

Potomac Farms Metropolitan District

ADAMS COUNTY, COLORADO



ANNUAL FINANCIAL STATEMENTS

December 31, 2016



RECEIVED

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INDEPENDENT AUDITOR'S REPORT

July 21, 2017

To the Board of Directors
Potomac Farms Metropolitan District

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major funds of Potomac Farms Metropolitan District 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 and 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 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of governmental activities and the major funds of Potomac Farms Metropolitan District, as of December 31, 2016 and the respective changes in financial position and the budgetary comparison for the General Fund, Reserve Fund and Debt 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 Potomac Farms Metropolitan District'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, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

B F Boyer CPA PC

**Certified Public Accountants
Lakewood, CO**

POTOMAC FARMS METROPOLITAN DISTRICT
STATEMENT OF NET POSITION
December 31, 2016

	Governmental Activities
ASSETS	
Cash and investments	\$ 95,747
Cash and investments – restricted	2,259
Accounts receivable – specific ownership taxes	2,720
Accounts receivable – due from homeowners	-
Property taxes receivable	615,600
Prepaid expenses	5,817
Total Assets	\$ 722,143
LIABILITIES	
Accounts payable	\$ 6,290
Accrued interest payable	32,660
Current portion of convertible capital appreciation bonds – Series 2007B	65,000
General obligation bonds – Series 2007A	4,680,000
Convertible capital appreciation bonds – Series 2007B	625,000
Developer advances payable	1,000,000
Total Liabilities	6,408,950
DEFERRED INFLOWS OF RESOURCES	
Property tax revenue	615,600
NET POSITION	
Restricted:	
Emergency reserves	2,000
Debt service	1,067
Assigned	97,186
Unassigned:	(6,402,660)
Total Net Position	(\$ 6,302,407)

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

POTOMAC FARMS METROPOLITAN DISTRICT
STATEMENT OF ACTIVITIES
For the 9-Month Period Ended December 31, 2016

Functions/Programs	Expenses	Charges For Services	Program Revenue		Net (Expense) Revenue and Changes in Net Position
			Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Primary Government:					
Government Activities:					
General government activities	\$ 35,746	\$ -	\$ 4,500	\$ -	(\$ 31,246)
Interest and related costs on long-term debt	407,083	-	-	-	(407,083)
Capital project activities	-	-	-	-	-
	<u>\$ 442,829</u>	<u>\$ -</u>	<u>\$ 4,500</u>	<u>\$ -</u>	<u>(438,329)</u>
General Revenues					
					\$ 463,753
					38,057
					1,836
					<u>503,646</u>
					65,317
					<u>(6,367,724)</u>
					<u>(\$ 6,302,407)</u>

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

POTOMAC FARMS METROPOLITAN DISTRICT
BALANCE SHEET – GOVERNMENTAL FUNDS
December 31, 2016

	General	Debt Service	Capital Projects	Total Government Funds
ASSETS				
Cash and investments	\$ 95,747	\$ -	\$ -	\$ 95,747
Cash and investments - Restricted	2,000	259	-	2,259
Accounts receivable – spec ownership taxes	662	2,058	-	2,720
Accounts receivable-due from homeowners	-	-	-	-
Property taxes receivable	150,000	465,600	-	615,600
Prepaid expenses	5,817	-	-	5,817
TOTAL ASSETS	\$ 254,226	\$ 467,917	\$ -	\$ 722,143
LIABILITIES				
Accounts payable	5,040	1,250	-	6,290
DEFERRED INFLOWS OF RESOURCES				
Property tax revenue	150,000	465,600	-	615,600
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	155,040	466,850	-	621,890
FUND BALANCES				
Restricted:				
Emergencies (TABOR)	2,000	-	-	2,000
Debt service	-	1,067	-	1,067
Assigned:				
Subsequent period expenditures	97,186	-	-	97,186
Total Fund Balances	99,186	1,067	-	100,253
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 254,226	\$ 467,917	\$ -	

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

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds

Bonds payable	(5,370,000)
Accrued interest payable	(32,660)
Developer advances payable	(1,000,000)

Net position of governmental activities	<u>(\$6,302,407)</u>
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These financial statements should be read only in connection with
the accompanying notes to the financial statements.

