

FRONTERRA VILLAGE METROPOLITAN DISTRICT NO. 2
City of Commerce City, Adams County, Colorado

FINANCIAL STATEMENTS
December 31, 2016



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**Haynie &
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Independent Auditor's Report

To the Board of Directors
Fronterra Village Metropolitan District No. 2

We have audited the accompanying financial statements of the governmental activities and the major funds of Fronterra Village Metropolitan District No. 2 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 Fronterra Village Metropolitan District No. 2, as of December 31, 2016 and the respective changes in financial position and the budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other-Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our 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 Fronterra Village Metropolitan District No. 2'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 5, 2017

BASIC FINANCIAL STATEMENTS

FRONTERRA VILLAGE METROPOLITAN DISTRICT NO. 2
STATEMENT OF NET POSITION
December 31, 2016

	<u>Governmental Activities</u>
ASSETS	
Cash and investments	\$ 2,755
Cash and investments - Restricted	324,729
Receivable - County Treasurer	3,466
Interest receivable	189
Prepaid expenses	2,731
Property taxes receivable	579,842
Total assets	<u>913,712</u>
LIABILITIES	
Accounts payable	1,245
Accrued interest payable	29,100
Noncurrent liabilities	
Due within one year	145,000
Due in more than one year	8,598,728
Total liabilities	<u>8,774,073</u>
DEFERRED INFLOWS OF RESOURCES	
Property tax revenue	579,842
Total deferred inflows of resources	<u>579,842</u>
NET POSITION	
Restricted for:	
Emergency reserves	2,000
Debt service reserve	592,000
Unassigned	(9,034,203)
Total net position	<u><u>\$ (8,440,203)</u></u>

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

FRONTERRA VILLAGE METROPOLITAN DISTRICT NO. 2
STATEMENT OF ACTIVITIES
Year Ended December 31, 2016

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense)</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Revenue and Changes in Net Position</u>
					<u>Governmental Activities</u>
Primary government:					
Government activities:					
General government	\$ 37,673	\$ -	\$ -	\$ -	\$ (37,673)
Interest and related costs on long-term debt	465,138	-	-	-	(465,138)
	<u>\$ 502,811</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(502,811)</u>
General revenues:					
Property taxes					588,251
Specific ownership taxes					48,482
Net investment income					3,201
Total general revenues					<u>639,934</u>
Change in net position					137,123
Net position - Beginning					<u>(8,569,389)</u>
Net position - Ending					<u>\$ (8,432,266)</u>

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

FRONTERRA VILLAGE METROPOLITAN DISTRICT NO. 2
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2016

	General	Debt Service	Capital Projects	Total Governmental Funds
ASSETS				
Cash and investments	\$ 2,755	\$ -	\$ -	\$ 2,755
Cash and investments - Restricted	2,000	322,729	-	324,729
Receivable - County Treasurer	350	3,116	-	3,466
Interest receivable	-	189	-	189
Property taxes receivable	49,997	529,845	-	579,842
Prepaid expense	2,731	-	-	2,731
TOTAL ASSETS	\$ 57,833	\$ 855,879	\$ -	\$ 913,712
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 1,245	\$ -	\$ -	\$ 1,245
Total liabilities	1,245	-	-	1,245
DEFERRED INFLOWS OF RESOURCES				
Property tax revenue	49,997	529,845	-	579,842
Total deferred inflows of resources	49,997	529,845	-	579,842
FUND BALANCES				
Nonspendable:				
Prepaid expenditures	2,731	-	-	2,731
Restricted for:				
Emergency reserves	2,000	-	-	2,000
Debt service reserve	-	592,000	-	592,000
Assigned to:				
Subsequent year's expenditures	984	-	-	984
Unassigned:				
General government	876	-	-	876
Debt service	-	(265,966)	-	(265,966)
Total fund balances	6,591	326,034	-	332,625
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 57,833	\$ 855,879	\$ -	

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

Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds	
Bonds payable	(7,930,000)
Bond discount	107,566
Developer advance payable	(286,092)
Accrued interest on Developer advances	(571,805)
Accrued interest on subordinate bonds	(63,397)
Accrued bond interest payable	(29,100)
Net position of governmental activities	\$ (8,440,203)

