

RED LEAF METROPOLITAN DISTRICT NO. 2

Financial Statements

Year Ended December 31, 2016

with

Independent Auditors' Report



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Crady, Puca & Associates

Certified Public Accountants & Consultants

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Red Leaf Metropolitan District No. 2
City and County of Broomfield, Colorado

We have audited the accompanying financial statements of the governmental activities and each major fund of Red Leaf Metropolitan District No. 2 (the "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 relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages III – VII 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Red Leaf Metropolitan District No. 2's basic financial statements. The Summary of Assessed Valuation, Mill Levy and Property Taxes Collected on page 16 and the Assessed and Actual Valuation of Classes of Property in the District on page 17 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information 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.

Crady, Puca & Associates

Centennial, Colorado
April 28, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

The discussion and analysis is designed to provide an analysis of the District's financial condition and operating results and to inform the reader of the District's financial issues and activities.

The Management's Discussion and Analysis (MD&A) should be read in conjunction with the District's financial statements.

Financial Highlights

- The net position (deficit) of the District increased by \$127,236 in 2016 to \$(3,652,276). A negative net position (deficit) is typical in a metropolitan district, which transfers its capital assets to the controlling government entity (city, town, etc.) after construction is complete but retains the related debt in the district until it is paid off.
- Actual revenue exceeded budgeted revenue by \$2,079 and budgeted expenditures exceeded actual expenditures by \$7,875.
- During 2016, the District issued General Obligation Limited Tax Refunding Bonds in the amount of \$4,600,000 to refund the outstanding 2007 Limited Tax General Obligation Bonds with the exception of \$195,000 which will be paid at its scheduled maturity date of December 1, 2017.
- There were no additions to capital assets in 2016; however, capital assets net of accumulated depreciation decreased by the depreciation expense incurred in 2016 of \$20,590.
- The District decreased its total mill levy from 31.30 in 2015 to 27.00 in 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 are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to 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 of the District's assets, liabilities, deferred inflows of resources and deferred outflows of resources, with the difference between the four 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 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.

Both of the government-wide financial statements identify functions of the District that are principally to be supported by ad valorem taxes (governmental activities). The governmental activities of the District include the financing of governmental infrastructure including streets, water, sanitation, fire and safety protection, park and recreation improvements and transportation services constructed or acquired by the District.

The government-wide financial statements can be found on pages 1-2 of this report.

Fund financial statements

A fund is a grouping of related accounts 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. All of the funds of the District are governmental funds.

Governmental funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows, outflows and balances of spendable resources. 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. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

All of the District's activities are reported in a single governmental fund, the general fund, which focuses on how money flows in and out of that fund and the balance left at year-end available for spending in future periods.

The District adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for this fund in the basic financial statements to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 1-3 of this report.

Notes to 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 financial statements can be found on pages 4-15 of this report.

Government-wide Financial Analysis

The assets of the District are classified as current assets or capital assets. Cash and investments, receivables, and prepaid expenses are current assets. These assets are available to provide resources for the near-term operations of the District. The majority of the current assets are property taxes receivable, and cash and investments.

Current and noncurrent liabilities are classified based on anticipated liquidation either in the near-term or in the future. Current liabilities include accounts payable and accrued interest. The liquidation of current liabilities is anticipated to be either from current available resources, current assets or new resources that become available during fiscal year 2017.

Deferred outflows of resources represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has one item that qualifies for reporting in this category. It is the deferred loss on refunding reported in the government-wide statement of net position. A deferred loss on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

Deferred inflows of resources represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has one type of item that qualifies for reporting in this category, deferred property taxes.

Current and other assets increased by \$30,731, mainly due to an increase in prepaid bond insurance that was incurred during the issuance of the Series 2016 Bonds. In 2016, the District decreased their mill levy from 31.300 to 27.000 due to an increase in the Assessed Valuation in the amount of \$2,278,819, the change in mill levy resulted in an increase in property taxes assessed of only \$139.

Capital assets net of accumulated depreciation decreased by the depreciation expense incurred in 2016 of \$20,590.

Current liabilities increased by \$53,166 mainly due to an increase in the current portion of the long-term debt, offset by a decrease in accrued interest.

Long-term liabilities increased by \$121,224 due to the 2016 refunding of the 2007 bonds.

As noted earlier, net position may serve over time as a useful indicator of a government's financial position.

