

**RESERVE METROPOLITAN DISTRICT NO. 2**

**FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORT**

**December 31, 2016**



**RECEIVED**

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# HAMBLIN AND ASSOCIATES, LLC

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## INDEPENDENT AUDITOR'S REPORT

The Board of Directors  
Reserve Metropolitan District No. 2  
Mt. Crested Butte, Colorado

We have audited the accompanying financial statements of the governmental activities and each major fund of Reserve 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 an opinion 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 District'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 District'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 opinion.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Reserve Metropolitan District No. 2, as of December 31, 2016, and the respective changes in financial position thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 be presented to supplement the basic financial statements. Such 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Supplementary Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Reserve Metropolitan District No. 2's basic financial statements. The Debt Service Fund Budget to Actual schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Debt Service Fund Budget to Actual schedule 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. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

*Hamblin and Associates*

Evergreen, Colorado

April 26, 2017

## **Management's Discussion and Analysis - Unaudited**

As management of Reserve Metropolitan District No. 2 (the “District”), we offer readers of the District’s financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended December 31, 2016.

## **Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the District’s basic financial statements. The District’s basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statement, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide Financial Statements** – The government-wide financial statements are designed to provide readers with a broad overview of the District’s finances, in a manner similar to a private-sector business.

The Statement of Net Position presents information on all the District’s assets and deferred outflows of resources and liabilities and deferred inflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The Statement of Activities presents information (based upon information reported in prior periods and the current period) showing how the government’s net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The governmental activity of the District has been primarily servicing the Debt of the District and participating in litigation related to the validity of the District’s governance structure, reimbursement claims by the developer, and challenges to the district’s authority to adopt taxes and fees. The District has potential obligations regarding costs for operating and maintaining certain easements, and the litigation in part test the validity of claimed charges. There are no business-type activities within the District.

**Fund Financial Statements** – A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Through 2016 the District maintained two funds, the General Fund and the Debt Service Fund, both of which are governmental funds.

**Governmental Funds** – Governmental funds are used to account for essentially the same functions reported as governmental activities in the governmental-wide financial statements. However, unlike the governmental-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of expendable resources, as well as on balances of expendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government’s near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government’s near-term financing decisions. A reconciliation of the fund balance as reported in the governmental funds to the net position reported in the government-wide financial statements and a reconciliation of the net change in fund balance to the change in net position has been provided on pages 9 and 11 of the Statements, to facilitate the comparison between governmental funds and governmental activities.

**Notes to the Financial Statements** – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The Notes to the Financial Statements can be found starting on page 15 of this report.

The District adopts an annual budget for each fund. Budgetary Comparison statements have been provided to demonstrate compliance with these budgets.

The Governmental Fund Financial Statements can be found on pages 10 and 12.

## Government-wide Financial Analysis

The following table shows the District's condensed financial information derived from the government-wide financial statements for the years ended December 31, 2016 and 2015.

	<u>2016</u>	<u>2015</u>
<b>Assets and Deferred Outflows of Resources</b>		
Current Assets	\$ 2,632,029	\$ 2,950,358
Deferred Swap	-	2,272,032
<b>Total Assets and Deferred Outflows of Resources</b>	<u>2,632,029</u>	<u>5,222,390</u>
<b>Liabilities and Deferred Inflows of Resources</b>		
Current Liabilities	153,425	1,814,140
Long-Term Liabilities	10,690,000	18,722,032
Property Taxes	673,111	676,497
<b>Total Liabilities and Deferred Inflows of Resources</b>	<u>11,516,536</u>	<u>21,212,669</u>
<b>Net Position</b>		
Restricted for Debt Service	777,459	236,693
Restricted for Emergencies	26,100	28,900
Unrestricted	(9,688,066)	(16,255,872)
<b>Total Net Position</b>	<u>\$ (8,884,507)</u>	<u>\$ (15,990,279)</u>
<b>Program Revenues</b>		
Operating Contributions	\$ 153,300	\$ 95,096
<b>General Revenues</b>		
Property & Ownership Taxes	713,015	1,288,086
Intergovernmental	-	887,104
Debt Forgiveness	8,355,521	-
Interest Earnings	6,484	3,360
<b>Total Revenues</b>	<u>9,228,320</u>	<u>2,273,646</u>
<b>Expenses</b>		
General Government	119,461	961,873
Interest Expense	2,003,087	926,126
<b>Total Expenses</b>	<u>2,122,548</u>	<u>1,887,999</u>
<b>Change in Net Position</b>	7,105,772	385,647
<b>Net Position-Beginning</b>	<u>(15,990,279)</u>	<u>(16,375,926)</u>
<b>Net Position - Ending</b>	<u>\$ (8,884,507)</u>	<u>\$ (15,990,279)</u>

The District's net position increased by \$7,105,772 in 2016. The increase in net position was primarily due to the decrease in the District's total debt. The District's negative net position is due to Reserve Metropolitan District 1 holding title to the assets that District No. 2's debt funded in prior years.

## **Financial Analysis of the District's Funds**

The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental Funds** – The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources that such information is useful in assessing the District's financing requirements.