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

FRONTERRA VILLAGE METROPOLITAN DISTRICT NO. 2
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended December 31, 2016

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
REVENUES				
Property taxes	\$ 59,344	\$ 528,907	\$ -	\$ 588,251
Specific ownership taxes	4,891	43,591	-	48,482
Net investment income	226	2,962	13	3,201
Total revenues	<u>64,461</u>	<u>575,460</u>	<u>13</u>	<u>639,934</u>
EXPENDITURES				
Current				
Accounting	17,833	-	-	17,833
Audit	3,300	-	-	3,300
County Treasurer's fees	891	7,938	-	8,829
Directors' fees	200	-	-	200
Dues and subscriptions	316	-	-	316
Elections	182	-	-	182
Fines	2,000	-	-	2,000
Insurance and bonds	2,688	-	-	2,688
Landscape maintenance	2,070	-	-	2,070
Legal	7,922	-	-	7,922
Miscellaneous	179	-	-	179
Payroll taxes	15	-	-	15
Repay Developer advance interest	35,000	-	-	35,000
Banking fees	77	-	-	77
Debt service				
Bond interest expense	-	354,999	-	354,999
Bond interest expense - subordinate	-	7,937	-	7,937
Bond principal	-	135,000	-	135,000
Paying agent fees	-	4,000	-	4,000
Capital projects				
Bond issue cost	-	-	7,500	7,500
Total expenditures	<u>72,673</u>	<u>509,874</u>	<u>7,500</u>	<u>590,047</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(8,212)</u>	<u>65,586</u>	<u>(7,487)</u>	<u>49,887</u>
OTHER FINANCING SOURCES (USES)				
Transfer from (to) other funds	-	7,906	(7,906)	-
Total other financing sources (uses)	<u>-</u>	<u>7,906</u>	<u>(7,906)</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	(8,212)	73,492	(15,393)	49,887
FUND BALANCES - BEGINNING OF YEAR	14,803	252,542	15,393	282,738
FUND BALANCES - END OF YEAR	<u>\$ 6,591</u>	<u>\$ 326,034</u>	<u>\$ -</u>	<u>\$ 332,625</u>

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

**FRONTERRA VILLAGE METROPOLITAN DISTRICT NO. 2
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 changes in fund balances - Total governmental funds	\$ 49,887
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The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. The net effect of these differences in the treatment of long-term debt is as follows:

Bond principal payment	135,000
Amortization of bond discount	(7,754)

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 long-term obligations - Change in liability	(62,914)
Accrued interest on Developer advance - Change in liability	14,967

Change in net position of governmental activities	\$ 129,186
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These financial statements should be read only in connection with the accompanying notes to financial statements.

FRONTERRA VILLAGE METROPOLITAN DISTRICT NO. 2
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
Year Ended December 31, 2016

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES				
Property taxes	\$ 59,344	\$ 59,344	\$ 59,344	\$ -
Specific ownership taxes	4,750	4,900	4,891	(9)
Net investment income	10	240	226	(14)
Total revenues	<u>64,104</u>	<u>64,484</u>	<u>64,461</u>	<u>(23)</u>
EXPENDITURES				
Current				
Accounting	15,000	18,000	17,833	167
Audit	3,500	3,300	3,300	-
County Treasurer's fees	890	890	891	(1)
Directors' fees	200	200	200	-
Dues and subscriptions	350	316	316	-
Elections	500	182	182	-
Fines	-	2,000	2,000	-
Insurance and bonds	3,000	2,688	2,688	-
Landscape maintenance	5,000	2,000	2,070	(70)
Legal	6,000	7,000	7,922	(922)
Miscellaneous	500	500	179	321
Payroll taxes	15	15	15	-
Repay Developer advance interest	30,000	35,000	35,000	-
Banking fees	-	-	77	(77)
Contingency	2,045	1,909	-	1,909
Total expenditures	<u>67,000</u>	<u>74,000</u>	<u>72,673</u>	<u>1,327</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(2,896)</u>	<u>(9,516)</u>	<u>(8,212)</u>	<u>1,304</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER SOURCES (USES)	(2,896)	(9,516)	(8,212)	1,304
FUND BALANCES - BEGINNING OF YEAR	<u>10,389</u>	<u>14,803</u>	<u>14,803</u>	<u>-</u>
FUND BALANCES - END OF YEAR	<u>\$ 7,493</u>	<u>\$ 5,287</u>	<u>\$ 6,591</u>	<u>\$ 1,304</u>

