

Winter Farm Metropolitan District No. 2

FINANCIAL STATEMENTS AND
REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

December 31, 2016



RECEIVED

By the Office of the State Auditor at 2:17 pm, Aug 10, 2017

Table of Contents

	Page
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS	3
BASIC FINANCIAL STATEMENTS	
GOVERNMENTAL FUNDS BALANCE SHEET/ STATEMENT OF NET POSITION	6
STATEMENT OF GOVERNMENTAL FUNDS REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE/STATEMENT OF ACTIVITIES	7
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND	8
NOTES TO FINANCIAL STATEMENTS	9
SUPPLEMENTARY INFORMATION	
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL – DEBT SERVICE FUND	20



REPORT OF INDEPENDENT CERTIFIED
PUBLIC ACCOUNTANTS

Board of Directors
Winter Farm Metropolitan District No. 2

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Winter Farm Metropolitan District No. 2 (the "District"), as of and for the year ended December 31, 2016, 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 controls relevant to the preparation and fair presentation of financial statements which are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based upon conducting our audit in accordance with auditing standards generally accepted in the United States of America ("US GAAS"), as established by the *American Institute of Certified Public Accountants*.

We conducted our audit in accordance with US GAAS. Those standards require that we plan and perform our audit to obtain reasonable assurance about whether these financial statements are free from material misstatement.

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

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

Opinion on the Financial Statements

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

Other Matters

Supplementary Information

Our audit was conducted with the purpose of forming an opinion on the basic financial statements of the Winter Farm Metropolitan District No. 2 taken as a whole. The supplementary information on page 20 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information is the responsibility of the management of the District and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to our auditing procedures applied in the audit of the financial statements and certain other additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Management's Discussion and Analysis

The Board of Directors has not presented the Management's Discussion and Analysis information which 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 part of the basic financial statements, is required by the Government Accounting Standards Board, which considers it to be an essential part of the financial reporting, for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Marc, James and Associates, PC

Highlands Ranch, Colorado
June 8, 2017

BASIC FINANCIAL STATEMENTS

Winter Farm Metropolitan District No. 2

GOVERNMENTAL FUNDS BALANCE SHEET/STATEMENT OF NET POSITION

December 31, 2016

	Governmental Funds			Adjustments	Statement of Net Position
	General	Debt Service	Total		
ASSETS					
Cash and investments	\$ 20,929	\$ -	\$ 20,929	\$ -	\$ 20,929
Cash and investments - restricted	-	217,998	217,998	-	217,998
Due from County Treasurer	91	1,606	1,697	-	1,697
Property taxes receivable	19,412	368,829	388,241	-	388,241
Total assets	\$ 40,432	\$ 588,433	\$ 628,865	-	628,865
LIABILITIES					
Accounts payable	\$ -	\$ -	\$ -	-	-
Due to District No. 1	21,020	-	21,020	-	21,020
Accrued liabilities	-	-	-	18,371	18,371
Note payable					
Due in one year	-	-	-	100,000	100,000
Due in more than one year	-	-	-	5,810,000	5,810,000
Total liabilities	21,020	-	21,020	5,928,371	5,949,391
DEFERRED INFLOWS OF RESOURCES					
Property taxes	19,412	368,829	388,241	-	388,241
FUND BALANCE					
Assigned	-	221,281	221,281	(221,281)	-
Total fund balance	-	219,604	221,281	(221,281)	-
Total liabilities, deferred inflows of resources and fund balance	\$ 40,432	\$ 588,433	\$ 630,542		
NET DEFICIT					
Unrestricted				(5,708,767)	(5,708,767)
Total net position				\$ (5,708,767)	\$ (5,708,767)