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$1,936,567 an increase of \$1,025,251 from the prior year ending fund balances. Of the District's ending fund balance, \$26,100 is restricted, meaning it is not available for new spending because it has already been committed for emergencies under Taxpayers' Bill Of Rights (TABOR). Also, \$777,459 is restricted and assigned for debt service payments. The remainder of the fund balance that has not been committed or assigned for a specific purpose is available for spending at the District's discretion.

**Capital Assets** – Reserve Metropolitan District No. 1 claims title to and responsibility to operate all capital assets inside the District, therefore, consistent with historical reports, no capital assets are reported by the District.

**Long-term debts** - The District's long term debts decreased by \$8,322,032 of which was primarily due to the debt forgiven as part of the settlement agreement with the developer. The District issued general obligation bonds in the amount of \$10,775,000 to extinguish a portion the 2008 loan, and provide funds to refund taxes and pay operating expenditures. The total balance of bonded debt outstanding at December 31, 2016 is \$10,775,000.

More details and information related to the District's long-term debts can be found in the Notes to the Financial Statements in Note C of this report.

## **Economic Outlook, Litigation and Management Issues**

The primary issue the district is dealing with is determining the future cost of maintaining the infrastructure it is responsible for including the roads. The District has completed a study that projects the future cost of the roads.

### **Request for Information**

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to John Flanigan, P.O. Box 3384 Crested Butte, CO 81224 or you may call (970) 349-2044.

## BASIC FINANCIAL STATEMENTS

## Reserve Metropolitan District No. 2

### STATEMENT OF NET POSITION

December 31, 2016

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Cash and investments	
Unrestricted	\$ 267,819
Restricted	792,123
Receivables	
Property taxes receivable	673,111
Due from RMD No. 1	890,330
Other Receivables	3,852
Prepays	4,794
Total Assets	<u>2,632,029</u>
<b>LIABILITIES</b>	
Accrued interest	46,074
Accounts payable	22,351
Bonds payable - due within one year	85,000
Long-term liabilities	
Bonds payable - due in more than one year	10,690,000
Total Liabilities	<u>10,843,425</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Unavailable property taxes	<u>673,111</u>
<b>NET POSITION</b>	
Restricted for debt service	777,459
Restricted for emergencies	26,100
Unrestricted	(9,688,066)
Total Net Position	<u>\$ (8,884,507)</u>

The accompanying notes are an integral part of this statement.

**Reserve Metropolitan District No. 2**

STATEMENT OF ACTIVITIES

Year ended December 31, 2016

Function/Programs	Expenses	Program Revenue Operating Contributions	Net (Expense) & Change in Net Position Governmental Activities
Governmental Activities			
General Government	\$ 119,461	\$ 153,300	\$ 33,839
Interest, fiscal charges and refunds	<u>2,003,087</u>	<u>-</u>	<u>(2,003,087)</u>
Total Governmental Activities	<u>\$ 2,122,548</u>	<u>\$ 153,300</u>	<u>(1,969,248)</u>
General revenues			
Property taxes			671,640
Other taxes			41,375
Debt forgiveness			8,355,521
Interest earnings			<u>6,484</u>
Total general revenues			<u>9,075,020</u>
Change in net position			7,105,772
Net position - beginning			<u>(15,990,279)</u>
Net position - ending			<u>\$ (8,884,507)</u>

The accompanying notes are an integral part of this statement.

**Reserve Metropolitan District No. 2**

BALANCE SHEET - GOVERNMENTAL FUNDS

December 31, 2016

	<u>General</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>			
Cash			
Unrestricted	\$ 267,819	\$ -	\$ 267,819
Restricted	-	792,123	792,123
Receivables			
Property Taxes Receivable	108,855	564,256	673,111
Due from RMD No. 1	890,330	-	890,330
Other Receivable	944	2,908	3,852
Due (To) Due From Other Funds	12,772	(12,772)	-
Prepaid Insurance	4,794	-	4,794
Total Assets	<u>\$ 1,285,514</u>	<u>\$ 1,346,515</u>	<u>\$ 2,632,029</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accounts Payable	<u>\$ 17,551</u>	<u>\$ 4,800</u>	<u>\$ 22,351</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable Property Tax	<u>108,855</u>	<u>564,256</u>	<u>673,111</u>
<b>FUND BALANCES</b>			
Restricted for Emergencies	26,100	-	26,100
Restricted for Debt Service	-	777,459	777,459
Unassigned	<u>1,133,008</u>	<u>-</u>	<u>1,133,008</u>
Total Fund Balances	<u>1,159,108</u>	<u>777,459</u>	<u>1,936,567</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 1,285,514</u>	<u>\$ 1,346,515</u>	<u>\$ 2,632,029</u>

The accompanying notes are an integral part of this statement.