Review of Net Position

	December 31,	
	<u>2016</u>	<u>2015</u>
Assets:		
Current and other assets	\$ 567,589	\$ 536,858
Capital assets	1,010,169	\$ 1,030,759
Total assets	<u>1,577,758</u>	<u>1,567,617</u>
Deferred outflow of resources:		
Deferred loss on refunding	258,463	-
Total deferred outflow of resources	<u>258,463</u>	<u>-</u>
Liabilities:		
Current liabilities	263,297	210,131
Long-term liabilities	4,811,224	4,690,000
Total liabilities	<u>5,074,521</u>	<u>4,900,131</u>
Deferred inflows of resources:		
Deferred property taxes	413,976	446,998
Total deferred inflows of resources	<u>413,976</u>	<u>446,998</u>
Net position(deficit):		
Net investment in capital assets	(3,792,592)	(3,844,241)
Restricted	92,264	51,478
Unrestricted net position	48,052	13,251
Total net position	<u>\$ (3,652,276)</u>	<u>\$ (3,779,512)</u>

The District's liabilities and deferred inflow of resources exceeded assets and deferred outflows of resources by \$3,652,276 at the close of the most recent fiscal year.

Review of Change in Net Position

	Year Ended December 31,	
	2016	2015
Revenues:		
General revenue:		
Property taxes	\$ 446,984	\$ 446,859
Specific ownership taxes	24,827	26,273
Interest income	1,668	499
Total revenue	473,479	473,631
Expenses:		
Governmental activities:		
General government	54,547	51,531
Interest and other fiscal charges	291,696	243,334
Total expenses	346,243	294,865
Total change in net position	127,236	178,766
Net position - beginning of year	(3,779,512)	(3,958,278)
Net position - end of year	\$ (3,652,276)	\$ (3,779,512)

Total net position increased \$127,236 partially due to steady property tax revenues offset by an increase in interest expense and other fiscal charges.

Financial Analysis of the Government's Funds

As noted earlier, 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 spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the District's one governmental fund, the General Fund, reported an ending fund balance of \$121,229.

Unassigned fund balance for the District at the end of the fiscal year was \$13,057.

General Fund Budgetary Highlights

The fund balance for the General Fund increased by \$36,953, resulting in an ending fund balance of \$121,229. Actual revenue exceeded budgeted revenue by \$2,079, principally due to an increase in specific ownership taxes received. Actual expenditures were \$7,875 less than budgeted expenditures, principally due to a decrease in legal, paying agent fees, and contingency expenditures.

Long-Term Debt

At the end of the current fiscal year, the District had total outstanding general obligation bond indebtedness of \$5,061,224. The District's Series 2016 Bonds are due in 2030 and pay interest at a rate of 3.0%, payable semiannually on June 1 and December 1.

Additional information on the District's long-term debt can be found in note 4 on pages 12-14 of this report.

Next Year's Budgets and Rates

The assessed valuation of the property in the District increased by \$3,550 in 2017, interest rates on short term deposits remain at historic lows, debt service (principal and interest) on the Series 2016 Bonds increases slightly each year, and assessed valuations are stable, but expected to continue growing due to a strong housing market. Because of these factors, the District was able to impose a lower mill levy for 2017, which is 25.000 mills.

Requests 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 District. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Red Leaf Metropolitan District No. 2
Diane Wheeler
304 Inverness Drive South, Suite 490
Englewood, CO 80112

