CAB entered into an agreement, dated January 6, 2014, with Dominion Water and Sanitation District (Dominion) pursuant to which Dominion will provide wholesale water, wastewater and stormwater services to the CAB. The CAB will serve as the retail provider of water and wastewater to customers located in the Sterling Ranch development. The agreement sets forth the terms and conditions regarding the provision of the services, the financing of construction and operation of the facilities, and establishing rates, fees, charges and reimbursements.

Water, Wastewater and Stormwater Operations Intergovernmental Agreement for Service to Sterling Ranch

On December 7, 2016, with an effective date of November 15, 2016 the CAB entered into a Water, Wastewater and Stormwater Operations Intergovernmental Agreement (for Service to Sterling Ranch) (Operations IGA) with Dominion Water and Sanitation District, a quasi-municipal corporation and political subdivision of the State of Colorado, acting by and through its Sterling Ranch Water Activity Enterprise and its Sterling Ranch Wastewater Activity Enterprise (Dominion), which sets forth the terms for the administration, operation, maintenance, repair and replacement of the water and wastewater facilities prior to the provision of water and wastewater service to a water and/or wastewater retail customer of the CAB within Sterling Ranch.

Mortenson Master Agreement

Effective as of March 3, 2014, the CAB entered into the First Amended Sterling Ranch Community Authority Board (CAB) Infrastructure Master Agreement for Construction Contracting – Specified Public Infrastructure Projects for the Sterling Ranch Development Awarded Through December 31, 2024, with M.A. Mortenson Company, d/b/a Mortenson Construction (Mortenson). The Master Agreement sets forth the terms and conditions to govern the contractual relationship and work to be performed under several forms of sub-agreements and project-specific work orders.

STERLING RANCH COMMUNITY AUTHORITY BOARD
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 10 - AGREEMENTS (CONTINUED)

Letter of Intent to Serve

By a letter dated September 4, 2014, to SR LLC, the CAB committed to providing retail water and wastewater services to the real property contained within the Sterling Ranch Planned Development, which services will be in compliance with the CABEA.

Sterling Ranch Filing No. 1 Construction Administration, Financing and Allotment Agreement

The CAB and Dominion entered into the Sterling Ranch Filing No. 1 Construction Administration, Financing and Allotment Agreement, dated June 17, 2015, pursuant to which the CAB will provide the financing and administration of the construction of certain water and wastewater facilities on behalf of Dominion; in exchange, Dominion will provide the CAB dedicated wholesale water service in perpetuity. This agreement sets forth the terms and conditions regarding the CAB's obligation to design, construct, finance and complete those certain water and wastewater facilities and the obligations of Dominion upon CAB's dedication of the same to Dominion.

Subdivision Improvements Agreement and Intergovernmental Agreement for Sterling Ranch Filing No. 1

On January 27, 2015, the CAB entered into a Subdivision Improvements Agreement and Intergovernmental Agreement for Sterling Ranch Filing No. 1 with the Developer, Dominion, Roxborough Water and Sanitation District (Roxborough) and the Board of County Commissioners of the County of Douglas to provide for the construction of public improvements, landscape and park improvements, wholesale water and wastewater improvements, and water treatment improvements that are associated with Sterling Ranch Filing No. 1 in Douglas County, Colorado.

Development and Cost-Sharing Agreement

On November 5, 2015, the CAB entered into an agreement with Developer, Hobbs and those entities listed and defined as Builders (as defined below) in the agreement, pursuant to which the CAB is responsible for the financing and construction of certain improvements and the Builders and Developer are responsible for their pro rata share of the CAB's cost for the improvements associated with the lots acquired by each Builder, and/or retained by the Developer.

Tap and Facilities Fee Purchase Agreement with Builders

On November 5, 2015 the CAB entered into agreements with each Builder (as defined below) whereby the Builders will pay certain tap fees and facilities fees (as specifically defined in the agreement) to the CAB as a partial funding source for those certain on-site and off-site water and sewer improvements. Specifically, the CAB has an agreement with the Developer and each of the following Builders: CalAtlantic Group, Inc.; Brookfield Residential (Colorado), LLC; Richmond American Homes of Colorado, Inc.; Meritage Homes of Colorado, Inc.; and Lennar Colorado, LLC (two separate agreements).