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

FRONTERRA VILLAGE METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 1 - DEFINITION OF REPORTING ENTITY

Fronterra Village Metropolitan District No. 2 (District), a quasi-municipal corporation and political subdivision of the State of Colorado, was organized on December 5, 2002, and is governed pursuant to provisions of the Colorado Special District Act (Title 32, Article 1, Colorado Revised Statutes). The District's service area is located in Adams County, Colorado, entirely within the City of Commerce City (City). The District was established to provide financing for the design, acquisition and construction of streets, traffic and safety controls, landscaping, water, sanitary sewer, storm drainage, park and recreation, mosquito control, television relay and translation.

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, including Fronterra Village Metropolitan District, nor is the District a component unit of any other primary governmental entity, including the City.

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 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.

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.

FRONTERRA VILLAGE METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The major sources of revenue susceptible to accrual are property taxes, specific ownership taxes, and investment income. All other revenue items are considered to be measurable and available only when cash is received by the District. Expenditures, other than interest on long-term obligations, are recorded when the liability is incurred or the long-term obligation is due.

The District reports the following major governmental funds:

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 accounts for the resources accumulated and payments made for principal and interest on long-term debt of the governmental funds.

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

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, 2016.

FRONTERRA VILLAGE METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pooled Cash and Investments

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

Investments are carried at fair value.

Property Taxes

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

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

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.

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financial uses.

System Development Fees

System development fees of \$1,200 per single-family home and \$710 for each multi-family residential unit are charged against properties within the District. The development fee is due at the time of issuance of a building permit. The District records the system development fees as revenue when received, which may be at the transfer of property from the Developer to a builder. The system development fees constitute a statutory perpetual lien upon the property until paid.

FRONTERRA VILLAGE METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Inflows of Resources

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Deferred property tax revenue is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Equity

Net Position

For government-wide presentation purposes when both restricted and unrestricted resources are available for use, it is the District'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.
- *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.

FRONTERRA VILLAGE METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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	\$ 2,755
Cash and investments - Restricted	<u>324,729</u>
Total cash and investments	<u>\$ 327,484</u>

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

Deposits with financial institutions	\$ 2,250
Investments	<u>325,234</u>
Total cash and investments	<u>\$ 327,484</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 102% of the aggregate uninsured deposits.

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

At December 31, 2016, the District's cash deposits had a bank balance of \$4,981 and a carrying balance of \$2,250.

Investments

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

FRONTERRA VILLAGE METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

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 pools

Fair Value Measurement and Application

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; 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 District had the following investments:

Investment	Maturity	Fair Value
Colorado Surplus Asset Fund Trust (CSAFE)	Weighted average under 60 days	<u>\$ 325,234</u>

FRONTERRA VILLAGE METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

CSAFE

The District invested in the Colorado Surplus Asset Fund Trust (CSAFE) (the Trust), which is an investment vehicle established by state statute for local government entities to pool surplus assets. The State Securities Commissioner administers and enforces all State statutes governing the Trust. The Trust is similar to a money market fund, with each share valued at \$1.00. CSAFE may invest in U.S. Treasury securities, repurchase agreements collateralized by U.S. Treasury securities, certain money market funds and highest rated commercial paper. A designated custodial bank serves as custodian for CSAFE's portfolio pursuant to a custodian agreement. The custodian acts as safekeeping agent for CSAFE's investment portfolio and provides services as the depository in connection with direct investments and withdrawals. The custodian's internal records segregate investments owned by CSAFE. CSAFE is rated AAAM by Standard & Poor's.