RED LEAF METROPOLITAN DISTRICT NO. 2

BALANCE SHEET/STATEMENT OF NET POSITION
GOVERNMENTAL FUNDS
December 31, 2016

	<u>General</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
ASSETS				
Cash and investments	\$ 12,246	\$ 12,246	\$ -	\$ 12,246
Cash and investments - restricted	104,425	104,425	-	104,425
Receivable County Treasurer	1,947	1,947	-	1,947
Property taxes receivable	413,976	413,976	-	413,976
Prepaid expense	3,747	3,747	-	3,747
Prepaid bond insurance	-	-	31,248	31,248
Capital assets not being depreciated	-	-	795,659	795,659
Capital assets, net of depreciation	-	-	214,510	214,510
Total Assets	<u>536,341</u>	<u>536,341</u>	<u>1,041,417</u>	<u>1,577,758</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred loss on refunding	-	-	258,463	258,463
Total Deferred Outflows of Resources	-	-	258,463	258,463
Total Assets and Deferred Outflows of Resources	<u>\$ 536,341</u>	<u>\$ 536,341</u>		
LIABILITIES				
Accounts payable	\$ 1,136	\$ 1,136	-	1,136
Accrued interest on bonds	-	-	12,161	12,161
Long-term liabilities				
Due within one year	-	-	250,000	250,000
Due in more than one year	-	-	4,811,224	4,811,224
Total Liabilities	<u>1,136</u>	<u>1,136</u>	<u>5,073,385</u>	<u>5,074,521</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred property taxes	413,976	413,976	-	413,976
Total Deferred Inflows of Resources	<u>413,976</u>	<u>413,976</u>	<u>-</u>	<u>413,976</u>
FUND BALANCES/NET POSITION				
Fund Balances:				
Nonspendable:				
Prepays	3,747	3,747	(3,747)	-
Restricted				
Emergencies	1,112	1,112	(1,112)	-
Debt Service	103,313	103,313	(103,313)	-
Unassigned	13,057	13,057	(13,057)	-
Total Fund Balances	<u>121,229</u>	<u>121,229</u>	<u>(121,229)</u>	<u>-</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 536,341</u>	<u>\$ 536,341</u>		
Net Position:				
Net Investment in Capital Assets			(3,792,592)	(3,792,592)
Restricted for:				
Emergencies			1,112	1,112
Debt service			91,152	91,152
Unrestricted			48,052	48,052
Total Net Position			<u>\$ (3,652,276)</u>	<u>\$ (3,652,276)</u>

The notes to the financial statements are an integral part of these statements.

RED LEAF METROPOLITAN DISTRICT NO. 2

STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE/STATEMENT OF ACTIVITIES
GOVERNMENTAL FUNDS

For the Year Ended December 31, 2016

	<u>General</u>	<u>Total</u>	<u>Adjustments</u>	Statement of Activities
EXPENDITURES				
Accounting	\$ 5,901	\$ 5,901	\$ -	\$ 5,901
Audit	3,650	3,650	-	3,650
Election expense	1,207	1,207	-	1,207
Insurance	3,950	3,950	-	3,950
Legal	12,232	12,232	-	12,232
Miscellaneous expenses	309	309	-	309
Depreciation	-	-	20,590	20,590
Treasurer's fees	6,708	6,708	-	6,708
Debt Service:				
Bond principal	205,000	205,000	(205,000)	-
Bond interest expense	192,224	192,224	(13,305)	178,919
Bond issuance costs	144,025	144,025	(33,363)	110,662
Bond insurance amortization	-	-	2,115	2,115
Total Expenditures	<u>575,206</u>	<u>575,206</u>	<u>(228,963)</u>	<u>346,243</u>
GENERAL REVENUES				
Property taxes	446,984	446,984	-	446,984
Specific ownership taxes	24,827	24,827	-	24,827
Interest income	1,668	1,668	-	1,668
Total General Revenues	<u>473,479</u>	<u>473,479</u>	<u>-</u>	<u>473,479</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES				
	(101,727)	(101,727)	228,963	127,236
OTHER FINANCING SOURCES (USES)				
Refunding bonds	4,905,599	4,905,599	(4,905,599)	-
Payment to refunded bond escrow agent	<u>(4,766,919)</u>	<u>(4,766,919)</u>	4,766,919	-
Total Other Financing Sources (Uses)	<u>138,680</u>	<u>138,680</u>	<u>(138,680)</u>	<u>-</u>
NET CHANGES IN FUND BALANCES				
	36,953	36,953	(36,953)	
CHANGE IN NET POSITION				
			127,236	127,236
FUND BALANCE/NET POSITION				
BEGINNING OF YEAR	<u>84,276</u>	<u>84,276</u>	<u>(3,863,788)</u>	<u>(3,779,512)</u>
END OF YEAR	<u>\$ 121,229</u>	<u>\$ 121,229</u>	<u>\$ (3,773,505)</u>	<u>\$ (3,652,276)</u>

The notes to the financial statements are an integral part of these statements.

