

**WINDSOR HIGHLANDS METROPOLITAN
DISTRICT NO. 5**

BASIC FINANCIAL STATEMENTS

December 31, 2016



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FINANCIAL SECTION



JOHN CUTLER & ASSOCIATES

Board of Directors
Windsor Highlands Metropolitan District No. 5
Windsor, Colorado

INDEPENDENT AUDITORS' REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Windsor Highlands Metropolitan District No. 5, 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 Windsor Highlands Metropolitan District No. 5, as of December 31, 2016, and the respective changes in financial position, thereof 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 budgetary comparison information on page 19 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.

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

John Cutler & Associates, LLC

July 24, 2017

BASIC FINANCIAL STATEMENTS

WINDSOR HIGHLANDS METROPOLITAN DISTRICT NO. 5

STATEMENT OF NET POSITION
As of December 31, 2016

	Governmental Activities	
	2016	2015
ASSETS		
Cash and Investments	\$ 434,901	\$ 376,355
Restricted Cash and Investments	-	130,000
Accounts Receivable	8,274	8,316
Capital Assets, depreciated, net of accumulated depreciation	2,869,110	2,991,517
	<u>3,312,285</u>	<u>3,506,188</u>
TOTAL ASSETS		
LIABILITIES		
Accrued Interest	1,892,738	1,517,694
Noncurrent Liabilities		
Due within One Year	6,106,832	8,263,018
Due in More than One Year	-	2,885,000
	<u>7,999,570</u>	<u>12,665,712</u>
TOTAL LIABILITIES		
NET POSITION		
Investment in Capital Assets	(3,237,722)	(8,156,501)
Restricted for Emergencies	28,500	21,000
Unrestricted, Unreserved	(1,478,063)	(1,024,023)
	<u>(4,687,285)</u>	<u>(9,159,524)</u>
TOTAL NET POSITION		

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

WINDSOR HIGHLANDS METROPOLITAN DISTRICT NO. 5

STATEMENT OF ACTIVITIES
Year Ended December 31, 2016

FUNCTIONS/PROGRAMS	Expenses	Program Revenues Charges for Services	Net (Expense) Revenues and Changes in Net Position	
			Governmental Activities	
			2016	2015
PRIMARY GOVERNMENT				
Governmental Activities				
General Government	\$ 3,532,228	\$ 103,319	\$ (3,428,909)	\$ (508,563)
Interest on Long-Term Debt	434,305	-	(434,305)	(458,639)
Total Governmental Activities	<u>\$ 3,966,533</u>	<u>\$ 103,319</u>	(3,863,214)	(967,202)
GENERAL REVENUES				
Taxes			20	21
Service Fees			837,684	629,494
Interest			1,749	2,202
Transfer from District No. 5			7,496,000	-
TOTAL GENERAL REVENUES			<u>8,335,453</u>	<u>631,717</u>
CHANGE IN NET POSITION			4,472,239	(335,485)
NET POSITION, Beginning			<u>(9,159,524)</u>	<u>(8,824,039)</u>
NET POSITION, Ending			<u>\$ (4,687,285)</u>	<u>\$ (9,159,524)</u>

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

WINDSOR HIGHLANDS METROPOLITAN DISTRICT NO. 5

BALANCE SHEET
GOVERNMENTAL FUNDS
As of December 31, 2016

	<u>GENERAL FUND</u>	
	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and Investments	\$ 434,901	\$ 376,355
Restricted Cash and Investments	-	130,000
Accounts Receivable	8,274	8,316
	<u> </u>	<u> </u>
TOTAL ASSETS	<u>\$ 443,175</u>	<u>\$ 514,671</u>
LIABILITIES AND FUND EQUITY		
LIABILITIES		
Accounts Payable	<u>\$ -</u>	<u>\$ -</u>
	<u> </u>	<u> </u>
TOTAL LIABILITIES	<u>-</u>	<u>-</u>
FUND EQUITY		
Fund Balance		
Restricted for Emergencies	28,500	21,000
Unassigned	414,675	493,671
	<u> </u>	<u> </u>
TOTAL FUND EQUITY	<u>443,175</u>	<u>514,671</u>
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds.	2,869,110	2,991,517
Long-term liabilities are not due and payable in the current period and are not reported in the funds. These include notes payable to Country Farms, LLC (\$6,106,832) and accrued interest of (\$1,892,738).	<u>(7,999,570)</u>	<u>(12,665,712)</u>
Net position of governmental activities	<u>\$ (4,687,285)</u>	<u>\$ (9,159,524)</u>