NOTE 4 - LONG-TERM OBLIGATIONS

The following is an analysis of changes in long-term obligations for the year ended December 31, 2016:

	Balance at December 31, 2015	Additions	Retirements	Balance at December 31, 2016	Due Within One Year
General Obligation Refunding and Improvement Bonds, Series 2007	\$ 7,240,000	\$ -	\$ 135,000	\$ 7,105,000	\$ 145,000
Subordinate Bonds, Series 2015	825,000	-	-	825,000	-
Accrued interest - Subordinate bonds	-	71,334	7,937	63,397	-
Developer advance payable	286,092	-	-	286,092	-
Accrued interest on Developer advances	586,772	20,033	35,000	571,805	-
	<u>8,937,864</u>	<u>91,367</u>	<u>177,937</u>	<u>8,851,294</u>	<u>145,000</u>
Bond discount, Series 2007	(115,320)	-	(7,754)	(107,566)	(7,627)
	<u>\$ 8,822,544</u>	<u>\$ 91,367</u>	<u>\$ 170,183</u>	<u>\$ 8,743,728</u>	<u>\$ 137,373</u>

General Obligation Bonds

On September 27, 2007, the District advance refunded and defeased (debt legally satisfied) \$4,550,000 of General Obligation Bonds (Limited Tax Convertible to Unlimited Tax) (the Series 2003 Bonds) dated February 1, 2003, with an interest rate of 8.0% by the issuance of \$7,560,000 in General Obligation (Limited Tax Convertible to Unlimited Tax) Refunding and Improvement Bonds Series 2007 (the "Series 2007 Bonds") and \$300,000 in Supplemental "B" Interest Registered Coupons.

FRONTERRA VILLAGE METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 4 - LONG-TERM OBLIGATIONS (CONTINUED)

The Series 2007 Bonds bear interest from 4.2% to 5.0% per annum, due June 1 and December 1. Principal is due on December 1. The coupons were issued to yield from 4.61% to 4.76% per annum. Principal is due on December 1. The bonds maturing on or before December 1, 2016, are not subject to redemption prior to their respective maturity dates. The bonds maturing on and after December 1, 2017, are subject to redemption prior to maturity at the option of the District. The bonds mature on December 1, 2037. Payment of the principal and interest on the bonds when due is insured by Radian Asset Assurance, Inc. (Radian). On April 1, 2015, Assured Guaranty Corporation (Assured) acquired Radian. As of December 31, 2016, Standard & Poor's had a rating of AA Stable for Assured. For additional information on the rating change, the reader should contact Standard & Poor's or Assured.

Pursuant to an indenture of trust, a reserve fund in the amount of \$592,000 was established with bond proceeds as additional security for the bonds. Monies in the Reserve Fund shall be used only to prevent a default in the payment of principal of, premium if any, or interest on the Series 2007 Bonds when due, and the Reserve Fund is pledged to the payment of Series 2007 Bonds for such purpose. The Reserve Fund will be fully funded until such time as the debt to assessed ratio is 50% or less, after which the Reserve Fund is to be terminated and all amounts credited thereto will be transferred to the Bond Fund. Because the District's maximum required debt service mill levy can be no greater than 53.475 mills and the assessed valuation of the District is not high enough to generate property taxes sufficient to service the current annual debt requirements, the District has been required to supplement annual debt service with monies from the Reserve Fund. At December 31, 2016, the amount in the Reserve Fund was \$317,523. At December 31, 2016, the debt to assessed ratio of the District was 72%.

The Series 2007 Bonds are secured by and payable from Pledged Revenue consisting of monies derived by the District from the following sources, net of any collection costs: 1) the Required Mill Levy, 2) the portion of the Specific Ownership Tax which is collected as a result of the imposition of the Required Mill Levy, and 3) any other legally available monies which the District determines to be treated as Pledged Revenue. The Required Mill Levy means an ad valorem mill levy imposed upon all taxable property of the District each year in an amount sufficient to pay the principal, premium if any, and interest on the Series 2007 Bonds as the same become due and payable and, if necessary, to fund the Reserve Fund to the required reserve amount, but not in excess of 53.475 mills, adjusted for changes in the ratio of actual value to assessed value of property within the District. The District's required mill levy was 53.475 in 2016. Once the debt to assessed ratio is 50% or less, the required mill levy will be an ad valorem mill levy imposed upon all taxable property of the District each year in an amount sufficient to pay the principal of, premium if any, and interest on the bonds as the same become due and payable, without limitation of rate.