**Reserve Metropolitan District No. 2**

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET POSITION

December 31, 2016

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Amounts reported for governmental activities in the Statement of Net Position are different because:

Total fund balance - governmental funds	\$ 1,936,567
Long-term liabilities such as bonds are not due and payable in the current period and, therefore, are not reported in the funds.	(10,775,000)
Accrued interest is not due and payable in the current period and, therefore, is not reported in the funds.	<u>(46,074)</u>
Net Position of Governmental Activities	<u>\$ (8,884,507)</u>

The accompanying notes are an integral part of this statement.

**Reserve Metropolitan District No. 2**

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES - GOVERNMENTAL FUNDS

Year ended December 31, 2016

	General	Debt Service	Total Governmental Funds
Revenues			
Taxes	\$ 2,833	\$ 710,182	\$ 713,015
Interest	994	5,490	6,484
Real Estate Tax Revenue	-	153,300	153,300
Bond Proceeds	-	10,775,000	10,775,000
Total revenues	<u>3,827</u>	<u>11,643,972</u>	<u>11,647,799</u>
Expenditures			
General Government	99,179	20,282	119,461
Debt service:			
Principal	-	8,500,000	8,500,000
Interest Expense	-	624,449	624,449
Cost of Issuance	-	467,649	467,649
Tax refund	-	910,989	910,989
Total Expenditures	<u>99,179</u>	<u>10,523,369</u>	<u>10,622,548</u>
Excess of Revenues Over (Under) Expenditures	<u>(95,352)</u>	<u>1,120,603</u>	<u>1,025,251</u>
Other Financing Sources (Uses)			
Transfers In (Out)	<u>579,837</u>	<u>(579,837)</u>	<u>-</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	484,485	540,766	1,025,251
Fund Balance - Beginning of Year	<u>674,623</u>	<u>236,693</u>	<u>911,316</u>
Fund Balance - End of Year	<u>\$ 1,159,108</u>	<u>\$ 777,459</u>	<u>\$ 1,936,567</u>

The accompanying notes are an integral part of this statement.

**Reserve Metropolitan District No. 2**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year ended December 31, 2016

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

Net Change in Fund Balances - Governmental Funds	\$ 1,025,251
Governmental funds report the repayment of principal on long-term debt as expenditures. However, these repayments are not reported as expenses in the statement of activities, but rather a reduction of debt in the statement of net position. This amount is the effect of the difference in the treatment of these repayments.	8,500,000
Governmental funds do not report other changes in long term debt. Debt forgiveness from settlement agreement (Note C).	8,355,521
Governmental funds report cash received from debt issuance as debt proceed revenue. However, these amounts are not reported as revenue in the statement of activities, but rather an increase in debt on the statement of net position. Bond proceeds:	<u>(10,775,000)</u>
Change in Net Position of Governmental Activities	<u>\$ 7,105,772</u>

The accompanying notes are an integral part of this statement.

**Reserve Metropolitan District No. 2**

STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND  
BALANCE - BUDGET AND ACTUAL - GENERAL FUND

Year ended December 31, 2016

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
<b>Revenues</b>				
Specific Ownership Tax	\$ -	\$ 2,833	\$ 2,833	\$ -
Interest	-	204	994	790
RETA	-	70,000	-	(70,000)
<b>Total revenues</b>	<u>-</u>	<u>73,037</u>	<u>3,827</u>	<u>(69,210)</u>
<b>Expenditures</b>				
Accounting	5,000	5,000	5,949	(949)
Administration Services	2,500	5,801	5,930	(129)
Audit	3,000	3,000	3,000	-
Dues	740	653	-	653
Insurance	4,900	7,225	7,225	-
Legal	54,000	20,000	18,819	1,181
Legal - Litigation	-	19,862	19,862	-
Board Member Compensation	11,200	8,000	-	8,000
Operations Snow Plowing	37,725	37,725	21,591	16,134
Operations Road Repair	-	16,360	16,360	-
Utilities	-	-	279	(279)
Contingency	109,520	-	-	-
Bank Fees	-	183	164	19
<b>Total expenditures</b>	<u>228,585</u>	<u>123,809</u>	<u>99,179</u>	<u>24,630</u>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>(228,585)</b>	<b>(50,772)</b>	<b>(95,352)</b>	<b>(44,580)</b>
<b>Other Sources (Uses) of Funds</b>				
Transfer in from DS Fund	-	579,837	579,837	-
Fund Balance - Beginning of Year	373,635	674,623	674,623	-
Less non current portion of receivable	<u>-</u>	<u>(857,036)</u>	<u>-</u>	<u>-</u>
Fund Balance - End of Year	<u>\$ 145,050</u>	<u>\$ 346,652</u>	<u>\$ 1,159,108</u>	<u>\$ (44,580)</u>

The accompanying notes are an integral part of this statement.

**Reserve Metropolitan District No. 2**  
**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2016**

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**NOTE A — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

1. Organization

The Reserve Metropolitan District No. 2 (the "District") was organized on August 21, 2001, as a quasi-municipal corporation and political subdivision of the State of Colorado. The District was originally formed to finance systems for water, sanitation, streets, traffic safety, transportation, cable television, parks and recreation, fire protection, and mosquito control facilities in an area of approximately 660 acres of land in the town of Mt. Crested Butte located in Gunnison County, Colorado on and/or adjacent to Crested Butte ski area. In November 2010, Reserve Metropolitan Districts No.'s 3 through 8 were formed to segregate the financing responsibilities of the District among multiple districts.