The accompanying notes are an integral part of the these statements

Winter Farm Metropolitan District No. 2

STATEMENT OF GOVERNMENTAL FUNDS REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCES/STATEMENT OF ACTIVITIES

For the Year ended December 31, 2016

	Governmental Funds			Adjustments	Statement of Activities
	General	Debt Service	Total		
EXPENDITURES					
OPERATIONS					
Bank service fees	\$ -	\$ 285	\$ 285	\$ -	\$ 285
Treasurer's fees	292	5,140	5,432	-	5,432
DEBT SERVICE					
Non-Use fee	-	12,795	12,795	-	12,795
Interest expense	-	223,260	223,260	(538)	222,722
Principal payment	-	90,000	90,000	(90,000)	-
Total expenditures	<u>292</u>	<u>331,480</u>	<u>331,772</u>	<u>(90,538)</u>	<u>241,234</u>
GENERAL REVENUE					
Property and other taxes	20,767	363,839	384,606	-	384,606
Other	13	527	540	-	540
Total general revenues	<u>20,780</u>	<u>364,366</u>	<u>385,146</u>	<u>-</u>	<u>385,146</u>
GENERAL REVENUE OVER EXPENDITURES	20,488	32,886	53,374	90,538	143,912
OTHER SOURCES AND USES					
Transfers					
Winter Farm Metropolitan District No. 1	(20,488)	-	(20,488)	-	(20,488)
Total other sources and uses	<u>(20,488)</u>	<u>-</u>	<u>(20,488)</u>	<u>-</u>	<u>(20,488)</u>
CHANGES IN FUND BALANCE	-	32,886	32,886	(32,886)	-
CHANGES IN NET POSITION (DEFICIT)	-	-	-	123,424	123,424
FUND BALANCE /NET POSITION (DEFICIT)					
Beginning of the year	-	186,718	186,718	(6,018,909)	(5,832,191)
End of the year	<u>\$ -</u>	<u>\$ 219,604</u>	<u>\$ 219,604</u>	<u>\$ (5,928,371)</u>	<u>\$ (5,708,767)</u>

The accompanying notes are an integral part of the these statements

Winter Farm 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

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUE			
Property and other taxes	\$ 21,023	\$ 20,767	\$ (256)
Other	-	13	13
	<u>21,023</u>	<u>20,780</u>	<u>(243)</u>
Total revenues			
EXPENDITURES			
Operating			
Treasurer's fees	292	292	-
	<u>292</u>	<u>292</u>	<u>-</u>
Total expenditures			
EXCESS OF REVENUE OVER EXPENDITURES	20,731	20,488	(243)
OTHER SOURCES AND USES			
Transfers			
Winter Farm Metropolitan District No. 1	(20,731)	(20,488)	243
	<u>(20,731)</u>	<u>(20,488)</u>	<u>243</u>
Total other sources and uses			
CHANGES IN FUND BALANCE	<u>\$ -</u>	-	<u>\$ -</u>
FUND BALANCE			
Beginning balance		-	
Ending balance		<u>\$ -</u>	

The accompanying notes are an integral part of the these statements

Winter Farm Metropolitan District No. 2

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Winter Farm Metropolitan District No. 2 (the "District") conform to the accounting principles generally accepted in the United States of America ("US GAAP") as applicable to governmental entities. The following is a summary of the more significant policies consistently applied in the preparation of the basic financial statements of the District.

1. Reporting Entity

The District was formed in November 2000, under State of Colorado Statutes as a quasi-municipal corporation and is governed by a five-member elected Board of Directors pursuant to the provisions of the Colorado Special District Act (Title 32, Article I, Colorado Revised Statutes) in conjunction with Winter Farm Metropolitan District No. 1 ("District No. 1") and Winter Farm Metropolitan District No. 3 (the "Districts").

The District's service area is located in the Town of Windsor, Colorado. The Districts were formed to provide public improvements to be dedicated to the Town of Windsor, Colorado or retained by the Districts for use and benefit the residents and visitors of the District. Under the consolidated Service Plan, the District, along with Winter Farm Metropolitan District No. 3 are considered to be the Financing Districts responsible for providing the funding and tax base needed to support the Financing Plan for the various public improvements.