POTOMAC FARMS METROPOLITAN DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
12-Month Period Ended December 31, 2016

	General	Debt Service	Capital Projects	Total Government Funds
REVENUES				
Property taxes	\$ 56,663	\$ 407,090	\$ -	\$ 463,753
Specific ownership taxes	4,980	33,077	-	38,057
Facility fees	4,500	-	-	4,500
Net investment income	822	1,014	-	1,836
Total revenues	66,965	441,181	-	508,146
EXPENDITURES				
General and administration	37,748	-	-	37,748
Election services	-	-	-	-
Landscaping maintenance	-	-	-	-
Other district expenses	-	7	-	7
Debt service				
Bond interest – Series 2007A	-	339,300	-	339,300
Bond interest – Series 2007B	-	57,568	-	57,568
Bond principal – Series 2007A	-	65,000	-	65,000
Collections – County Treasurer	-	6,118	-	6,118
Paying agent fees	-	2,500	-	2,500
Total Expenditures	37,748	470,493	-	508,241
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	29,217	(29,312)	-	(95)
OTHER FINANCING SOURCES (USES)				
Transfers in (out)	(30,000)	30,000	-	-
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(783)	688	-	(95)
FIND BALANCES – BEGINNING OF YEAR	99,969	379	-	\$ 100,348
FUND BALANCES – SEPT. 30, 2016	\$ 99,186	\$ 1,067	\$ -	\$ 100,253

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

POTOMAC FARMS METROPOLITAN DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
 12-Month Period Ended December 31, 2016

Amounts reported for governmental activities in the statement of activities are different because:	
Net change in fund balances – Total government funds	(\$ 95)
<p>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.</p>	
Repayment of developer advances	-
Principal payments on bond debt	65,000
<p>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.</p>	
Decrease in accrued interest bonds	412
Changes in net position of governmental activities	\$ 65,317

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 the accompanying notes to the financial statements.

POTOMAC FARMS METROPOLITAN DISTRICT
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES – BUDGET AND ACTUAL
12-Month Period Ended December 31, 2016

	Budget	Actual Amounts	Positive / (Negative) Variance with Budget
REVENUES			
1. Property taxes	\$ 56,420	\$ 56,663	(\$ 485)
2. Specific ownership taxes	4,514	4,980	(1,459)
3. Facility fees	4,500	4,500	-
4. Net investment income	400	822	(74)
Total revenues	<u>65,834</u>	<u>66,965</u>	<u>(2,018)</u>
EXPENDITURES			
5. General and administration	43,000	37,748	5,252
6. Election services	1,000	-	1,000
7. Landscaping maintenance	-	-	-
8. Other district expenses	-	-	-
Total expenditures	<u>44,000</u>	<u>37,748</u>	<u>6,252</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>21,834</u>	<u>29,217</u>	<u>7,383</u>
OTHER FINANCING SOURCES (USES)			
9. Transfers in (out)	(32,630)	(30,000)	2,630
Total other financing sources (uses)	<u>(32,630)</u>	<u>(30,000)</u>	<u>2,630</u>
EXCESS OF REVENUES AND OTHER FINANCIAL SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	<u>(10,796)</u>	<u>(783)</u>	<u>10,013</u>
FUND BALANCE – BEGINNING OF YEAR	<u>94,771</u>	<u>99,969</u>	<u>5,198</u>
FUND BALANCE – SEPT. 30, 2016	<u>\$ 83,975</u>	<u>\$ 99,186</u>	<u>\$ 15,211</u>

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

**POTOMAC FARMS METROPOLITAN DISTRICT
GENERAL FUND EXPENDITURE
DETAILS– BUDGET AND ACTUAL
12-Month Period Ended December 31, 2016**