FRONTERRA VILLAGE METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 4 - LONG-TERM OBLIGATIONS (CONTINUED)

Series 2015 Subordinate Bond

On December 17, 2015, the District issued Subordinate Limited Tax Bonds, Series 2015 Bonds (the "Series 2015 Bonds"), in the principal amount of \$825,000 with a maturity date of December 15, 2045. The Series 2015 Bonds bear simple interest at the rate of 8.00% per annum, payable annually beginning December 15, 2016, to the extent there are funds available in the Subordinate Bond Fund. The Series 2015 Bonds are subject to mandatory redemption prior to maturity, as a whole or in integral multiples of \$1,000, on December 15 in each year, commencing December 15, 2016, solely from and to the extent of any monies on deposit in the Subordinate Bond Fund. During 2016, \$7,937 of interest was paid on the Series 2015 Bonds from unspent cost of issuance funds. In the future, no payments will be made on the Series 2015 Bonds until the District has fully funded the Required Reserve on the Series 2007 Bonds in the amount of \$592,000.

The current debt schedule is attached for the Series 2007 Bonds. No annual debt service schedule for the Series 2015 Bonds is provided because amounts are payable from subordinate pledged revenues, which may or may not be sufficient to make debt service payments when due.

The District's long-term obligations will mature as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 145,000	\$ 349,194	\$ 494,194
2018	160,000	342,850	502,850
2019	165,000	335,650	500,650
2020	185,000	328,225	513,225
2021	190,000	319,669	509,669
2022-2026	1,195,000	1,446,741	2,641,741
2027-2031	1,665,000	1,109,888	2,774,888
2032-2036	2,270,000	636,000	2,906,000
2037	1,130,000	56,500	1,186,500
	<u>\$7,105,000</u>	<u>\$4,924,717</u>	<u>\$12,029,717</u>

Authorized Debt

On November 5, 2002, a majority of the qualified electors of the District authorized the issuance of indebtedness in an amount not to exceed \$6,649,979 at an interest rate not to exceed 18% per annum, in addition to \$6,500,000 for debt refunding.

FRONTERRA VILLAGE METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 4 - LONG-TERM OBLIGATIONS (CONTINUED)

At December 31, 2016, the District had authorized but unissued indebtedness in the following amounts allocated for the following purposes:

	Authorized November 5, 2002 Election	Authorization Used			Remaining at December 31, 2016
		Series 2003	Series 2007	Series 2015	
Sanitary sewer	\$ 2,166,695	\$ 1,140,000	\$ 474,057	\$ 548,771	\$ 3,867
Water supply	1,610,356	1,000,000	529,771	80,585	-
Street improvements	1,606,384	1,535,000	71,384	-	-
Parks and recreation	1,166,544	835,000	135,900	195,644	-
Operations	100,000	40,000	-	-	60,000
Debt refunding	6,500,000	-	1,798,888	-	4,701,112
	<u>\$ 13,149,979</u>	<u>\$ 4,550,000</u>	<u>\$ 3,010,000</u>	<u>\$ 825,000</u>	<u>\$ 4,764,979</u>

Per the District's Service Plan, the District is limited to issuing no more than \$6,500,000 of debt unless approval is obtained from the City of Commerce City. The District considers any debt refunding not subject to this limitation.

Developer Advances

Advances for operations and capital projects may be subject to the Advance and Reimbursement Agreement dated December 11, 2002, by and between the District and Gateway American Properties, LLC, as amended on September 11, 2006 (Agreement). The agreement allows the District to pay advances plus accrued interest from the date of receipt at the rate of 7% per annum when and if funds are available, subject to annual appropriation, at the sole determination of the District's Board of Directors. In 2006, the Agreement was amended to assign the reimbursement amount of \$195,878 to MDR, LLC with the remaining developer advances due to Gateway American Properties, LLC. The reassigned reimbursement is subject to the original terms of the Agreement.