The financial statements of the District have been prepared in conformity with generally accepted accounting principles ("GAAP") as applied to governmental units. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

2. Reporting Entity

The reporting entity consists of (a) the primary government; i.e., the District, and (b) organizations for which the District is financially accountable. The District is considered financially accountable for legally separate organizations if it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the District. Consideration is also given to other organizations which are fiscally dependent; i.e., unable to adopt a budget, levy taxes, or issue debt without approval by the District. Organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete are also included in the reporting entity.

Based on the criteria above, the District is not financially accountable for any other entity, nor is the District a component unit of any other government.

3. Government-wide and Fund Financial Statements

The District's basic financial statements include both government-wide (reporting the District as a whole) and fund financial statements (reporting the District's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type. Currently, the District has only governmental activities.

**Reserve Metropolitan District No. 2**  
**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2016**

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**NOTE A — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — CONTINUED**

Government-wide Financial Statements

In the government-wide Statement of Net Position, the governmental activities columns are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net position is reported in two parts: net position restricted for debt service and unrestricted.

The government-wide focus is on the sustainability of the District as an entity and the change in the District's net position resulting from the current year's activities.

Fund Financial Statements

The financial transactions of the District are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, deferred inflows, fund balances, revenues and expenditures.

The fund focus is on current available resources and budget compliance. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted assets first.

4. Fund Accounting

The District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. At this time the District only uses governmental funds.

Governmental Funds

Governmental funds are those through which most governmental functions typically are financed. Governmental funds reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference among governmental fund assets, liabilities, and deferred inflows is reported as fund balance.

The District reports the following major governmental funds:

General Fund — The General Fund is used to account for all financial resources of the District except those required to be accounted for in another fund. The general fund balance is available to the District for any purpose provided it is expended or transferred according to the general laws of Colorado.

**Reserve Metropolitan District No. 2**  
**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2016**

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**NOTE A — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — CONTINUED**

Debt Service Fund — The Debt Service Fund accounts for the servicing of long-term debt including bonds, developer notes, and long-term contractual obligations approved by the District's electorate and revenues generated by property taxes that are required to be used in payment of long-term debt and contractual obligations.

5. Measurement Focus and Basis of Accounting

Measurement focus refers to whether financial statements measure changes in current resources only (current financial focus) or changes in both current and long-term resources (long-term economic focus). Basis of accounting refers to the point at which revenues, expenditures, or expenses are recognized in the accounts and reported in the financial statements.

Long-Term Economic Focus and Accrual Basis

Governmental activities in the government-wide financial statements use the long-term economic focus and are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of the related cash flows.

Current Financial Focus and Modified Accrual Basis

The governmental fund financial statements use the current financial focus and are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are generally recognized when the related liability is incurred. The exception to this general rule is that principal and interest on general long-term debt, if any, is recognized when due.

6. Intergovernmental Revenues

For governmental funds, intergovernmental revenues, such as contributions awarded on a non-reimbursement basis, are recorded as receivables and revenues when measurable and available.

7. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows, liabilities, deferred inflows, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

**Reserve Metropolitan District No. 2**  
**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2016**

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**NOTE A — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — CONTINUED**

8. Interfund Transactions

Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers.

9. Stewardship, Compliance, and Accountability Budgets and Budgetary Accounting

In the fall of each year, the District's Board of Directors formally adopts a budget with appropriations by fund for the ensuing year pursuant to the Colorado Local Budget Law. The budgets for the governmental funds are adopted on a basis consistent with generally accepted accounting principles ("GAAP").

As required by the Colorado statutes, the District followed the following timetable in approving and enacting a budget for the ensuing year:

- (1) For the 2016 budget year, prior to August 2015, the County Assessor sent the District the assessed valuation of all taxable property within the District's boundaries.
- (2) On or before October 15, 2015, the District's accountant submitted to the District's Board of Directors a recommended budget which detailed the necessary property taxes needed along with other available revenues to meet the District's operating requirements.
- (3) The Board held a public hearing on the proposed budget and capital program.
- (4) For the 2016 budget, prior to December 15, 2015, the District computed and certified to the County Commissioners a rate of levy that derived the necessary property taxes as computed in the proposed budget.
- (5) For the 2016 budget, the budget and appropriating resolution was adopted prior to December 31, 2015.
- (6) After adoption of the budget resolution, the District may make the following changes: a) it may transfer appropriated monies between funds or between spending agencies within a fund, as determined by the original appropriation level; b) supplemental appropriations to the extent of revenues in excess of those estimated in the budget; c) emergency appropriations; and d) reduction of appropriations for which originally estimated revenues are insufficient.

The level of control in the budget at which expenditures exceed appropriations is at the fund level. All appropriations lapse at year-end.