STERLING RANCH COMMUNITY AUTHORITY BOARD
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 10 - AGREEMENTS (CONTINUED)

As of December 31, 2016, the CAB received \$3,315,000 in facilities fees and \$14,365,000 in water and sewer tap fees. A portion of the facilities fees are pledged for debt service on the 2015 Bonds. The tap fees are to be used for the construction of: (i) certain wholesale water and sewer facilities and improvements which the CAB will construct on behalf of Dominion; and (ii) certain retail water and sewer improvements. When the water and sewer facilities and improvements are completed, the capital assets related to the wholesale water and sewer improvements will be conveyed, and the remaining tap fees, if any, will be transferred, to Dominion.

Builder Sidewalk Agreements

On various dates (as described below), the CAB entered into agreements with each Builder and the Developer (as defined below) whereby the CAB shall construct certain sidewalks (as defined in the agreements) for the benefit of and at the sole cost and expense of the Builders and the Developer. Specifically, the CAB entered into an agreement with each of the following Builders: Brookfield Residential (Colorado), LLC (entered into on November 21, 2016); CDL Homes, Inc., d/b/a Wonderland Homes (entered into on October 5, 2016); Lennar Colorado, LLC (entered into on October 7, 2016); Meritage Homes of Colorado, Inc. (entered into on October 13, 2016); Parkwood Homes-Sterling Ranch, LLC (entered into on October 3, 2016); Richmond American Homes of Colorado, Inc. (entered into on October 9, 2016); and Sterling Ranch Development Company (entered into on September 30, 2016).

Construction Disbursement Agreement

On November 5, 2015, the CAB entered into an agreement with the Developer and Hobbs whereby the CAB will establish a segregated account with a nationally or regionally recognized FDIC insured financial institution to be used to: (i) deposit Gap Funds (as defined in the agreement), water and sewer tap fees, facilities fees and builder funds associated with the finished lot improvements; and (ii) pay the costs of certain finished lot improvements, certain on-site and off-site infrastructure improvements and certain water treatment improvements that are being constructed by Roxborough pursuant to an Intergovernmental Agreement for Water Supply between Dominion and Roxborough. The agreement describes and confirms the Builder's and Developer's obligations (as defined in the Development and Cost-Sharing Agreement) to fund such improvements and the procedures that will be utilized to disburse the funds from the segregated account.

NOTE 11 - RISK MANAGEMENT

Except as provided in the Colorado Governmental Immunity Act, §24-10-101, et seq., C.R.S., the CAB may be 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 CAB is a member of the Colorado Special Districts Property and Liability Pool (Pool). The Pool is an organization created by intergovernmental agreement to provide property, liability, public officials' liability, boiler and machinery and workers compensation coverage to its members. Settled claims have not exceeded this coverage in any of the past three fiscal years.

STERLING RANCH COMMUNITY AUTHORITY BOARD
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 11 - RISK MANAGEMENT (CONTINUED)

The CAB 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 12 - TAX, SPENDING AND DEBT LIMITATIONS

Article X, Section 20 of the Colorado Constitution, referred to 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 5, 2013, the Districts' voters passed an election question allowing the Districts to increase property taxes up to \$50,000,000 annually, without limitation of rate, in order for the CAB to pay the Districts' operations, maintenance and other expenses.

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 CAB'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

STERLING RANCH COMMUNITY AUTHORITY BOARD
DEBT SERVICE FUND - 2015 BONDS
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
Year Ended December 31, 2016

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES			
Net investment income	\$ 11,000	\$ 523	\$ (10,477)
Facilities fees	1,282,500	685,000	(597,500)
Transfer from Sterling Ranch District No. 2	238	238	-
Total revenues	<u>1,293,738</u>	<u>685,761</u>	<u>(607,977)</u>
EXPENDITURES			
Bond interest	1,274,902	1,119,676	155,226
Paying agent/ trustee fees	5,750	-	5,750
Total expenditures	<u>1,280,652</u>	<u>1,119,676</u>	<u>160,976</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	13,086	(433,915)	(447,001)
FUND BALANCES - BEGINNING OF YEAR	<u>5,774,970</u>	<u>5,774,770</u>	<u>(200)</u>
FUND BALANCES - END OF YEAR	<u><u>\$ 5,788,056</u></u>	<u><u>\$ 5,340,855</u></u>	<u><u>\$ (447,201)</u></u>