RED LEAF METROPOLITAN DISTRICT NO. 2

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

For the Year Ended December 31, 2016

	Original <u>Budget</u>	Final <u>Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
REVENUES				
Property taxes	\$ 446,998	\$ 446,600	\$ 446,984	\$ 384
Specific ownership taxes	26,819	23,600	24,827	1,227
Interest income	<u>460</u>	<u>1,200</u>	<u>1,668</u>	<u>468</u>
 Total Revenues	 <u>474,277</u>	 <u>471,400</u>	 <u>473,479</u>	 <u>2,079</u>
 EXPENDITURES				
Accounting	5,000	5,000	5,901	(901)
Audit	4,000	3,650	3,650	-
Election expense	3,500	1,207	1,207	-
Insurance	3,200	3,950	3,950	-
Legal	15,000	15,000	12,232	2,768
Miscellaneous expenses	500	300	309	(9)
Treasurer's fees	6,705	6,699	6,708	(9)
Contingency	93,826	3,876	-	3,876
Emergency reserve	1,202	-	-	-
Debt Service:				
Bond principal	185,000	205,000	205,000	-
Bond interest expense	234,561	192,224	192,224	-
Bond issuance costs	-	144,025	144,025	-
Paying agent fees	<u>2,150</u>	<u>2,150</u>	<u>-</u>	<u>2,150</u>
 Total Expenditures	 <u>554,644</u>	 <u>583,081</u>	 <u>575,206</u>	 <u>7,875</u>
 CHANGE IN FUND BALANCE	 (80,367)	 (111,681)	 (101,727)	 9,954
 OTHER FINANCING SOURCES (USES)				
Refunding bonds	-	4,905,599	4,905,599	-
Payment to refunded bond escrow agent	<u>-</u>	<u>(4,766,919)</u>	<u>(4,766,919)</u>	<u>-</u>
 Total Other Financing Sources (Uses)	 <u>-</u>	 <u>138,680</u>	 <u>138,680</u>	 <u>-</u>
 EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES				
	(80,367)	26,999	36,953	9,954
 FUND BALANCE - BEGINNING OF YEAR	 <u>80,367</u>	 <u>84,276</u>	 <u>84,276</u>	 <u>-</u>
 FUND BALANCE - END OF YEAR	 <u>\$ -</u>	 <u>\$ 111,275</u>	 <u>\$ 121,229</u>	 <u>\$ 9,954</u>

The notes to the financial statements are an integral part of these statements.

RED LEAF METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2016

Note 1: Summary of Significant Accounting Policies

The accounting policies of the Red Leaf Metropolitan District No. 2 (“the District”), located within the limits of the City and County of Broomfield, Colorado, conform to the accounting principles generally accepted in the United States of America (“GAAP”) as applicable to governmental units. The Governmental Accounting Standards Board (“GASB”) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant policies consistently applied in the preparation of financial statements.

Definition of Reporting Entity

The District was formed in November 2001, as a quasi-municipal organization established under the State of Colorado Special District Act. The District was established for the primary purpose of providing for the acquisition, construction, installation and completion of certain improvements, including streets, parks and recreations, safety protection, transportation, mosquito control, and water and sanitation improvements for the inhabitants of the District. The District's primary revenues are property taxes. The District is governed by an elected Board of Directors.

As required by GAAP, these financial statements present the activities of the District, which is legally separate and financially independent of other state and local governments. The District follows the GASB pronouncements which provide guidance for determining which governmental activities, organizations and functions should be included within the financial reporting entity. GASB sets forth the financial accountability of a governmental organization’s elected governing body as the basic criterion for including a possible component governmental organization in a primary government’s legal entity. Financial accountability includes, but is not limited to, appointment of a voting majority of the organization’s governing body, ability to impose its will on the organization, a potential for the organization to provide specific financial benefits or burdens and fiscal dependency. The pronouncements also require including a possible component unit if it would be misleading to exclude it.

The District is not financially accountable for any other organization. The District has no component units as defined by the GASB.

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

Basis of Presentation

The accompanying financial statements are presented per GASB Statement No. 34 – Special Purpose Governments:

RED LEAF METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2016

The government-wide financial statements (i.e. the governmental funds balance sheet/statement of net position and the governmental funds statement of revenues, expenditures, and changes in fund balances/statement of activities) report information on all of the governmental activities of the District. The statement of net position reports all financial and capital resources of the District. The difference between the (a) assets and deferred outflows of resources and the (b) liabilities and deferred inflows of resources of the District is reported as net position. The statement of activities demonstrates the degree to which expenditures/expenses of the governmental funds are supported by general revenues. For the most part, the effect of interfund activity has been removed from these statements.

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*.

Major individual governmental funds are reported as separate columns in the fund financial statements. The District has no fiduciary funds.

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 the related cash flows. Property taxes are recognized as revenues in the year for which they are collected.