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

WINDSOR HIGHLANDS METROPOLITAN DISTRICT NO. 5

STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
Year Ended December 31, 2016

	GENERAL FUND	
	2016	2015
REVENUES		
Taxes	\$ 20	\$ 21
Service Fees	837,684	629,494
Charges for Services	103,319	95,101
Interest	1,749	2,202
	<hr/>	<hr/>
TOTAL REVENUES	942,772	726,818
	<hr/>	<hr/>
EXPENDITURES		
Current		
General Government	597,918	434,257
Capital Outlay	2,454,814	-
Debt Service	3,076,261	209,460
	<hr/>	<hr/>
TOTAL EXPENDITURES	6,128,993	643,717
	<hr/>	<hr/>
EXCESS OF REVENUES OVER (UNDER) EXPENSES	(5,186,221)	83,101
	<hr/>	<hr/>
OTHER FINANCING SOURCES (USES)		
Proceeds from Developer Advances	2,454,814	-
Contribution from District No. 4	7,496,000	-
Transfer to District No. 4	(357,089)	-
Payment to Developer	(4,479,000)	-
	<hr/>	<hr/>
TOTAL OTHER FINANCING SOURCES (USES)	5,114,725	-
	<hr/>	<hr/>
NET CHANGE IN FUND BALANCES	(71,496)	83,101
	<hr/>	<hr/>
FUND BALANCES, Beginning	514,671	431,570
	<hr/>	<hr/>
FUND BALANCES, Ending	<u>\$ 443,175</u>	<u>\$ 514,671</u>

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

WINDSOR HIGHLANDS METROPOLITAN DISTRICT NO. 5

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
Year Ended December 31, 2016

Amounts Reported for Governmental Activities in the Statement of Activities
are Different Because:

Net Changes in Fund Balances - Total Governmental Funds	\$ (71,496)
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense (\$169,407) exceeded capital outlay \$47,000, in the current year.	(122,407)
Proceeds from issuance of debt are reported as a financing source in the governmental funds and increase fund balance. In the government-wide financial statements, however, the issuance of debt increases long-term liabilities in the statement of net position and does not effect the statement of activities.	(2,454,814)
Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This amount is the increase in accrued interest (\$375,044), payment of developer advance \$4,479,000, and payment on loan payable \$3,017,000.	<u>7,120,956</u>
Change in net position of Governmental Activities	<u><u>\$ 4,472,239</u></u>

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

WINDSOR HIGHLANDS METROPOLITAN DISTRICT NO. 5

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Windsor Highlands Metropolitan District No. 5 was formed to provide public services and improvements for the District and surrounding area within its boundaries. The District is governed by a five-member Board of Directors elected by the constituents. The representatives of the Districts submitted to the Windsor Town Board an Amended and Restated Consolidated Service Plan for Windsor Highlands Metropolitan Districts Nos. 1-6 (the "Amended and Restated Service Plan") dated June 10, 2009, which Amended and Restated Service Plan adopts language changes to create a separate District No. 6 to contain all commercial development within the Districts, to update the Service Plan to the current Town Model Service Plan format and content and to increase the maximum debt authorization from \$6,000,000 to \$13,450,000 based upon an updated Financial Plan that demonstrates the financial feasibility of both operations and maintenance costs as well as discharge of any proposed debt of the Districts.

The accounting policies of the Windsor Highlands Metropolitan District No. 5 (the District) conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies:

Reporting Entity

In accordance with governmental accounting standards, the Windsor Highlands Metropolitan District No. 5 has considered the possibility of inclusion of additional entities in its financial statements.

The definition of the reporting entity is based primarily on financial accountability. The District is financially accountable for organizations that make up its legal entity. It is also financially accountable for legally separate organizations if District officials appoint a voting majority of the organization's governing body and either 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. The District may also be financially accountable for organizations that are fiscally dependent upon it.

Based on the application of these criteria, the District does not include additional organizations in its reporting entity.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

WINDSOR HIGHLANDS METROPOLITAN DISTRICT NO. 5

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Government-Wide and Fund Financial Statements (Continued)

The statement of activities demonstrates the degree to which the direct expenses of the 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.

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 the liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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 collected 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.

Property taxes, specific ownership taxes, grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

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

WINDSOR HIGHLANDS METROPOLITAN DISTRICT NO. 5

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation
(Continued)

In the fund financial statements, the District reports the following major governmental funds:

The *General Fund* is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

Cash and Investments

Cash equivalents include investments with original maturities of three months or less.