	Budget	Actual Amounts	Positive / (Negative) Variance with Budget
GENERAL AND ADMINISTRATION			
1. District management fees	\$ 21,000	\$ 21,826	(\$ 826)
2. Administrative costs	400	597	(197)
3. Audit fees	3,200	3,200	-
4. Collection fees – County Treasurer	846	852	(6)
5. Board of Directors’ fees	300	1,100	(800)
6. Board training and conferences	-	-	-
7. Insurance	2,025	2,013	12
8. Legal fees	14,000	8,160	5,840
9. Legal fees – covenant enforcement	-	-	-
10. Newsletter publications	-	-	-
11. Contingency	1,229	-	1,229
Total General and Administration	<u>\$ 43,000</u>	<u>\$ 37,748</u>	<u>\$ 5,252</u>
LANDSCAPING MAINTENANCE			
1. Ground maintenance fees	\$ -	\$ -	\$ -
2. Tree maintenance	-	-	-
3. Perimeter fence maintenance	-	-	-
4. Backflow valve certifications	-	-	-
5. Sprinkler repairs	-	-	-
6. Sprinklers – water	-	-	-
7. Sprinklers – electricity	-	-	-
8. Playground maintenance	-	-	-
9. Grounds improvements	-	-	-
Total Landscaping Maintenance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
OTHER DISTRICT EXPENSES			
1. Snow removal	\$ -	\$ -	\$ -
2. Park & Recreation activities	-	-	-
3. Vandalism	-	-	-
Total Other District Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

POTOMAC FARMS METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
12-Month Period Ended December 31, 2016

NOTE 1 – DEFINITION OF REPORTING ENTITY

Potomac Farms Metropolitan District (District), a quasi-municipal corporation, was organized on December 24, 2001, and is governed pursuant to provisions of the Colorado Special District Act (Title 32). The District operates under a service plan approved by Commerce City (City) on August 20, 2001. The District's service area is located in Adams County, Colorado entirely within the boundaries of the City. The District was established to provide financing for the design, acquisition, construction and installation of streets, traffic and safety controls, park and recreation improvements, water facilities, sanitary and storm drainage improvements and mosquito control.

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 organizations 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 organizations 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 has no employees and all operations and administrative functions are contracted.

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies of the District are as follows:

Government-wide and Fund Financial Statements

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

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

The statement of activities demonstrates the degree to which the direct and indirect expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

These notes are an integral part of the accompanying financial statements.

POTOMAC FARMS METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
12-Month Period Ended December 31, 2016

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified 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 and specific ownership taxes. All other revenue items are considered to be measurable and available only when cash is received by the District. Expenditures, other than interest on long-term obligations, are recorded when the liability is incurred or the long-term obligation is due.

The District reports the following major governmental funds:

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 general obligation debt of the governmental funds.

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

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 funds for the ensuing year. The appropriation is at the total fund expenditures 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.

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.

These notes are an integral part of the accompanying financial statements.

POTOMAC FARMS METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
12-Month Period Ended December 31, 2016

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property Taxes

Property taxes are levied by the District's Board of Directors. The levy is based on assessed valuations determined by the County Assessor generally as of January 1 of each year. The levy is normally set by December 15 by certification to the County Commissioners 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 property taxes collected monthly to the District.

Property taxes are recorded initially as deferred inflows or resources in the year they are levied and measurable. The deferred property tax revenues are recorded as revenue in the year they are available or collected.

Facility Fees

A facilities fee of \$1,500 per single family home is charged against each of the 406 lots within the District. The facilities fee is due at the time of issuance of a building permit.

Deferred Outflows of Resources and Deferred Inflows of Resources

A deferred inflow of resources is an acquisition of net position by a government that is applicable to a future reporting period and a deferred outflow of resources is a consumption of net position by a government that is applicable to a future reporting period. Both deferred inflows and outflows are reported in the statement of net position but are not recognized in the financial statement as revenues and expenses until the period(s) to which they relate. Deferred inflows of resources in the governmental fund financial statements of the District for the 12-month period ended December 31, 2016 are comprised of property taxes due from Adams County that will not be collected within 60 days of the end of the current calendar year. Deferred inflows of resources in the government-wide financial statements represents property taxes for which an enforceable legal claim to assets exists, but for which the levy pertains to the subsequent year.

Equity

Net Position

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

In the government-wide financial statements, fund equity is classified as net position. Net position may be classified into three components: net investment in capital assets, restricted and unrestricted. These classifications are defined as follows:

These notes are an integral part of the accompanying financial statements.

POTOMAC FARMS METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
12-Month Period Ended December 31, 2016

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Equity (concluded)

Net Position (concluded)

- Net investment in capital assets - this component of net position consists of capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any debt that is attributable to the acquisition, construction or improvement of those assets. If there are significant unspent debt proceeds at year end, the portion of the debt attributable to the unspent proceeds is not included in this component.
- Restricted - this component of net position consists of assets that are restricted for use as imposed by external parties such as creditors, grantors or contributors, or as imposed by laws or regulations of other governments, or as imposed through constitutional provisions or enabling legislation.
- Unrestricted - the component of net position that does not meet the definitions above.