**Reserve Metropolitan District No. 2**  
**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2016**

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**NOTE A — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — CONTINUED**

10. Property Taxes

Property taxes for 2016, collectible in 2017, were certified by the County Commissioners before December 31, 2016. Property taxes attached as an enforceable lien on January 1, 2017 and are due in total April 30, 2017 or in equal installments February 28, 2017 and June 15, 2017, at the option of the taxpayer. Property taxes for 2016, collectible in 2017, are shown as property taxes receivable and deferred inflows of resources on the statement of net position in the amount of the assessed taxes. The County Treasurer remits taxes collected monthly to the District.

11. Restricted Assets

*Debt Service Fund.* Restricted assets of \$777,459 are recorded in the Debt Service Fund. The use of the bond proceeds are restricted by the bondholders. These assets are held in a separate interest-bearing account in COLOTRUST.

12. Fund Equity

Beginning with fiscal year 2010, the District implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. In the fund financial statements the following classifications describe the relative strength of the spending constraints.

- *Non-spendable fund balance* - The portion of fund balance that cannot be spent because it is either not in spendable form (such as prepaid expense) or is legally or contractually required to be maintained intact.
- *Restricted fund balance* - The portion of fund balance constrained to being used for a specific purpose by external parties (such as grantors or bondholders), constitutional provisions or enabling legislation.
- *Committed fund balance* - The portion of fund balance constrained for specific purposes according to limitations imposed by the District's highest level of decision making authority, the Board, prior to the end of the current fiscal year. The constraint may be removed or changed only through formal action of the Board.
- *Assigned fund balance* - The portion of fund balance set aside for planned or intended purposes. The intended use may be expressed by the Board or other individuals authorized to assign funds to be used for a specific purpose.
- *Unassigned fund balance* - The residual portion of fund balance that does not meet any of the above criteria. The District will only report a positive unassigned fund balance in the General Fund.

Unrestricted fund balance will be used in the following order: committed, assigned, and unassigned.

**Reserve Metropolitan District No. 2**  
**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2016**

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**NOTE B — CASH AND INVESTMENTS**

The District maintains a cash pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the statement of net assets as "Cash and investments."

**Cash Deposits**

Statutes require that any public depository which accepts and holds public funds maintain, as security for public deposits accepted and held by it, not insured by federal depository insurance, eligible collateral having a market value, at all times, equal to at least 102 percent of the amount of public deposits. Banking institutions are monitored by the State of Colorado Banking Commission and must report monthly on all public deposits held. Pledged collateral must be held in joint custody of the bank and of the Public Deposit Protection Act in a safekeeping account held by a third party, usually the Federal Reserve Bank. The pledged collateral cannot be released unless approval is obtained by the banking commission. Savings and Loan institutions are monitored by the State of Colorado Commissioner of Savings and Loan Associations and must report quarterly on all public deposits held. Pledged collateral, usually in the form of mortgages, must be held by a third party institution for the benefit of the commissioner.

As of December 31, 2016, the District had \$267,820 in deposits, \$250,000 of which was FDIC insured and the remaining \$17,820 of which was collateralized as described above.

**Investments**

Colorado state statutes authorize the District to invest in U.S. Treasury bills, obligations of any other U.S. agency, obligations of the World Bank, general obligation bonds of any state or any of their subdivisions, revenue bonds of any state or any of their subdivisions, bankers acceptance notes, commercial paper, repurchase agreements, money market funds and guaranteed investment contracts. All investments must be held by the District, in their name, or in custody of a third party on behalf of the local government. At December 31, 2016, the District had no investments.

The District has invested \$792,123 in the Colorado Local Governmental Liquid Asset Trust, (COLOTRUST), an investment vehicle established for local government entities in Colorado to pool surplus funds. COLOTRUST operates similarly to a money market fund and each share is equal in value to \$1.00. A designated custodial bank provides safekeeping and depository services to COLOTRUST in connection with the direct investment and withdrawal functions of COLOTRUST. Substantially all securities owned by COLOTRUST are held by the Federal Reserve Bank in the account maintained for the custodial bank. The custodian's internal records identify the investments owned by COLOTRUST. COLOTRUST funds carry a Standard & Poor's AAA rating. There is no custodial, interest rate or foreign currency risk exposure.

A reconciliation of the carrying value of deposits and investments reported above to the Statement of Net Position is as follows:

Cash in banks	\$ 267,819
COLOTRUST	<u>792,123</u>
Cash and investments	<u>\$ 1,059,942</u>

**Reserve Metropolitan District No. 2**  
**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2016**

**NOTE B — CASH AND INVESTMENTS — CONTINUED**

Unrestricted	\$ 267,819
Restricted	<u>792,123</u>
Total Cash and investments	<u>\$ 1,059,942</u>

**NOTE C — LONG-TERM DEBT**

	<b>Balance January 1, 2016</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance January 1, 2016</b>	<b>Due within One Year</b>
Series 2008 Loan	\$ 16,825,000	\$ -	\$ 16,825,000	\$ -	\$ -
Swap Mark to Market	2,272,032		2,272,032	-	-
Series 2016 A	-	8,895,000	-	8,895,000	75,000
Series 2016 B	-	1,325,000	-	1,325,000	-
Series 2016 C	-	555,000	-	555,000	10,000
	<u>\$ 19,097,032</u>	<u>\$ 10,775,000</u>	<u>\$ 19,097,032</u>	<u>\$ 10,775,000</u>	<u>\$ 85,000</u>