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 material sources of revenue subject to accrual are property taxes and interest. Expenditures, other than interest on long-term obligations, are recorded when the liability is incurred or the long-term obligation is paid.

The District reports the following major governmental fund:

General Fund - The General Fund is the general operating fund of the District. It accounts for all financial resources of the District.

RED LEAF METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2016

Budgetary Accounting

In accordance with the State Budget Law of Colorado, the District's Board of Directors holds public hearings in the fall of each year to approve the budget and appropriate the funds for the ensuing year. The 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.

In November 2016, the District amended its total appropriations in the General Fund from \$554,644 to \$5,350,000 primarily due to the issuance of the 2016 bonds and the refunding of the 2007 bonds (See Note 4).

Assets, Liabilities and Net Position

Fair Value of Financial Instruments

The District's financial instruments include cash and cash equivalents, accounts receivable and accounts payable. The District estimates that the fair value of all financial instruments at December 31, 2016 does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying balance sheet. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

Deposits and Investments

The District's cash and cash equivalents are considered to be cash on hand and short-term investments with maturities of three months or less from the date of acquisition. Investments for the government are reported at fair value.

Estimates

The preparation of these financial statements in conformity with GAAP requires the District management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has one item that qualifies for reporting in this category. It is the deferred loss on refunding reported in the government-wide statement of net position. A deferred loss on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

RED LEAF METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2016

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has one item that qualifies for reporting in this category. Deferred property taxes are deferred and recognized as an inflow of resources in the period that the amounts become available.

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items), are reported in the applicable governmental activities columns in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the life of the asset are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable using the straight-line method. Depreciation on property that will remain assets of the District is reported on the Statement of Activities as a current charge.

The Parks are depreciated using the straight-line method over the following estimated useful lives:

Park and irrigation equipment	5-20 years
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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 taxpayers' election, in February and June. Delinquent taxpayers are notified in July or August and the sales of the resultant tax liens on delinquent properties are generally held in November or December. The County Treasurer remits the taxes collected monthly to the District.

RED LEAF METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2016

Property taxes, net of estimated uncollectible taxes, are recorded initially as deferred inflows in the year they are levied and measurable since they are not normally available nor are they budgeted as a resource until the subsequent year. The deferred property taxes are recorded as revenue in the subsequent year when they are available or collected.

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities.

Prepaid Bond Insurance, Original Issue Premium, and Loss on Refunding,

Prepaid Bond Insurance and Original issue premiums on the 2016 Bonds are being amortized over the term of the bonds using the effective interest method. Loss on Refunding on the 2016 Bonds is being amortized over the term of the bonds using the straight line method. Accumulated amortization on prepaid bond insurance, original issue premium, and loss on refunding amounted to \$2,115, \$19,375, and \$10,834, respectively, at December 31, 2016.

Fund Equity

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. Because circumstances differ among governments, not every government or every governmental fund will present all of these components. The following classifications make the nature and extent of the constraints placed on a government's fund balance more transparent:

Nonspendable Fund Balance

Nonspendable fund balance includes amounts that cannot be spent because they are either not spendable in form (such as inventory or prepaids) or are legally or contractually required to be maintained intact.

The nonspendable fund balance in the General Fund in the amount of \$3,747 represents prepaid insurance.

Restricted Fund Balance

The restricted fund balance includes amounts restricted for a specific purpose by external parties such as grantors, bondholders, constitutional provisions or enabling legislation.

The restricted fund balance in the General Fund represents Emergency Reserves that have been provided as required by Article X, Section 20 of the Constitution of the State of Colorado. A total of \$1,112 of the General Fund balance has been restricted in compliance with this requirement.

The restricted fund balance in the amount of \$103,313 is restricted for the payment of the debt service costs related to the General Obligation Debt (see Note 4).

RED LEAF METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2016

Committed Fund Balance

The portion of fund balance that can only be used for specific purposes pursuant to constraints imposed by a 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

Assigned fund balance includes amounts the District intends to use for a specific purpose. Intent can be expressed by the District's Board of Directors or by an official or body to which the Board of Directors delegates the authority.

Unassigned Fund Balance

Unassigned fund balance includes amounts that are available for any purpose. Positive amounts are reported only in the General Fund.

For the classification of Governmental Fund balances, the District considers an expenditure to be made from the most restrictive first when more than one classification is available.