Investments are recorded at fair value.

Capital Assets

Capital assets, which include property and equipment, are reported in the governmental activities column 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 one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Property and equipment of the District is depreciated using the straight line method over the estimated useful lives between twenty-five and thirty years.

Long-Term Obligations

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the governmental activities fund type statement of net position.

The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

WINDSOR HIGHLANDS METROPOLITAN DISTRICT NO. 5

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Deferred Inflows of Resources

In addition to liabilities, the statement of financial position and balance sheets 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 and fund balance that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

Net Position

The government-wide financial statements, utilize a net position presentation. Net position is categorized as investment in capital assets, restricted, and unrestricted.

Net Investment in Capital Assets includes the District's capital assets (net of accumulated depreciation) reduced by the outstanding balances of bonds that are attributable to the acquisition, construction, or improvement of those assets.

Restricted Net Position includes assets that have third-party (statutory, bond covenant, or granting agency) limitations on their use. The District typically uses restricted assets first, as appropriate opportunities arise, but reserves the right to selectively defer the use until a future project.

Unrestricted Net Position typically includes unrestricted liquid assets. The Board has the authority to revisit or alter this designation.

Net Position/Fund Balance Classification

In the government-wide financial statements, net position is restricted when constraints placed on the net position are externally imposed.

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- **Restricted** – This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. The District has classified Emergency Reserves as being restricted because their use is restricted by State Statute for declared emergencies.

WINDSOR HIGHLANDS METROPOLITAN DISTRICT NO. 5

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Position/Fund Balance Classification (Continued)

- Committed – This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Board of Directors. These amounts cannot be used for any other purpose unless the Board of Directors removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The District did not have any committed resources as of December 31, 2016.
- Assigned – This classification includes amounts that the District intends to use for specific purposes that do not meet the criteria to be classified as restricted or committed. The District did not have any assigned resources as of December 31, 2016.
- Unassigned – This classification includes the residual fund balance for the General Fund. The unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

The District would typically use restricted fund balances first, followed by committed resources, and then assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend unassigned.

Property Taxes

Property taxes are levied on December 15 and attach as an enforceable lien on property on January 1. Taxes are payable in full on April 30 or in two installments on February 28 and June 15. The County Treasurer's office collects property taxes and remits to the District on a monthly basis.

Property taxes are assessed and submitted to Windsor Highlands Metropolitan Districts Nos. 1, 2, 3, 4 and 6 and forwarded to the District as a payment for administrative and other services. These payments are labeled as Service Fees in the financial statements.

Effective April 2016, a portion the Service Fees remitted to the District were transferred to District No. 4 for payment of principal and interest on loan issued in 2016. Going forward the property taxes assessed and submitted to Windsor Highlands Metropolitan Districts Nos. 1, 2, 3, 5 and 6, will be paid to District No. 4.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Comparative Data

Comparative total data for the prior year has been presented in the accompanying financial statements in order to provide an understanding of changes in the District's financial position and operations. However, complete comparative data in accordance with generally accepted accounting principles has not been presented since its inclusion would make the financial statements unduly complex and difficult to read.

Data in these columns do not present financial position or results of operations in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

- On or before October 15th, District Management submits to the Board of Directors a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.
- Public hearings are conducted to obtain taxpayer comments.
- Prior to December 31, the budget is legally enacted through passage of a resolution.
- District Management is authorized to transfer budgeted amounts between departments within any fund. However, any revisions that alter the total expenditures of any fund must be approved by the Board of Directors.
- Budgets are legally adopted for all funds of the District on a basis consistent with generally accepted accounting principles (GAAP).
- Budgeted amounts in the financial statements are as originally adopted or as amended by the Board of Directors. All appropriations lapse at year end.

State Compliance

At December 31, 2016 actual expenditures in the General Fund exceeded budgeted amounts by \$10,080,835. This may be a violation of State statute.

WINDSOR HIGHLANDS METROPOLITAN DISTRICT NO. 5

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016

NOTE 3: CASH AND INVESTMENTS

A summary of deposits and investments as of December 31, 2016 follows:

Deposits	\$ 79,497
Investments	<u>355,404</u>
Total	<u>\$ 434,901</u>

Deposits

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulations. At December 31, 2016, State regulatory commissioners have indicated that all financial institutions holding deposits for the District are eligible public depositories. Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral as determined by the PDPA. PDPA allows the financial institution to create a single collateral pool for all public funds held. 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 uninsured deposits. The District has no policy regarding custodial credit risk for deposits.