**General Obligation Bonds/Loans**

**\$18,400,000 Loan, Series 2008**, dated May 22, 2008 with interest due semiannually on June 1 and December 1, commencing December 1, 2008. Principal payments are due the 1<sup>st</sup> day of December of each year, commencing December 1, 2010 and mature with a lump sum of \$13,675,000 coming due on June 1, 2023. The Loan bears interest at a variable rate, which resets weekly, equal to the sum of 65% of the London Interbank Offered Rate (LIBOR) plus the Applicable Margin of 210 basis points. The interest rate on the bonds cannot exceed 18% per annum.

The Loan was issued to pay off the 2005 Limited Tax General Obligation Bonds, to pay amounts claimed by the Developer for costs incurred during construction, to provide funding claimed for additional infrastructure, and to pay the costs of issuance of the Loan.

On November 6, 2015, the District and the Developer entered into a settlement agreement to settle the Developer Litigation. Pursuant to that agreement, the Developer agreed to negotiate with the Lender and Swap Provider to decrease the amount owed by the District under the 2008 Loan to \$8,500,000. In 2016 the District used the 2016 A bond proceeds along with funds on hand to pay the discounted payment of \$8,500,000 to fully satisfy all amounts owing under the 2008 loan agreement and related promissory note.

**Reserve Metropolitan District No. 2**  
**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2016**

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**NOTE C — LONG-TERM DEBT - CONTINUED**

**2016 Series A Bonds**

On August 9, 2016, the District issued \$8,895,000 in General Obligation Bonds Series A. The proceeds from the bond issuance were used to pay the 2008 discounted loan payment and to pay costs of issuing the bonds. The interest rate on the bonds is 5%. Interest on the bonds is payable semiannual on June 1 and December 1, commencing on December 1, 2016 and ending on December 1, 2045. The bonds constitute a general obligation of the district of which all of the taxable property in the district is subject to an ad valorem tax to pay principal and interest on the bonds. The bonds maturing on or after December 1, 2026 are subject to redemption prior to maturity at par. The balance in the A bonds reserve fund at December 31, 2016 is \$342,778.

The District's Series 2016 A bonds will mature as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 75,000	\$ 444,750	\$ 519,750
2018	90,000	441,000	531,000
2019	95,000	436,500	531,500
2020	110,000	431,750	541,750
2021-2025	700,000	2,067,500	2,767,500
2026-2030	1,050,000	1,859,500	2,909,500
2031-2035	1,500,000	1,554,000	3,054,000
2036-2040	2,095,000	1,122,250	3,217,250
2041-2045	3,180,000	528,000	3,708,000
	<u>\$ 8,895,000</u>	<u>\$ 8,885,250</u>	<u>\$ 17,780,250</u>

**Reserve Metropolitan District No. 2**  
**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2016**

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**NOTE C — LONG-TERM DEBT - CONTINUED**

**2016 Series B Bonds**

On August 9, 2016, the District issued \$1,325,000 in General Obligation Bonds Series B. The proceeds from the bond issuance were used to pay abatements, operating costs and to pay costs of issuing the bonds. The interest rate on the bonds is 5.125%. Interest on the bonds is payable semiannual on June 1 and December 1, commencing on December 1, 2016 and ending on December 1, 2045. The bonds constitute a general obligation of the district of which all of the taxable property in the district is subject to an ad valorem tax to pay principal and interest on the bonds. The bonds maturing on or after December 1, 2026 are subject to redemption prior to maturity at par. The balance in the B bonds reserve fund at December 31, 2016 is \$72,399.

The District's Series 2016 B bonds will mature as follows:

Year	Principal	Interest	Total
2017	-	\$ 67,906	\$ 67,906
2018	-	67,906	67,906
2019	-	67,906	67,906
2020	-	67,906	67,906
2021-2025	-	339,531	339,531
2026-2030	-	339,532	339,532
2031-2035	205,000	329,538	534,538
2036-2040	440,000	244,975	684,975
2041-2045	680,000	116,338	796,338
	\$ 1,325,000	\$ 1,641,538	\$ 2,966,538

**2016 Series C Bonds**

On August 9, 2016, the District issued \$555,000 in taxable General Obligation Bonds Series C. The proceeds from the bond issuance were used to pay operating costs and to pay costs of issuing the bonds. The interest rate on the bonds is 7.125%. Interest on the bonds is payable semiannual on June 1 and December 1, commencing on December 1, 2016 and ending on December 1, 2032. The bonds constitute a general obligation of the district of which all of the taxable property in the district is subject to an ad valorem tax to pay principal and interest on the bonds. The bonds maturing on or after December 1, 2026 are subject to redemption prior to maturity at par. The balance in the B bonds reserve fund at December 31, 2016 is \$55,626.