As of December 31, 2016, the Developer advance outstanding was \$857,897, which includes \$571,805 of accrued interest.

NOTE 5 - NET POSITION

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

The restricted component of net position consists of assets that are restricted for use either externally imposed by creditors, grantors, contributors, or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation. At December 31, 2016, the District had restricted net position of \$2,000 for Emergency Reserves and \$592,000 for the required reserve on the 2003 bonds. The District has not fully funded the required reserve.

FRONTERRA VILLAGE METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 5 - NET POSITION (CONTINUED)

The unrestricted component of net position is the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of the restricted component of net position.

The District has a deficit in unrestricted net position. This deficit amount is a result of the District being responsible for the repayment of bonds issued for public improvements which were conveyed to other governmental entities and which costs were removed from the District's financial records.

NOTE 6 - RELATED PARTIES

The Developer of the property that constitutes the District is JF Companies LLC, formerly known as Gateway American Properties LLC (the Developer). The members of the Board of Directors of the District are owners of or are otherwise associated with the Developer or the owners and may have conflicts of interest in dealing with the District.

NOTE 7 - INTERFUND TRANSFERS

During 2016, \$7,906 of unspent cost of issuance funds in the Capital Projects Fund was transferred to the Debt Service Fund for payment of accrued interest on the District's Series 2015 Bonds.

NOTE 8 - 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). 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.

FRONTERRA VILLAGE METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 9 - TAX, SPENDING AND DEBT LIMITATIONS (CONTINUED)

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, 2002, the District voters passed an election question to increase property taxes \$50,000 annually, without limitation of rate, to pay the District's operations, maintenance and other expenses. Additionally, the District's electors authorized the District to collect, retain and spend all revenue, other than ad valorem taxes, without regard to any limitations under TABOR.

TABOR requires local governments to establish Emergency Reserves. These reserves must be at least 3% of Fiscal Year Spending (excluding bonded debt service). Local governments are not allowed to use the emergency reserves to compensate for economic conditions, revenue shortfalls, or salary or benefit increases.

The District's management believes it is in compliance with the provisions of TABOR. However, TABOR is complex and subject to interpretation. Many of the provisions, including the interpretation of how to calculate Fiscal Year Spending limits, will require judicial interpretation.

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

SUPPLEMENTARY INFORMATION

FRONTERRA VILLAGE METROPOLITAN DISTRICT NO. 2
DEBT SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
Year Ended December 31, 2016

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES				
Property taxes	\$ 528,907	\$ 528,907	\$ 528,907	\$ -
Specific ownership tax	42,310	43,900	43,591	(309)
Net investment income	420	2,200	2,962	762
Total revenues	<u>571,637</u>	<u>575,007</u>	<u>575,460</u>	<u>453</u>
EXPENDITURES				
County Treasurer's fees	7,930	7,930	7,938	(8)
Bond interest	354,999	354,999	354,999	-
Bond principal	135,000	135,000	135,000	-
Bond interest subordinate bonds	-	7,925	7,937	(12)
Paying agent fees	2,500	4,000	4,000	-
Contingency	2,571	2,146	-	2,146
Total expenditures	<u>503,000</u>	<u>512,000</u>	<u>509,874</u>	<u>2,126</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>68,637</u>	<u>63,007</u>	<u>65,586</u>	<u>2,579</u>
OTHER FINANCING SOURCES				
Transfers from (to) other funds	-	7,906	7,906	-
Total other financing sources	<u>-</u>	<u>7,906</u>	<u>7,906</u>	<u>-</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES	<u>68,637</u>	<u>70,913</u>	<u>73,492</u>	<u>2,579</u>
FUND BALANCES - BEGINNING OF YEAR	<u>251,343</u>	<u>252,542</u>	<u>252,542</u>	<u>-</u>
FUND BALANCES - END OF YEAR	<u>\$ 319,980</u>	<u>\$ 323,455</u>	<u>\$ 326,034</u>	<u>\$ 2,579</u>