At December 31, 2016, the District had deposits with financial institutions with a carrying amount of \$79,497. The bank balances with the financial institutions were \$95,851 all of which was covered by federal depository insurance.

Investments

Interest Rate Risk

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

WINDSOR HIGHLANDS METROPOLITAN DISTRICT NO. 5

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016

NOTE 3: CASH AND INVESTMENTS (Continued)

Investments (Continued)

Credit Risk

Colorado statutes specify in which instruments the units of local government may invest which includes:

- Obligations of the United States and certain U.S. government agency securities
- General obligation and revenue bonds of U.S. local government entities
- Bankers' acceptances of certain banks
- Local government investment pools
- Written repurchase agreements collateralized by certain authorized securities
- Certain money market funds
- Guaranteed investment contracts

The above investments are authorized for all funds and fund types used by Colorado municipalities.

Fair Value

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant observable inputs.

The District had invested \$355,404 in the Colorado Government Liquid Asset Trust (ColoTrust) which has a credit rating of AAAM by Standard and Poor's. ColoTrust is an investment vehicle established for local government entities in Colorado to pool surplus funds and is regulated by the State Securities Commissioner. It operates similarly to a money market fund and each share is equal in value to \$1.00. Investments consist of U.S. Treasury and U.S. Agency securities, and repurchase agreements collateralized by U.S. Treasury and U.S. Agency securities. A designated custodial bank provides safekeeping and depository services in connection with the direct investment and withdrawal functions. Substantially all securities owned 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 the entities.

ColoTrust is not a 2a7-like external investment pool. The unit of account is each share held, and the value of the position would be the fair value of the pool's share price multiplied by the number of shares held. The government-investor does not "look through" the pool to report a pro rata share of the pool's investments, receivables, and payables. This investment is valued using Level 2 inputs.

WINDSOR HIGHLANDS METROPOLITAN DISTRICT NO. 5

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016

NOTE 4: CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2016, is summarized below:

	<u>Balances</u> <u>12/31/15</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balances</u> <u>12/31/16</u>
Governmental Activities				
Capital Assets, depreciated				
Infrastructure				
Curb	\$ 214,449	\$ -	\$ -	\$ 214,449
Organizational Costs	68,692	-	-	68,692
Irrigation System	332,895	-	-	332,895
Landscaping	1,772,861	-	-	1,772,861
Pool, Cabana and Parking lot	1,781,122	47,000	-	1,828,122
Retention Pond	<u>137,416</u>	<u>-</u>	<u>-</u>	<u>137,416</u>
Total Capital Assets, depreciated	<u>4,307,435</u>	<u>47,000</u>	<u>-</u>	<u>4,354,435</u>
Less Accumulated Depreciation				
Infrastructure				
Curb	62,110	7,148	-	69,258
Organizational Costs	19,895	2,290	-	22,185
Irrigations System	116,800	13,316	-	130,116
Landscaping	577,647	70,827	-	648,474
Pool, Cabana, and Parking lot	498,714	71,245	-	569,959
Retention Pond	<u>40,752</u>	<u>4,581</u>	<u>-</u>	<u>45,333</u>
Total Accumulated Depreciation	<u>1,315,918</u>	<u>169,407</u>	<u>-</u>	<u>1,485,325</u>
Governmental Activities, Capital Assets, Net	<u>\$ 2,991,517</u>	<u>\$ (122,407)</u>	<u>\$ -</u>	<u>\$ 2,869,110</u>

Depreciation expense was charged to the General Government activity.

NOTE 5: LONG-TERM DEBT

Following is a summary of long-term debt transactions for the governmental activities for the year ended December 31, 2016.

	<u>Balance</u> <u>12/31/15</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>12/31/16</u>	<u>Due In</u> <u>One Year</u>
Loan Payable – Developers	\$ 8,131,018	\$ 2,454,814	\$ 4,479,000	\$ 6,106,832	\$ 6,106,832
Loan Payable – U.S. Bank	<u>3,017,000</u>	<u>-</u>	<u>3,017,000</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 11,148,018</u>	<u>\$ 2,454,814</u>	<u>\$ 7,496,000</u>	<u>\$ 6,106,832</u>	<u>\$ 6,106,832</u>

WINDSOR HIGHLANDS METROPOLITAN DISTRICT NO. 5

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016

NOTE 5: LONG-TERM DEBT (Continued)