**Reserve Metropolitan District No. 2**  
**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2016**

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The District's Series 2016 C bonds will mature as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	10,000	\$ 40,238	\$ 50,238
2018	15,000	39,512	54,512
2019	15,000	38,425	53,425
2020	20,000	37,338	57,338
2021-2025	130,000	162,400	292,400
2026-2030	205,000	104,400	309,400
2031-2032	160,000	19,575	179,575
	<u>\$ 555,000</u>	<u>\$ 441,888</u>	<u>\$ 996,888</u>

**Interest Rate Swap**

The outstanding interest rate swap was canceled as part of the settlement Agreement.

**Real Estate Transfer Assessment Agreement**

On April 5, 2016 pursuant to a Second Amended Real Estate Transfer Assessment Agreement: Pursuant to covenants recorded against certain property in the District, the Association has the power to levy and collect a 2% real estate transfer assessment ("RETA") on the sale of property within such area. In the RETA Agreement, as amended, the Association agrees to pay RETA revenue from sales of properties within the District to District No. 1 ("RETA Payments"), which in turn agrees to pay the RETA Payments to District until the monetary obligation of District No. 1, described in the following paragraph, is satisfied.

As part of the 2015 settlement agreement District No. 1 agreed to pay the District \$130,000 for a loader and snow plow attachment, and \$950,000 as a settlement payment, for a total of \$1,080,000. The Settlement Agreement provides that 100% of RETA Payments from sales of property within the Current District, less costs of collection, will be paid to the District until the \$1,080,000 obligation is paid. As of December 31, 2016 \$890,330 is still due to the District 2.

**Reserve Metropolitan District No. 2**  
**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2016**

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**NOTE D — INTERGOVERNMENTAL AGREEMENTS**

The District entered into intergovernmental agreements with the Crested Butte Fire Protection District and the Mt. Crested Butte Water and Sanitation district.

On April 5, 2016, the District and District No. 1 entered into an agreement pursuant to which the District agrees to maintain improvements which consist primarily of streets, but also include gutters, culverts, storm sewers, detention facilities, lighting, ski bridges and tunnels. District No. 1 remains obligated to operate and maintain ski-ways.

**NOTE E — RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts, theft of, damage to or destruction of assets; injuries to employees, or acts of God. The District has elected to participate in the Colorado Special District Property and Liability Pool (the Pool) which is sponsored by the Special District Association of Colorado. The Pool provides property and general liability, automobile physical damage and liability, public official's liability and machinery coverage to its members. Members of the Pool are required to make additional surplus contributions. 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. During the year ended December 31, 2016, the Pool made no distributions to the District.

**Reserve Metropolitan District No. 2**  
**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2016**

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**NOTE F — TABOR AMENDMENT**

In November 1992, Colorado voters amended Article X of the Colorado Constitution by adding Section 20, commonly known as the Taxpayer's Bill of Rights ("TABOR"). TABOR contains revenue, spending, tax and debt limitations which apply to the State of Colorado and local governments. TABOR requires, with certain exceptions, advance voter approval for any new tax, tax rate increase, mill levy above that of the prior year, extension of any expiring tax, or tax policy change directly causing a new tax revenue gain to any local government. Except for refinancing bonded debt at a lower interest rate or adding new employees to existing pension plans, TABOR requires advance voter approval for the creation of any multiple fiscal year or other financial obligation unless adequate present cash reserves are pledged irrevocable and held for payments in future years.

TABOR also requires local governments to establish emergency reserves to be used for declared emergencies only. Emergencies, as defined by TABOR, exclude economic conditions, revenue shortfalls, or salary or fringe benefit increases. These reserves are required to be 3% or more of the fiscal year spending (excluding bonded debt service) for fiscal years ended after December 31, 1994. At December 31, 2016, the emergency reserve was \$26,100.

Under TABOR, the initial base for local government spending and revenue limits is December 31, 1992 fiscal year spending. The District's first year of operations ended December 31, 2003. Future spending and revenue limits are determined based on the prior year's fiscal year spending adjusted for inflation in the prior calendar year plus annual local growth. Fiscal year spending is generally defined as expenditures and reserve increases with certain exceptions. Revenue, if any, in excess of the fiscal year spending limit must be refunded in the next fiscal year unless voters approve retention of such revenue.

The electorate of the District authorized property taxes to be increased up to \$1,500,000 in 2001 and each year thereafter to pay the District's operations, maintenance, and other expenses, such amounts to increase annually in an amount not to exceed the applicable limitations of Article X, Section 20 of the Colorado Constitution and Colorado Law.

The electorate of the District also approved that for purposes other than enterprises, the District be permitted to maintain fiscal year spending and annual District revenues from sources not excluded from fiscal year spending in an amount not to exceed \$1,700,000 in 2001 and each year thereafter, such amount to increase annually in each year after 2001 in an amount not to exceed the applicable limitations of Article X, Section 20 of the Colorado Constitution and Colorado law.