As required by US GAAP, these financial statements present the activities of the District, which is legally separate and financially independent of other state and local government entities. The District has no component units as defined by Governmental Accounting Standards Board ("GASB"), Statement No. 14, *The Reporting Entity* and GASB No. 39, *Determining Whether Certain Organizations are Component Units*.

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

2. Measurement Focus and Financial Accounting Framework

The accompanying financial statements are presented in accordance with GASB Statement No 34, *Special Purpose Governments*.

Government-Wide Financial Statements

The government-wide financial statements, the Governmental Funds Balance Sheet/Statement of Net Position and the Statement of Governmental Funds Revenue, Expenditures and Changes in Fund Balance/Statement of Activities, report information on all of the governmental activities of the District.

The government-wide financial statements (Statement of Net Position and Statement of Activities) are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenditures are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligible requirements, if any, imposed by the provider have been met. Property taxes are recognized as revenues in the year for which the property taxes are collected.

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2. *Measurement Focus and Financial Accounting Framework - continued*

Governmental Fund Financial Statements

The major individual governmental funds are reported as separate columns in the governmental fund portion of the financial statements. As permitted, the District considers all of the governmental funds to be major funds.

The governmental fund financial statements are prepared 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 if the revenues are collectible within the current period or soon thereafter, to pay liabilities of the current period. For that purpose, the District considers revenues to be available if they are expected to be collected within 60 days of the end of the current fiscal period.

Governmental Funds

For 2016, the District has two Governmental Funds.

- *General Fund* – The General Fund is the general operating fund of the District. It is used to account for all of the financial resources not accounted for and reported in another fund,
- *Debt Service Fund* – The Debt Service Fund is used to account for all financial resources that are restricted, committed or assigned to expenditures for principal, interest and other debt-related costs.

3. *Deposits and Investments*

District management considers cash and cash equivalents to include cash on hand, demand deposits and money market accounts. Investments, as applicable, of the District are reported at fair value.

District management may at times follow the practice of pooling cash and investments of all funds to maximize investment earnings. Except when required by regulations or other agreements, all cash is deposited to and disbursed from a minimum number of bank accounts. Cash in excess of immediate operating requirements may be pooled for deposit and investment flexibility. As applicable, investment earnings are allocated periodically to the participating funds based upon each fund's average equity balance in the total cash.

4. *Fair Value of Financial Instruments*

The District's financial instruments include cash and cash equivalents, property taxes receivable, and related deferred inflows of resources, accounts payable and the note payable. The District estimates that the fair value of these financial instruments as of December 31, 2016 do not differ materially from the aggregate carrying values used in the accompanying financial statements. The carrying amount of these financial instruments approximates the fair value due to the short maturity of these financial instruments.

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

5. *Use of Estimates*

The preparation of financial statements in conformity with US GAAP involves the use of management's estimates which affect the reported amounts of assets and liabilities as of the date of the financial statements, and the reported amounts of revenue and expenditures during the reporting period. These estimates are based upon management's best judgment, after considering past events and assumptions about future events. Actual results could differ from those estimates.

6. *Property Taxes*

Property taxes are levied by the District's Board of Directors. The levy is based upon 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.

Property taxes, net of estimated uncollectible taxes, are recorded initially as deferred inflows of resources 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. Property taxes are recorded as revenue in the subsequent year when they are available or collected.

7. *Restricted Net Position*

The restriction of net position, if applicable, represents amounts which may not be appropriated or are legally segregated for a specific purpose.