FRONTERRA VILLAGE METROPOLITAN DISTRICT NO. 2
CAPITAL PROJECTS FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
Year Ended December 31, 2016

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES				
Interest income	\$ -	\$ 13	\$ 13	\$ -
Total revenues	<u>-</u>	<u>13</u>	<u>13</u>	<u>-</u>
EXPENDITURES				
Bond issue costs	-	7,500	7,500	-
Total expenditures	<u>-</u>	<u>7,500</u>	<u>7,500</u>	<u>-</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>-</u>	<u>(7,487)</u>	<u>(7,487)</u>	<u>-</u>
OTHER FINANCING SOURCES				
Transfers from (to) other funds	-	(7,906)	(7,906)	-
Total other financing sources	<u>-</u>	<u>(7,906)</u>	<u>(7,906)</u>	<u>-</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES	<u>-</u>	<u>(15,393)</u>	<u>(15,393)</u>	<u>-</u>
FUND BALANCES - BEGINNING OF YEAR	<u>-</u>	<u>15,393</u>	<u>15,393</u>	<u>-</u>
FUND BALANCES - END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

FRONTERRA VILLAGE METROPOLITAN DISTRICT NO. 2
SCHEDULE OF DEBT SERVICE REQUIREMENTS TO MATURITY
December 31, 2016

\$7,560,000			
General Obligation Refunding			
and Improvement Bonds			
Series 2007			
Dated September 27, 2007			
Interest Rate at 4.2% to 5.0%			
Due June 1 and December 1			
Principal Due December 1			
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
			<u>General</u>
			<u>Obligation</u>
			<u>Bonds</u>
2017	\$ 145,000	\$ 349,194	\$ 494,194
2018	160,000	342,850	502,850
2019	165,000	335,650	500,650
2020	185,000	328,225	513,225
2021	190,000	319,669	509,669
2022	210,000	310,881	520,881
2023	220,000	300,906	520,906
2024	240,000	290,180	530,180
2025	250,000	278,480	528,480
2026	275,000	266,294	541,294
2027	290,000	252,888	542,888
2028	315,000	238,750	553,750
2029	330,000	223,000	553,000
2030	355,000	206,500	561,500
2031	375,000	188,750	563,750
2032	405,000	170,000	575,000
2033	425,000	149,750	574,750
2034	455,000	128,500	583,500
2035	475,000	105,750	580,750
2036	510,000	82,000	592,000
2037	1,130,000	56,500	1,186,500
	<u>\$ 7,105,000</u>	<u>\$ 4,924,717</u>	<u>\$ 12,029,717</u>

NOTE: No debt service requirements to maturity schedule has been provided for the Series 2015 Subordinate Bonds. No payments will be made on these bonds until the District has fully funded the required reserve on the Series 2007 Senior Bonds in the amount of \$592,000.

**FRONTERRA VILLAGE METROPOLITAN DISTRICT NO. 2
SUMMARY OF ASSESSED VALUATION,
MILL LEVY AND PROPERTY TAXES COLLECTED
December 31, 2016**

Year Ended December 31,	Prior Year Assessed Valuation for Current Year Property Tax Levy	Mill Levy	Total Property Taxes		Percent Collected to Levied
			Levied	Collected	
2012	\$ 6,049,010	59.475	\$ 359,765	\$ 353,831	98.35%
2013	\$ 6,295,370	59.475	\$ 374,417	\$ 374,237	99.95%
2014	\$ 6,941,160	59.475	\$ 412,825	\$ 408,581	98.97%
2015	\$ 7,543,900	59.475	\$ 448,673	\$ 448,673	100.00%
2016	\$ 9,890,730	59.475	\$ 588,251	\$ 588,251	100.00%
Estimated for year ending December 31, 2017	\$ 9,908,270	58.521	\$ 579,842		

NOTE:

Property taxes collected in any one year include collection of delinquent property taxes assessed in prior years, as well as reductions for property tax refunds or abatements. Information received from the County Treasurer does not permit identification of specific year of assessment.