Loan Payable - Developers

On March 14, 2006, the District entered into a Funding and Reimbursement Agreement for Capital Costs with Country Farms, LLC (the "Developer") in order to finance improvements within the District boundaries and service area. The District issued the first promissory note pursuant to this Agreement and infrastructure acquisition agreement policies and procedures in July of 2007. The note was a "fill-up promissory note" under which the Developer agreed to loan the District up to \$6,000,000 initially for capital costs related to public infrastructure. Pursuant to this Agreement, the District accepted certain certified public improvement costs in phases corresponding to costs advances for public improvements the Developer advanced, constructed, acquired, installed, financed or caused to be constructed on behalf of and for the benefit of the District and its constituents. The promissory note calls for interest at 2% plus the Federal Reserve Bank prime. The original promissory note matured on December 31, 2007 and will be renewed on an annual basis to the extent the District cannot repay the outstanding balance in full on December 31 of any calendar year. Part of the reimbursement and obligations under the Promissory Note was separated out by the Developer to Highland Meadows Golf Course, LLC in exchange for the golf course capital costs related to the construction, installation, financing and dedication of the completed Pool, Clubhouse, Cabanas and Parking Areas to the District for ownership, operation and maintenance. When the promissory notes and loans to the District were renewed for 2016, the interest rate at December 31, 2016 was 2.0% plus prime.

Loan Payable – U.S. Bank

On May 4, 2012, the District entered into a Loan Agreement with U.S. Bank National Association ("U.S. Bank") for a loan in the amount of \$3,500,000. Proceeds of the loan were used to repay the accrued interest and principal amounts owed to the Developer and Highland Meadows Golf Course, LLC. Interest at 2.55% is due and payable semi-annually on June 1 and December 1. This Loan was paid in full during the year ended December 31, 2016.

In April 2016, Windsor Highlands Metro District No. 4 entered into a loan agreement to pay off the U.S. Bank Loan Payable and pay down a portion of the Developer Advances owed by the District. Funds in the amount of \$7,496,000 were transferred from District No. 4 for the repayment of amounts owed by the District.

WINDSOR HIGHLANDS METROPOLITAN DISTRICT NO. 5

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016

NOTE 6: DEVELOPER AGREEMENT

The promissory note referenced in Note 5 was issued in accordance with that certain Funding and Reimbursement Agreement for Capital Costs dated March 14, 2006 (the “Funding Agreement”) and that certain Infrastructure Acquisition Agreement (“Infrastructure Acquisition Agreement”) dated July 10, 2007 under which the Developer agreed to loan the District up to \$6,000,000 for capital costs related to public infrastructure. The Funding Agreement provides for funds to be loaned to the District in one or a series of installments and shall be available to the District through December 31, 2024 as may be amended pursuant to an annual review and annual appropriations of the District.

The Infrastructure Acquisition Agreement with the Developer further requires the District to reimburse the Developer for costs related to the design, construction, acquisition and installation of certain public improvements constructed or acquired on behalf of the District. The Developer agreed to construction the improvements with the understanding that the District would acquire these improvements when they are completed.

The Developer also provided preliminary financing for these improvements with the understanding that the District would eventually repay the Developer and acquire the improvements with the proceeds of General Obligation Bonds, revenue bonds, promissory notes or other indebtedness of the Districts which will be issued by the District.

NOTE 7: DEBT AUTHORIZATION

On May 4, 2004, a majority of the qualified electors of the District authorized the issuance of general obligation indebtedness as follows:

- An amount not to exceed \$30,000,000 at an interest rate not to exceed 8% per annum, for providing public improvements; and
- An amount not to exceed \$6,000,000 at an interest rate not to exceed 8% per annum, for IGA purposes; and
- The District authorization was increased through the Amended and Restated Service Plan for Windsor Highlands Metropolitan Districts Nos. 1-6 approval by the Town in August of 2009 and approved by the voters of District No. 5 at the November 3, 2009 election to \$13,450,000 per category, \$26,900,000 for refunding and at an interest rate not to exceed 12%.

As of December 31, 2016, the amount of debt authorized but unissued was \$13,450,000. The District intends to issue over time a part or all of the remaining authorized but unissued general obligation debt for purposes of providing public improvements to support development as it occurs within the District’s service area.