Net Position

Net Position represents the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources. The District reports three categories of net position, as follows:

Net investment in capital assets – consists of net capital assets, reduced by outstanding balances of any related debt obligations and deferred inflows of resources attributable to the acquisition, construction, or improvement of those assets and increased by balances of deferred outflows or resources related to those assets.

Restricted net position – net position is considered restricted if their use is constrained to a particular purpose. Restrictions are imposed by external organizations such as federal or state laws. Restricted net position is reduced by liabilities and deferred inflows of resources related to the restricted assets.

Unrestricted net position – consists of all other net position that does not meet the definition of the above two components and is available for general use by the District.

When an expense is incurred for purposes for which both restricted and unrestricted net position are available, the District will use the most restrictive net position first.

RED LEAF METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements
December 31, 2016

Note 2: Cash and Investments

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

Statement of net position:	
Cash and investments	\$ 12,246
Cash and investments – restricted	<u>104,425</u>
	\$ <u>116,671</u>

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

Deposits with financial institutions	\$ 5,624
Investments – CSAFE	<u>111,047</u>
	\$ <u>116,671</u>

Deposits

Custodial Credit Risk

The Colorado Public Deposit Protection Act, (“PDPA”) requires that all units of local government deposit cash in eligible public depositories. State regulators determine eligibility. 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 is to be maintained by another institution, or held in trust for all the uninsured public deposits as a group. The market value of the collateral must be at least equal to 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.

The District does not have a formal policy for deposits. None of the District’s deposits were exposed to custodial credit risk.

RED LEAF METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2016

Investments

Credit Risk

The District has not adopted a formal investment policy; however the District follows state statutes regarding investments. Colorado statutes specify the types of investments meeting defined rating and risk criteria in which local governments may invest. These investments include obligations of the United States and certain U.S. Government agency entities, certain money market funds, guaranteed investment contracts, and local government investment pools.

CSAFE

The local government investment pool Colorado Surplus Asset Fund Trust (“CSAFE”), is rated AAAM by Standard and Poor’s with a weighted average maturity of under 60 days. CSAFE is an investment vehicle established by state statute for local government entities to pool surplus assets. The State Securities Commissioner administers and enforces all State statutes governing the Trust. The Trust is similar to a money market fund, with each share valued at \$1.00. CSAFE may invest in U.S. Treasury securities, repurchase agreements collateralized by U.S. Treasury securities, certain money market funds, and highest rated commercial paper. A designated custodial bank serves as custodian for CSAFE’s portfolio pursuant to custodian agreements. 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 custodians’ internal records identify the investments owned by CSAFE. At December 31, 2016, the District had \$111,047 invested in CSAFE.

Interest Rate Risk

Colorado revised statutes limit investment maturities to five years or less unless formally approved by the Board of Directors.

RED LEAF METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements
December 31, 2016

Note 3: Capital Assets

An analysis of the changes in capital assets for the year ended December 31, 2016 follows:

	Balance 1/1/2016	Additions	Deletions	Balance 12/31/2016
<u>Governmental Type Activities:</u>				
<u>Capital assets not being depreciated:</u>				
Land improvements	\$ 795,659	\$ -	\$ -	\$ 795,659
Total capital assets not being depreciated:	<u>795,659</u>	<u>-</u>	<u>-</u>	<u>795,659</u>
<u>Capital assets being depreciated:</u>				
Parks and irrigation equipment	404,967	-	-	404,967
Total capital assets being depreciated	<u>404,967</u>	<u>-</u>	<u>-</u>	<u>404,967</u>
<u>Accumulated Depreciation:</u>				
Parks and irrigation equipment	(169,867)	(20,590)	-	(190,457)
Total accumulated depreciation	<u>(169,867)</u>	<u>(20,590)</u>	<u>-</u>	<u>(190,457)</u>
Net capital assets being depreciated	<u>235,100</u>	<u>(20,590)</u>	<u>-</u>	<u>214,510</u>
Government type assets, net	<u>\$ 1,030,759</u>	<u>\$(20,590)</u>	<u>\$ -</u>	<u>\$1,010,169</u>

Note 4: Long Term Debt

A description of the long-term obligations as of December 31, 2016, is as follows:

\$4,600,000 General Obligation Limited Tax Refunding Bonds, Series 2016

On June 7, 2016, the District issued \$4,600,000 of General Obligation Limited Tax Refunding Bonds, Series 2016, (“Series 2016 Bonds”) dated June 7, 2016, for the purpose of advance refunding the District’s Limited Tax General Obligation Bonds, Series 2007, maturing on and after December 1, 2018, in the amount of \$4,495,000, and paying the costs of the issuance of the Bonds and the costs of the refunding of the 2007 Bonds. The 2016 Bonds bear interest at the rate of 3%, payable semiannually on each June 1 and December 1, commencing on December 1, 2016, and mature on December 1, 2030. The Bonds are subject to early redemption at the option of the District commencing December 1, 2026, without redemption premium. The 2016 Bonds are secured by Pledged Revenues including the Required Mill Levy, the portion of Specific Ownership Tax related to the Required Mill Levy and any other moneys determined by the District.