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: non-spendable, 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:

- **Non-spendable fund balance** – The portion of a fund balance that cannot be spent because it is either not in spendable form (such as prepaid amounts) or legally or contractually required to be maintained intact.
- **Restricted fund balance** – The portion of a 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 a 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 a fund balance that is constrained by the government's intent to be used for specific purposes, but is neither restricted nor committed. Intent is expressed by the Board of Directors to be used for a specific purpose. Constraints imposed on the use of assigned amounts are more easily removed or modified than those imposed on amounts that are classified as committed.
- **Unassigned fund balance** – The residual portion of a fund balance that does not meet any of the criteria described above.

These notes are an integral part of the accompanying financial statements.

POTOMAC FARMS METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
 12-Month Period Ended December 31, 2016

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)

Fund Balance (concluded)

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.

Recent Accounting Pronouncements

In 2016, the District implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement identifies certain items that were previously reported as assets and liabilities that should be classified as deferred outflows of resources or deferred inflows of resources, or recognized as expenses or revenues.

GASB 65 changed the accounting for the treatment of bond issuance costs. Under GASB 65, bond issuance costs are now required to be expensed in the period incurred rather than amortized over the life of the related debt. The District's beginning net position has been restated to reflect expensing of all debt issuance costs that had been previously capitalized. The effect of this treatment is as follows:

Net position (deficit) - December 31, 2015, as originally stated	(\$ 6,261,142)
Restatement related to debt issuance costs	<u>(106,582)</u>
Net position (deficit) - December 31, 2015, as restated	<u><u>(\$ 6,367,724)</u></u>

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 – unrestricted	\$ 95,747
Cash and investments – restricted	<u>2,259</u>
Total cash and investments	<u><u>\$ 98,006</u></u>

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

Deposits with financial institutions	\$ 11,216
Investments	<u>86,790</u>
Total cash and investments	<u><u>\$ 98,006</u></u>

These notes are an integral part of the accompanying financial statements.

POTOMAC FARMS METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
12-Month Period Ended December 31, 2016

NOTE 3 – CASH AND INVESTMENTS (continued)

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.

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 \$11,216 and a carrying balance of \$11,216.

Investments

The District has adopted a formal investment policy in accordance with state statutes regarding investments.

The District generally limits its concentration of investments to those listed 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 disclosure requirements or subject to investment custodial risk 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.

Revenue bonds of local government securities, corporate and bank securities, and guaranteed investment contracts not purchased with bond proceeds, are limited to maturities of three years or less.

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 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 purchase agreements collateralized by certain authorized securities
- Certain money market funds
- Guaranteed investment contracts
- Local government investment pools

These notes are an integral part of the accompanying financial statements.

POTOMAC FARMS METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
 12-Month Period Ended December 31, 2016

NOTE 3 – CASH AND INVESTMENTS (concluded)

Investments (concluded)

As of December 31, 2016, the District's investments were comprised of the following:

Investment	Maturity	Fair Value
Colorado Surplus Asset Fund Trust (CSAFE)	Weighted average under 60 days	86,790

CSAFE

The District invested in the Colorado Surplus Asset Fund Trust (CSAFE), 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 CSAFE. CSAFE operates similarly to a money market fund and each share is equal in value to \$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 DEBT

The following is a summary of the changes in the District's long-term debt for the 9-month period ended December 31, 2016:

	Balance at Dec. 31, 2015	Additions	Retirements	Balance at Dec. 31, 2016	Due within one year
General Obligation Bonds Series 2007A	\$ 4,680,000	\$ -	\$ -	\$ 4,680,000	\$ -
Convertible Capital Appreciation Bonds Series 2007B	755,000	-	65,000	690,000	65,000
Developer advances	1,000,000	-	-	1,000,000	-
	<u>\$ 6,435,000</u>	<u>\$ -</u>	<u>\$ 65,000</u>	<u>\$ 6,370,000</u>	<u>\$ 65,000</u>

These notes are an integral part of the accompanying financial statements.