**STERLING RANCH COMMUNITY AUTHORITY BOARD
CAPITAL PROJECTS FUND - GENERAL AND PRECONSTRUCTION
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
Year Ended December 31, 2016**

	Original and Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Total revenues	\$ -	\$ -	\$ -
EXPENDITURES			
General and administration:			
Accounting	96,000	91,036	4,964
Audit	6,000	4,950	1,050
CAB management	128,000	135,662	(7,662)
Contingency	95,000	-	95,000
Costs verification/certifications	-	2,485	(2,485)
Costs of issuance - Promissory Notes	-	165,270	(165,270)
Legal	120,000	150,903	(30,903)
Legal - Special Counsel	60,000	606	59,394
Capital outlay:			
Engineering and management	500,000	1,097,961	(597,961)
Technology integration	250,000	-	250,000
Preconstruction & other engineering/consulting	1,000,000	-	1,000,000
Preconstruction contingency	500,000	-	500,000
Total expenditures	<u>2,755,000</u>	<u>1,648,873</u>	<u>1,106,127</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(2,755,000)</u>	<u>(1,648,873)</u>	<u>1,106,127</u>
OTHER FINANCING SOURCES (USES)			
Advances from SR Entities:			
Cash advances	<u>2,755,000</u>	<u>1,204,411</u>	<u>(1,550,589)</u>
Total other financing sources (uses)	<u>2,755,000</u>	<u>1,204,411</u>	<u>(1,550,589)</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING (USES)	-	(444,462)	(444,462)
FUND BALANCES - BEGINNING OF YEAR	<u>2,000</u>	<u>(194,267)</u>	<u>(196,267)</u>
FUND BALANCES - END OF YEAR	<u>\$ 2,000</u>	<u>\$ (638,729)</u>	<u>\$ (640,729)</u>

STERLING RANCH COMMUNITY AUTHORITY BOARD
CAPITAL PROJECTS FUND - FILING 1 - TRUNK IMPROVEMENTS
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
Year Ended December 31, 2016

	<u>Budget Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Net investment income	\$ 30,000	\$ 19,000	\$ 13,221	\$ (5,779)
Facilities fees	2,565,000	1,745,000	1,370,000	(375,000)
Tap fees	16,672,500	11,342,500	8,905,000	(2,437,500)
Total revenues	<u>19,267,500</u>	<u>13,106,500</u>	<u>10,288,221</u>	<u>(2,818,279)</u>
EXPENDITURES				
Accounting - Construction Disbursement Agent	-	20,000	26,549	(6,549)
Banking fees	400	630	577	53
CDOT Fees	-	400,000	-	400,000
Engineering - Cost verification/certification	-	62,000	70,200	(8,200)
Capital outlay:				
Grading & erosion control	5,334,000	4,542,579	3,548,916	993,663
Streets	7,832,000	2,172,713	2,706,303	(533,590)
Streets - Xcel Energy fees	-	62,317	62,317	-
Streets - Other engineering/consulting	-	900,000	1,215,616	(315,616)
Sanitary and Storm Sewer	10,592,000	-	-	-
Sanitation	-	8,648,000	7,523,553	1,124,447
Sanitation - Other engineering/consulting	-	20,000	43,805	(23,805)
Stormwater Drainage	-	10,700,000	7,796,222	2,903,778
Water	4,643,000	7,138,815	5,057,570	2,081,245
Traffic & Safety	-	1,637,395	2,094,810	(457,415)
Parks and Recreation (Landscaping)	2,801,000	171,553	152,279	19,274
Mortenson Bond/Insurance/Mgmt Fee	6,287,000	-	-	-
Total expenditures	<u>37,489,400</u>	<u>36,476,002</u>	<u>30,298,717</u>	<u>6,177,285</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(18,221,900)</u>	<u>(23,369,502)</u>	<u>(20,010,496)</u>	<u>3,359,006</u>
OTHER FINANCING SOURCES (USES)				
Advances from SR Entities:				
Cash advances	-	350,000	356,077	6,077
Installment Gap Funds	16,074,000	13,699,000	12,074,000	(1,625,000)
Release of Gap Funds	-	(6,642,964)	(7,079,952)	(436,988)
Repay cash advances	-	-	(52,191)	(52,191)
Total other financing sources (uses)	<u>16,074,000</u>	<u>7,406,036</u>	<u>5,297,934</u>	<u>(2,108,102)</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING (USES)	<u>(2,147,900)</u>	<u>(15,963,466)</u>	<u>(14,712,562)</u>	<u>1,250,904</u>
FUND BALANCES - BEGINNING OF YEAR	<u>19,836,693</u>	<u>16,499,763</u>	<u>16,499,763</u>	<u>-</u>
FUND BALANCES - END OF YEAR	<u>\$ 17,688,793</u>	<u>\$ 536,297</u>	<u>\$ 1,787,201</u>	<u>\$ 1,250,904</u>