As a result of the issuance of the Series 2016 Bonds, the refunded bonds are considered to be defeased with the exception of the bonds payable on December 1, 2017 in the amount of \$195,000. The reacquisition price of the old debt exceeded the net carrying amount by \$269,297. This amount is recorded as a deferred outflow and is being amortized over the life of the 2016 Bonds. The refunding resulted in an economic gain of \$674,456 due to the average interest rate of the Series 2016 Bonds being lower than the refunded bonds.

RED LEAF METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements
December 31, 2016

\$5,935,000 Limited Tax General Obligation Bonds, Series 2007

On October 4, 2007 the District issued \$5,935,000 of Limited Tax General Obligation Bonds Series 2007 (“Series 2007 Bonds”) for the purpose of acquiring, constructing, relocating, and installing certain public improvements and facilities and paying the cost of issuance. The Series 2007 Bonds bear interest at the rates ranging from 4.20% to 5.00%, interest is payable semiannually on each June 1 and December 1, commencing on June 1, 2008. The Series 2007 Bonds include both serial and term bonds. The serial bonds are subject to mandatory sinking fund redemption and will mature December 1, 2015 through December 1, 2022. The term bonds are subject to mandatory sinking fund redemption and mature as follows:

<u>Principal</u>	<u>Interest Rate</u>	<u>Due Date</u>	<u>Mandatory Sinking Fund Redemption Date</u>
\$ 890,000	4.200%	December 1, 2014	December 1, 2008
\$1,610,000	4.875%	December 1, 2027	December 1, 2023
\$1,695,000	5.000%	December 1, 2031	December 1, 2028

Bonds maturing on or before December 1, 2017 are not subject to redemption prior to their maturities. Bonds maturing on and after December 1, 2018 are subject to redemption prior to their maturities, at the option of the District, on December 1, 2017 and on any date thereafter. Pledged Revenue consists of the Limited Mill levy which is a mill levy not in excess of 40.232 mills as adjusted.

The Series 2007 Bonds were partially defeased on June 7, 2016, with the issuance of the Series 2016 Bonds in the amount of \$4,495,000. Bonds due through December 1, 2017 in the amount of \$195,000 were not defeased as part of the refunding and will be paid on the scheduled maturity dates.

The following is an analysis of changes in long-term debt for the period ending December 31, 2016:

	<u>Balance</u> <u>1/1/2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/2016</u>	<u>Current</u> <u>Portion</u>
GO Bonds - Series 2007	\$ 4,875,000		\$ 4,680,000	\$ 195,000	\$ 195,000
GO Bonds - Series 2016	-	4,600,000	20,000	4,580,000	55,000
Subtotal	4,875,000	4,600,000	4,700,000	4,775,000	250,000
Bond Premium -					
GO Bonds - Series 2016	-	305,599	19,375	286,224	-
Total	<u>\$ 4,875,000</u>	<u>\$ 4,905,599</u>	<u>\$ 4,719,375</u>	<u>\$ 5,061,224</u>	<u>\$ 250,000</u>

RED LEAF METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements
December 31, 2016

The following is a summary of the annual long-term debt principal and interest requirements.

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 250,000	\$ 145,931	\$ 395,931
2018	270,000	135,750	405,750
2019	275,000	127,650	402,650
2020	295,000	119,400	414,400
2021	300,000	110,550	410,550
2022-2026	1,725,000	408,300	2,133,300
2027-2030	1,660,000	126,900	1,786,900
	<u>\$ 4,775,000</u>	<u>\$ 1,174,481</u>	<u>\$ 5,949,481</u>

As of December 31, 2016, the District had remaining voted debt authorization of approximately \$2,665,000. The Service Plan limits the issuance of indebtedness by the District to \$7,500,000. The District did not budget to issue any new debt in 2017.