POTOMAC FARMS METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
12-Month Period Ended December 31, 2016

NOTE 4 – LONG-TERM DEBT (continued)

Details regarding the District's long-term obligations are as follows:

Bonds Payable

On September 26, 2007, the District issued the following bonds (collectively the Bonds): 1) \$4,680,000 General Obligation Refunding and Improvement (Limited Tax Convertible To Unlimited Tax) Bonds, Series 2007 A, with an interest rate of 7.25% per annum, and 2) \$697,548 Convertible Capital Appreciation General Obligation Refunding and Improvement (limited Tax Convertible To Unlimited Tax) Bonds, Series 2007 B, with a value of \$885,000 at conversion date, and an interest rate of 7.625% per annum.

The proceeds from the Bonds were used for: 1) current refunding of the District's outstanding General Obligation Bonds, Series 2002, 2) providing capitalized interest for payments of a portion of the interest on the Bonds, 3) funding the Reserve Fund, 4) financing certain Project costs, and 5) paying the costs of the Bond issuance.

The Bonds are secured and payable from the Pledged Revenue, consisting of monies derived by the District from the following sources, net of 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 of the District credited to the Bond Fund. The bonds were originally secured by amounts held by the Trustee in the Reserve Fund in the maximum required amount of \$537,755. Revenues pledged for debt service were not sufficient to cover debt service payments in 2014, therefore draws were made from the Reserve Fund. As of December 31, 2016, the balance in the Reserve Fund totaled \$4. 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 bonds as the same become due and payable and to replenish the Reserve Fund to the Reserve Requirement. Until such time as the District's debt is equal to or less than 50% of the assessed valuation of all taxable property of the District, the maximum required mill levy is 57.475 mills, adjusted for changes in the ratio of actual value to assessed value of property within the District. For collection year 2016, the District levied 57.475 mills for debt service, as adjusted for changes in the ratio of actual value to assessed value of property within the District.

The Bonds are subject to redemption prior to maturity, at the option of the District, as a whole or in integral multiples of \$1,000, in any order of maturity and in whole or partial maturities, on December 1, 2017, and on any date thereafter, upon payment of par and accrued interest, without redemption premium. Further, the Bonds are subject to mandatory sinking fund redemption, in part, by lot, on December 1, 2023, for Series 2007A and December 1, 2013, for Series 2007B, and on each December 1 thereafter prior to the maturity date, upon payment of part and accrued interest, without redemption premium.

These notes are an integral part of the accompanying financial statements.

POTOMAC FARMS METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
 12-Month Period Ended December 31, 2016

NOTE 4 – LONG-TERM DEBT (continued)

Bonds Payable (concluded)

Outstanding bond principal and interest mature as follows:

	<u>Series 2007A Principal</u>	<u>Series 2007A Interest</u>	<u>Series 2007B Total Value At Maturity</u>	<u>Series 2007B Interest After Conversion</u>	<u>Total</u>
2017	\$ -	\$ 339,300	\$ 65,000	\$ 52,613	\$ 456,913
2018	-	339,300	80,000	47,656	466,956
2019	-	339,300	85,000	41,556	465,856
2020	-	339,300	100,000	35,075	474,375
2021		339,300	110,000	27,450	476,750
2022 to 2026	530,000	1,658,437	250,000	28,213	2,466,650
2027 to 2031	1,240,000	1,339,800	-	-	2,579,800
2032 to 2036	1,910,000	800,763	-	-	2,710,763
2037	1,000,000	72,500	-	-	1,072,500
	<u>\$ 4,680,000</u>	<u>\$ 5,568,000</u>	<u>\$ 690,000</u>	<u>\$ 232,563</u>	<u>\$11,170,563</u>

Developer Advances Payable

On February 13, 2002, the District entered into a Facilities Acquisition Agreement (FM) to repay advances made by the Developer for construction of District improvements. FAA stipulates that the District agrees to reimburse the Developer for its advances, upon the District's receipt of certain documentation from the Developer including lien waivers and assignments of warranties, plus accrued interest at a rate of prime plus 1.75% as published by Wells Fargo Bank annually from the date the cost is incurred by the Developer. The District's repayment obligation pursuant to this agreement is subject to annual appropriation by the District.