STERLING RANCH COMMUNITY AUTHORITY BOARD
CAPITAL PROJECTS FUND - FILING 1 - FINISHED LOTS IMPROVEMENTS
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
Year Ended December 31, 2016

	Original and Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Net investment income	\$ -	\$ 4,722	\$ 4,722
Builder funds	22,557,000	8,900,607	(13,656,393)
Sidewalk funds	-	395,261	395,261
Total revenues	<u>22,557,000</u>	<u>9,300,590</u>	<u>(13,256,410)</u>
EXPENDITURES			
Banking fees	-	253	(253)
Capital outlay:			
Grading & erosion control	1,273,000	1,770,196	(497,196)
Mortenson GC/Field/Bond/Insurance/Mgmt Fee	4,387,000	-	4,387,000
Parks and Recreation (Landscaping)	768,000	19,524	748,476
Sanitation	3,032,520	3,418,146	(385,626)
Stormwater Drainage	1,065,480	1,140,943	(75,463)
Traffic & Safety	-	1,254,209	(1,254,209)
Water	3,080,000	2,736,721	343,279
Streets	8,666,000	2,469,129	6,196,871
Total expenditures	<u>22,272,000</u>	<u>12,809,121</u>	<u>9,462,879</u>
NET CHANGES IN FUND BALANCES	285,000	(3,508,531)	(3,793,531)
FUND BALANCES - BEGINNING OF YEAR	<u>4,222,087</u>	<u>4,285,345</u>	<u>63,258</u>
FUND BALANCES - END OF YEAR	<u>\$ 4,507,087</u>	<u>\$ 776,814</u>	<u>\$ (3,730,273)</u>

**STERLING RANCH COMMUNITY AUTHORITY BOARD
SCHEDULE OF DEBT SERVICE REQUIREMENTS TO MATURITY
December 31, 2016**

Bonds and Interest Maturing in the Year Ending	\$21,500,000 Limited Tax Supported Revenue Senior Bonds Series 2015A Dated December 30, 2015 Principal due December 1, Interest Rate of 5.50% through December 1, 2035 and 5.750% through December 1, 2045, Payable June 1 and December 1		
<u>December 31,</u>	Principal	Interest	Total
2017	\$ -	\$ 1,217,775	\$ 1,217,775
2018	-	1,217,775	1,217,775
2019	-	1,217,775	1,217,775
2020	55,000	1,217,775	1,272,775
2021	230,000	1,214,750	1,444,750
2022	270,000	1,202,100	1,472,100
2023	285,000	1,187,250	1,472,250
2024	335,000	1,171,575	1,506,575
2025	350,000	1,153,150	1,503,150
2026	400,000	1,133,900	1,533,900
2027	420,000	1,111,900	1,531,900
2028	475,000	1,088,800	1,563,800
2029	500,000	1,062,675	1,562,675
2030	560,000	1,035,175	1,595,175
2031	590,000	1,004,375	1,594,375
2032	655,000	971,925	1,626,925
2033	695,000	935,900	1,630,900
2034	765,000	897,675	1,662,675
2035	805,000	855,600	1,660,600
2036	885,000	811,325	1,696,325
2037	935,000	760,438	1,695,438
2038	1,020,000	706,675	1,726,675
2039	1,080,000	648,025	1,728,025
2040	1,180,000	585,925	1,765,925
2041	1,245,000	518,075	1,763,075
2042	1,350,000	446,488	1,796,488
2043	1,430,000	368,863	1,798,863
2044	1,550,000	286,637	1,836,637
2045	3,435,000	197,512	3,632,512
	\$ 21,500,000	\$ 26,227,813	\$ 47,727,813