The District's electorate further approved that the District's taxes be increased \$2,000,000 annually, or by such lesser annual amount as may be necessary to pay the District's general costs, bonds or other evidences of indebtedness. Such taxes may consist of an ad valorem property tax mill levy imposed without limitation of rate and in amounts sufficient to produce the annual increase set forth above or such lesser amount as may be necessary. The revenue from such taxes and any other monies used to pay such general costs, bonds or other evidences of indebtedness, and investment income thereon, may be collected and spent by the District without regard to any expenditure, revenue raising, or other limitation contained within Article X, Section 20 of the Colorado Constitution.

**Reserve Metropolitan District No. 2**  
**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2016**

**NOTE F — TABOR AMENDMENT — CONTINUED**

The District's management believes it is in compliance with the financial provisions of TABOR. However, TABOR is complex and subject to interpretation. Many of its provisions, including the interpretation of how to calculate fiscal year spending limits, will require judicial interpretation.

On November 7, 2000 the voters of the District authorized increases in debt as follows:

Authorized Debt	Maximum Annual Tax Increase	Purpose
\$ 24,996,750	\$ 29,496,165	Street Improvements
1,000,000	1,180,000	Traffic and Safety Control
9,658,500	11,397,030	Potable & Non-Potable Water Systems
4,862,250	5,737,455	Sanitary Sewer Systems
29,000,000	34,220,000	Parks and Recreation Facilities
45,000,000	53,100,000	Public Transportation Facilities and Systems
4,000,000	4,720,000	Fire Protection, Emergency Medical and Ambulance Facilities and Services
2,250,000	2,655,000	Television Relay and Translation Systems
100,000	118,000	Mosquito Control
55,080,911	64,995,474	Operation and Maintenance of the District's Properties, Facilities, Equipment and Personnel
120,867,500	142,623,650	Bond Refunding or Debt Defeasing
175,948,411	207,619,125	Contractual obligation to pay the costs of acquiring, operating and maintaining all District Facilities
<u>\$ 472,764,322</u>	<u>\$ 557,861,899</u>	

As of December 31, 2016, the District had used \$18,400,000 of its authorized debt, leaving \$454,364,322 of authorized but unissued debt.

**Reserve Metropolitan District No. 2**  
**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2016**

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**NOTE G — COMMITMENTS AND CONTINGENCIES**

During the normal course of business, the District may incur claims and other assertions against it from various agencies and individuals. Management of the District and their legal representatives have disclosed material outstanding claims against the District at December 31, 2016. The outcome of these claims and counter-claims is uncertain.

On May 8, 2016, the District and the County entered into an agreement (the “Tax Refund Agreement”) pursuant to which the District agreed to refund certain property taxes to its taxpayers related to the operations mill levy the District imposed in levy years 2012, 2013 and 2014. The proceeds of 2016 Series B bonds were used to fund the tax refund agreement. At December 31, 2016 \$142,578 of the restricted assets was available to fund this obligation.

**NOTE H — SUBSEQUENT EVENTS**

The District has evaluated subsequent events through the date on which the financial statements were available to be issued. There were no subsequent events requiring disclosure.

## SUPPLEMENTARY INFORMATION

**Reserve Metropolitan District No. 2**

SCHEDULE OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL - DEBT SERVICE FUND

Year ended December 31, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
<b>Revenues</b>				
Property Taxes	\$ 676,497	\$ 676,497	\$ 671,640	\$ (4,857)
Specific Ownership Taxes	21,000	39,000	38,542	(458)
Interest Income	1,000	5,000	5,490	490
Real Estate Tax Revenue	-	153,300	153,300	-
Bond Proceeds	-	10,775,000	10,775,000	-
<b>Total revenues</b>	<u>698,497</u>	<u>11,648,797</u>	<u>11,643,972</u>	<u>(4,825)</u>
<b>Expenditures</b>				
Principal - Series 2008 Loan	-	8,500,000	8,500,000	-
Interest - Series 2008 Loan	891,484	452,438	452,438	-
Interest - Series 2016A	-	138,367	138,367	-
Interest - Series 2016B	-	21,126	21,126	-
Interest - Series 2016C	-	12,518	12,518	-
Paying Agent Fees	5,000	5,000	-	5,000
SO Tax Fee to Town of Mt. CB	2,400	2,400	-	2,400
Bank Fees	25	40	44	(4)
Treasurer's Fees	20,925	20,925	20,238	687
Cost of Issuance	-	471,245	467,649	3,596
Tax refund	-	1,052,912	910,989	141,923
<b>Total expenditures</b>	<u>919,834</u>	<u>10,676,971</u>	<u>10,523,369</u>	<u>153,602</u>
<b>Excess of Revenues Over (Under) Expenditures</b>	(221,337)	971,826	1,120,603	148,777
<b>Other Sources (Uses) Funds:</b>				
Transfer out to the General Fund	-	(579,837)	(579,837)	-
Fund Balance - Beginning of Year	<u>236,693</u>	<u>236,693</u>	<u>236,693</u>	<u>-</u>
Fund Balance - End of Year	<u>\$ 15,356</u>	<u>\$ 628,682</u>	<u>\$ 777,459</u>	<u>\$ 148,777</u>

See the Independent Auditor's Report.

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