On September 19, 2007, the District entered into a Funding Reconciliation Agreement (Agreement) with the Developer. Pursuant to the Agreement, the Developer forgave a portion of Prior Advances in the amount of \$4,570,661. The District has agreed to use its best efforts to reimburse the Developer for the remaining portion of Prior Advances in the amount of \$2,350,000. The District had reimbursed the Developer from net bond proceeds (from the 2007 refunding bonds) in the amount of \$1,350,000. After the issuance of the 2007 refunding bonds, the amount of Prior Advances remaining due and payable by the District to the Developer is \$1,000,000. No interest shall further accrue on the \$1,000,000.

Except for the aforementioned \$1,000,000, the District's obligations to reimburse the Developer pursuant to the 2002 Facilities Acquisition Agreement have been extinguished. As of December 31, 2016, outstanding Developer advances for capital improvements totaled \$1,000,000. Pursuant to the terms of the Agreement, any unpaid balance/outstanding obligation to the Developer on December 31, 2020, shall be deemed discharged and satisfied in full.

These notes are an integral part of the accompanying financial statements.

POTOMAC FARMS METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
 12-Month Period Ended December 31, 2016

NOTE 4 – LONG-TERM DEBT (concluded)

Debt Authorization

On November 6, 2001, the District's electors authorized the issuance of indebtedness in an amount not to exceed \$8,300,000 for infrastructure improvements and operations at an interest rate not to exceed 15% and \$8,000,000 for refunding the District's debt or other obligations.

The District's authorized but unissued indebtedness in the following amounts allocated for the following purposes is as follows:

	Authorized Nov. 2001 Election	Authorization Used		Authorization Remaining at Sept. 30, 2016
		2002	2007	
Water	\$ 2,000,000	\$ 1,190,077	\$ -	\$ 809,923
Sewer	1,900,000	1,302,267	-	597,733
Street Improvements	3,050,000	1,505,935	1,350,000	194,065
Park and Recreation	1,000,000	316,721	-	683,279
Mosquito Control	50,000	-	-	50,000
Operation and Administration	300,000	-	-	300,000
Bond Refunding	8,000,000	-	4,215,000	3,785,000
	<u>\$16,300,000</u>	<u>\$ 4,315,000</u>	<u>\$ 5,565,000</u>	<u>\$ 6,420,000</u>

Pursuant to the District's Service Plan, the District is limited to issuing \$8,000,000 in bond indebtedness. In the future, the District may issue a portion or all of the remaining authorized but unissued general obligation debt for purposes of providing public improvements to support development as it occurs within the District's service area.

As of December 31, 2016, the remaining, unused debt issuance authorization will expire in accordance with 32-1-1101(2), C.R.S. in November 2021 - 20 years after the original debt authorization election.

NOTE 5 – CONTRACTUAL ARRANGEMENT WITH HOMEOWNERS ASSOCIATION

Covenant Enforcement and Architectural Review Services

On November 07, 2016, the District entered into a one-year agreement with the Potomac Farms Homeowners Association, Inc. (the "Association") to provide covenant enforcement and architectural review services for a 12-month period beginning January 01, 2017. The cost of providing such services will be funded from revenues generated by the District. The agreement will perpetually renew for successive one-year periods unless notice is provided by either party prior to November 30th of the then current term.

These notes are an integral part of the accompanying financial statements.

POTOMAC FARMS METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
12-Month Period Ended December 31, 2016

NOTE 5 – CONTRACTUAL ARRANGEMENT WITH HOMEOWNERS ASSOCIATION (concluded)

Use and Maintenance Agreement

On November 07, 2016, the District entered into a one-year agreement with the Association to use, operate, maintain and improve the common areas within the Potomac Farms Filing No 1 and Filing No 2 subdivisions including outdoor playground facilities, perimeter fencing, entry monumentation, storm water detention area and public right-of-way landscaping in accordance with the Association's Declaration of Covenants, Conditions and Restrictions. Such services will be provided by the District at its own expense.

NOTE 6 – NET POSITION

The District has a net position consisting of three components – restricted, assigned and unassigned.

Restricted Net Position

The District's restricted net position as of December 31, 2016 in the general fund, debt service fund and capital projects fund totaled \$2,000 and \$1,067 and \$0, respectively. The restricted net position within the general fund is due to spending restrictions established by TABOR. See Note 8 for further details. The restricted net position within the debt service fund is comprised of funds that are restricted to servicing the Series 2007A and Series 2007B Bonds per the debt mill levy and related Bond agreement.