Note 5: Tax, Spending and Debt Limitations

Article X, Section 20 of the Colorado Constitution, commonly known as the Taxpayer 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.

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

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

RED LEAF METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2016

Note 6: Risk Management

Except as provided in the Colorado Governmental Immunity Act, 24-10-101, et seq., CRS, the District may be exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets; errors or omissions; injuries to agents; and natural disasters. The Colorado Special Districts Property and Liability Pool (“the Pool”) is an organization created by intergovernmental agreement to provide common liability and casualty insurance coverage to its members at a cost that is considered economically appropriate. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

The District pays annual premiums to the Pool for auto, public official’s liability, and property and general liability coverage. In the event aggregated losses incurred by the Pool exceed its amounts recoverable from reinsurance contracts and its accumulated reserves, the District may be called upon to make additional contributions to the Pool on the basis proportionate to other members. Any excess funds which the Pool determines are not needed for purposes of the Pool may be returned to the members pursuant to a distribution formula.

Note 7: Reconciliation of Government-Wide Financial Statements and Fund Financial Statements

The Government Funds Balance Sheet/Statement of Net Position includes an adjustments column. The adjustments have the following elements:

- 1) Capital improvements used in government activities are not financial resources and, therefore are not reported in the funds; and
- 2) long-term liabilities such as bonds payable including the bond premium, and accrued bond interest payable, are not due and payable in the current period and, therefore, are not in the funds.

The Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balances/Statement of Activities includes an adjustments column. The adjustments have the following elements:

- 1) Governmental funds report capital outlays as expenditures, however, in the statement of activities, the costs of those assets are held as construction in process pending transfer to other governmental entities or depreciated over their useful lives;
- 2) governmental funds report interest expense on the modified accrual basis; however, interest expense is reported on the full accrual method on the Statement of Activities, including amortization of the bond premium and,
- 3) governmental funds report principal payments on debt as expenses: however, they are recorded as a reduction in debt on the Statement of Activities.

SUPPLEMENTAL INFORMATION

RED LEAF METROPOLITAN DISTRICT NO. 2

SUMMARY OF ASSESSED VALUATION, MILL LEVY
AND PROPERTY TAXES COLLECTED

December 31, 2016

(Unaudited)

<u>Year Ended December 31,</u>	<u>Prior Year Assessed Valuation for Current Year Property Tax Levy</u>	<u>Mills Levied</u>		<u>Total Property Tax</u>		<u>Percent Collected to Levied</u>
		<u>General Fund</u>	<u>Bond Fund</u>	<u>Levied</u>	<u>Collected</u>	
2008	\$ 12,663,390	2.800	29.604	410,344	410,611	100.06%
2009	13,310,590	2.860	28.100	412,096	412,286	100.05%
2010	13,730,000	0.000	28.450	390,619	391,940	100.34%
2011	13,721,290	0.700	28.810	404,915	407,007	100.52%
2012	13,538,200	0.100	29.000	393,962	393,574	99.90%
2013	13,635,250	2.500	28.800	426,783	427,170	100.09%
2014	14,263,980	2.500	28.800	446,463	446,462	100.00%
2015	14,276,651	2.500	28.800	446,859	446,859	100.00%
2016	16,555,470	2.000	25.000	446,998	446,984	100.00%
Estimated for year ending December 31, 2017	16,559,020	2.000	23.000	413,976		

NOTE

Property taxes collected in any one year include collection of delinquent property taxes levied and/or abatements or valuations in prior years. Information received from the County Treasurer does not permit identification of specific year assessment.

CONTINUING DISCLOSURE ANNUAL FINANCIAL INFORMATION - UNAUDITED

RED LEAF METROPOLITAN DISTRICT NO. 2

ASSESSED AND ACTUAL VALUATION OF CLASSES OF PROPERTY IN THE DISTRICT

December 31, 2016

UNAUDITED

<u>Class</u>	<u>2016 Assessed Valuation</u>	<u>Percent of Assessed Valuation</u>	<u>2016 Actual Valuation</u>	<u>Percent of Actual Valuation</u>
Residential	\$ 16,282,040	98.33%	\$204,544,080	99.54%
Commercial	360	0.00%	1,250	0.00%
State Assessed	276,620	1.67%	953,870	0.46%
Total	<u>\$ 16,559,020</u>	<u>100.00%</u>	<u>\$205,499,200</u>	<u>100.00%</u>

NOTE

Percentage is based on a 2016 certified assessed valuation of \$16,559,020