WINDSOR HIGHLANDS METROPOLITAN DISTRICT NO. 5

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016

NOTE 8: RELATED PARTIES

Two of the members of the Board of Directors are employees, owners or members of the Developer. The District, pursuant to the outstanding "District" promissory notes for public improvement advances made by the Developer or its affiliates, owes \$6,106,832 in principal and \$1,892,738 in accrued interest for public improvements costs certified as constructed and dedicated by the Developer as of December 31, 2016.

NOTE 9: RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; injuries to employees; and natural disasters. The District participates in the Colorado Special Districts Property and Liability Insurance Pool. The Pool insures property and liability exposures through contributions made by member districts. The District does not maintain an equity interest in the self insurance pool. The District funds its pool contributions, outside insurance purchases, deductibles, and uninsured losses through the General Fund.

Settled claims resulting from these risks have not exceeded commercial or District coverages in any of the past three years.

NOTE 10: DEFICIT NET POSITION

As of December 31, 2016, the District had a government-wide net asset deficit of \$4,687,285. This deficit was created as the District used loan proceeds from the Developer to construct capital assets that were later transferred to the Town of Windsor.

NOTE 11: COMMITMENTS AND CONTINGENCIES

TABOR Amendment - Colorado voters passed an amendment to the State Constitution, Article X, Section 20, which has several limitations, including revenue raising, spending abilities, and other specific requirements of state and local government. The Amendment is complex and subject to judicial interpretation. The District believes it is in compliance with the requirements of the Amendment.

The District has established an emergency reserve, representing 3% of fiscal year spending (excluding debt service), as required by the Amendment. At December 31, 2016, the emergency reserve of \$28,500 was recorded in the General Fund.

WINDSOR HIGHLANDS METROPOLITAN DISTRICT NO. 5

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016

NOTE 12: *SUBSEQUENT EVENTS*

The District has evaluated subsequent events through the date which the financial statements were issued. There were no material subsequent events that required recognition or additional disclosure.

REQUIRED SUPPLEMENTAL INFORMATION

WINDSOR HIGHLANDS METROPOLITAN DISTRICT NO. 5

GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
Year Ended December 31, 2016

	2016			VARIANCE	2015 ACTUAL
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	Positive (Negative)	
REVENUES					
Taxes	\$ 19	\$ 19	\$ 20	\$ 1	\$ 21
Service Fees	819,332	812,029	837,684	25,655	629,494
Charges for Services	75,074	88,968	103,319	14,351	95,101
Interest	3,000	15,878	1,749	(14,129)	2,202
TOTAL REVENUES	<u>897,425</u>	<u>916,894</u>	<u>942,772</u>	<u>25,878</u>	<u>726,818</u>
EXPENDITURES					
Current					
General Government					
Accounting and Administration	20,000	19,500	19,500	-	19,500
District Management	48,500	47,287	47,288	(1)	44,382
Insurance	25,371	25,183	25,183	-	20,094
Legal Expenses	12,000	13,799	13,799	-	9,668
Office, Dues and Other	47,500	21,805	21,824	(19)	18,624
Repairs and Maintenance	383,800	385,937	437,151	(51,214)	303,930
Utilities	37,200	84,386	33,173	51,213	18,059
Capital Outlay	-	-	2,454,814	(2,454,814)	-
Contingency	105,854	-	-	-	-
Debt Service					
Principal	215,000	270,837	3,017,000	(2,746,163)	126,000
Interest and Fiscal Charges	2,200	15,513	59,261	(43,748)	83,460
TOTAL EXPENDITURES	<u>897,425</u>	<u>884,247</u>	<u>6,128,993</u>	<u>(5,244,746)</u>	<u>643,717</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>-</u>	<u>32,647</u>	<u>(5,186,221)</u>	<u>(5,218,868)</u>	<u>83,101</u>
OTHER FINANCING SOURCES (USES)					
Proceeds from Developer Advances	-	-	2,454,814	2,454,814	-
Contribution from District No. 4	-	-	7,496,000	7,496,000	-
Transfer to District No. 4	-	-	(357,089)	(357,089)	-
Payment to Developer	-	-	(4,479,000)	(4,479,000)	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>	<u>5,114,725</u>	<u>5,114,725</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	-	32,647	(71,496)	(104,143)	83,101
FUND BALANCE, Beginning	<u>373,033</u>	<u>340,306</u>	<u>514,671</u>	<u>174,365</u>	<u>431,570</u>
FUND BALANCE, Ending	<u>\$ 373,033</u>	<u>\$ 372,953</u>	<u>\$ 443,175</u>	<u>\$ 70,222</u>	<u>\$ 514,671</u>

See the accompanying independent auditors' report.