Assigned Net Position

The District's assigned net position as of December 31, 2016 in the general fund, debt service fund and capital project fund totaled \$97,186, \$0, and \$0, respectively. These balances have been assigned by the Board to fund expenditures incurred by the District in subsequent years within each respective fund.

Unassigned Net Position

The District's unassigned net position as of December 31, 2016 totaled \$(6,402,660). This deficit amount was a result of the District being responsible for the repayment of bonds issued for public improvements conveyed to Commerce City, South Adams County Water and Sanitation District and the Association.

NOTE 7 – RELATED PARTIES

The original property owner and developer of the property within the District is Adare Homes Potomac Farms, LLC (Developer). One of the directors who served on the Board was an owner of the Developer and related entities and may have had conflicts of interest in dealing with the District. See Note 4 concerning advances made by the Developer. This individual resigned from the Board as of September 07, 2016.

As of December 31, 2016, the Board was comprised of three directors two of whom also serve on the board of the Association. The boundaries of the District's service area are substantially the same as the service area of the Association.

These notes are an integral part of the accompanying financial statements.

POTOMAC FARMS METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
12-Month Period Ended December 31, 2016

NOTE 8 – RISK MANAGEMENT

The District is exposed to various risks of loss including (a) torts, thefts of, damage to, or destruction of assets, (b) errors or omissions and (c) 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 insure its member districts against various risks of loss. Settled claims have not exceeded this coverage in any of the past three years.

The District pays annual premiums to the Pool for liability 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 its members. Any excess funds which the Pool determines are not needed for purposes of the Pool may be returned to the members pursuant to the Pool's distribution formula.

NOTE 9 – 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 6, 2001, District voters authorized the District to assess property taxes at no more than \$150,000 annually, without limitation to rate, to pay the District's operations, maintenance and other expenses. Additionally, the District voters approved a revenue change to allow the District to retain and spend all revenue, other than ad valorem taxes, in excess of TABOR spending, revenue raising or other limitations.

TABOR requires local governments to establish Emergency Reserves. These reserves must be at least 3% of Fiscal Year Spending (excluding bonded debt service). TABOR prohibits the District from using its emergency reserves to compensate for economic conditions and revenue shortfalls.

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

These notes are an integral part of the accompanying financial statements.

SUPPLEMENTARY INFORMATION

POTOMAC FARMS METROPOLITAN DISTRICT
DEBT SERVICE FUND –
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES – BUDGET AND ACTUAL
12-Month Period Ended December 31, 2016

	Budget	Actual Amounts	Positive / (Negative) Variance with Budget
REVENUES			
Property taxes	\$ 405,343	\$ 407,090	(\$ 3,482)
Specific ownership taxes	32,427	33,077	650
Net investment income	600	1,014	414
Total revenues	438,370	441,181	2,811
EXPENDITURES			
Collection fees – County Treasurer	6,080	6,118	(38)
Bond paying agent fees	2,500	2,500	-
Contingency	551	7	544
Debt service			
Bond interest – Series 2007A	339,300	339,300	-
Bond interest – Series 2007B	57,569	57,568	1
Bond principal – Series 2007B	65,000	65,000	-
Total expenditures	471,000	470,493	507
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(32,630)	(29,312)	3,318
OTHER FINANCING SOURCES (USES)			
Transfers in (out)	32,630	30,000	(2,630)
Total other financing sources (uses)	32,630	30,000	(2,630)
EXCESS OF REVENUES AND OTHER FINANCIAL SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	-	688	688
FUND BALANCE – BEGINNING OF YEAR	\$ -	\$ 379	\$ 379
FUND BALANCE – DEC. 31, 2016	\$ -	\$ 1,067	\$ 1,067

POTOMAC FARMS METROPOLITAN DISTRICT
CAPITAL PROJECTS FUND –
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES – BUDGET AND ACTUAL
 12-Month Period Ended December 31, 2016

	Budget	Actual Amounts	Positive / (Negative) Variance with Budget
REVENUES			
Net investment income	\$ -	\$ -	\$ -
Other income	-	-	-
Total revenues	-	-	-
EXPENDITURES			
Capital projects			
Major capital projects	-	-	-
Total expenditures	-	-	-
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	-	-	-
OTHER FINANCING SOURCES (USES)			
Transfers in (out)	-	-	-
Total other financing sources (uses)	-	-	-
EXCESS OF REVENUES AND OTHER FINANCIAL SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	-	-	-
FUND BALANCE – BEGINNING OF YEAR	-	-	-
FUND BALANCE – DEC. 31, 2016	\$ -	\$ -	\$ -

POTOMAC FARMS METROPOLITAN DISTRICT
SCHEDULE OF DEBT SERVICE REQUIREMENTS TO MATURITY
December 31, 2016

The District's repayment schedule for its Series 2006 general obligation bonds is as follows:

Year Ended Dec. 31,	General Obligation Bonds Series 2007A			Convertible Appreciation Bonds Series 2007B			Total		
	Principal	Interest	Total	Total Value At Maturity	Interest After Conversion	Total	Principal	Interest	Total
2017	\$ -	\$ 339,300	\$ 339,300	\$ 65,000	\$ 52,613	\$ 117,613	\$ 65,000	\$ 391,913	\$ 456,913
2018	-	339,300	339,300	80,000	47,656	127,656	80,000	386,956	466,956
2019	-	339,300	339,300	85,000	41,556	126,556	85,000	380,856	465,856
2020	-	339,300	339,300	100,000	35,075	135,075	100,000	374,375	474,375
2021	-	339,300	339,300	110,000	27,450	137,450	110,000	366,750	476,750
2022	-	339,300	339,300	130,000	19,063	149,063	130,000	358,363	488,363
2023	15,000	339,300	354,300	120,000	9,150	129,150	135,000	348,450	483,450
2024	155,000	338,212	493,212	-	-	-	155,000	338,212	493,212
2025	170,000	326,975	496,975	-	-	-	170,000	326,975	496,975
2026	190,000	314,650	504,650	-	-	-	190,000	314,650	504,650
2027	205,000	300,875	505,875	-	-	-	205,000	300,875	505,875
2028	230,000	286,012	516,012	-	-	-	230,000	286,012	516,012
2029	245,000	269,338	514,338	-	-	-	245,000	269,338	514,338
2030	270,000	251,575	521,575	-	-	-	270,000	251,575	521,575
2031	290,000	232,000	522,000	-	-	-	290,000	232,000	522,000
2032	325,000	210,975	535,975	-	-	-	325,000	210,975	535,975
2033	345,000	187,413	532,413	-	-	-	345,000	187,413	532,413
2034	380,000	162,400	542,400	-	-	-	380,000	162,400	542,400
2035	410,000	134,850	544,850	-	-	-	410,000	134,850	544,850
2036	450,000	105,125	555,125	-	-	-	450,000	105,125	555,125
2037	1,000,000	72,500	1072,500	-	-	-	1,000,000	72,500	1072,500
	\$ 4,680,000	\$ 5,568,000	\$10,248,000	\$ 690,000	\$ 232,563	\$ 922,563	\$ 5,370,000	\$ 5,800,563	\$ 11,170,563

Interest is payable each year on June 1st and December 1st, and principal payments are due each year on December 1st. Beginning December 1, 2017, the District may redeem the outstanding bond balance at any time without paying a redemption premium to the bond holders.

POTOMAC FARMS METROPOLITAN DISTRICT
**SUMMARY OF ASSESSED VALUATION,
MILL LEVY AND PROPERTY TAXES COLLECTED**
December 31, 2016

Year Ended December 31,	Prior Year Assessed Valuation for Current Year tax Levy	Mills Levied		Total Property Taxes		Percent Collected to Levied
		Operations	Debt	Levied	Collected (Note A)	
2012	\$ 4,337,970	8.500	57.475	\$ 284,029	\$ 283,053	99.66%
2013	4,343,480	8.000	57.475	284,390	283,415	99.66%
2014	4,309,100	8.000	57.475	282,139	285,464	101.18%
2015	4,536,050	8.000	57.475	296,997	296,119	99.70%
2016	7,052,510	8.000	57.475	461,763	463,753	100.43%
2017	8,100,720	18.516	57.475	615,600	[TBD]	[TBD]

NOTE A: Property taxes collected in any one year may include collection of delinquent property taxes levied in prior years.