NOTE B – BUDGET INFORMATION

Budgets are adopted on a non-GAAP basis for the governmental funds. In accordance with State Budget Law, the District's Board of Directors holds a public hearing in the fall of each year to approve the budget and appropriate funds for the ensuing year. The appropriation is at the total fund expenditure level and lapses at year end. The District's Board of Directors can modify the budget by line item within the total appropriation without notification. The total appropriation can only be modified upon completion of a budget amendment approved following a public hearing on the same. The budget includes each fund on its basis of accounting unless otherwise indicated. The appropriation is at the total fund expenditures level and lapses at year-end.

For 2016, the District amended the Debt Service Fund budget decreasing total budgeted revenue to \$366,045 and increasing total budgeted expenditures to \$332,665.

State of Colorado Statutes requires a balanced budget. For 2016, the District's Debt Service Fund amended and final budgeted revenues and other sources and uses exceeded budgeted expenditures.

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE C – CASH AND INVESTMENTS

Deposits and 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 the eligibility. Amounts on deposit in excess of the Federal Deposit Insurance Corporation (“FDIC”) insurance levels must be collateralized. The eligible collateral is determined by the PDPA. The PDPA allows institutions 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 uninsured public deposits. The market value of the collateral must be equal to 102% of the aggregate uninsured public deposits.

The Colorado Division of Banking is required by statute to monitor the naming of eligible depositories and reporting of the uninsured deposits and assets maintained in the collateral pools.

As of December 31, 2016, none of the District’s deposits were exposed to custodial credit risk.

Investments

At December 31, 2016, the District had \$18,051 invested in the Colorado Local Government Liquid Trust (“Trust”), an investment vehicle established for local government entities in Colorado to pool surplus funds. The State Securities Commissioner administers and enforces all State statutes governing the Trust. The Trust operates similarly to a money market fund and each share is equal in value to \$1.00. The Trust offers shares in two portfolios, COLOTRUST PRIME and COLOTRUST PLUS+. Both portfolios may invest in U.S. Treasury securities and repurchase agreements collateralized by U.S. Treasury securities. COLOTRUST PLUS+ may also invest in certain obligations of U.S. government agencies, highest rated commercial paper and repurchase agreements collateralized by certain obligations of the U.S. government agencies. The District’s investments are in the COLOTRUST PLUS+ portfolio. COLOTRUST is rated AAAM by Standard & Poor’s.

The District’s has certain investments which are measured at fair value on a recurring basis and are categorized within the fair value hierarchy established by general accepted accounting principles. The hierarchy is based on the valuation inputs used to measure an asset’s fair value: 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 unobservable inputs. The fair value measurement of the District’s investment in COLOTRUST at December 31, 2016 is valued using Level 2 inputs.

Restricted Cash

The District’s restricted cash pertains to deposit accounts required to be maintained in the Debt Service Fund and are further discussed in NOTE D.

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE D - LONG-TERM DEBT

2015 Note Payable

In September 2015, the District issued a note payable with a financial institution (the "Lender") with a maximum principal amount of \$8,850,000. The initial draw under the note payable was \$6,100,000. A portion of the initial draw, \$5,897,034, was transferred to District No. 1 and was used to retire a note payable issued in 2012 by District No. 1. The remaining Advance Amount, \$2,750,000, is intended to be used by the District to repay a portion of the amount outstanding, if any, on the Series 2015 Subordinate Loan, and pay the costs associated with the issuance the 2015 note payable by the District and refunding of the District No. 1 2012 note payable.

As permitted in the Loan Agreement, the unused Advance Amount may be drawn upon through December 21, 2020.

The District shall pay to the Lender a semi-annual, June 1 and December 1, Non-Use Fee in the amount of .5% of the unfunded Advance Amount.

Under the terms of the Loan Agreement the District was required to establish and maintain the following deposit accounts:

Revenue Fund - to be administered and maintained by the Lender. On the Closing Date the Lender transferred all funds held in accounts under the 2012 Loan Agreement related to the 2012 note payable issued by District No. 1. In addition, the District shall deposit all funds constituting Pledged Revenue, as defined in the Loan Agreement.

Loan Payment Fund - to be administered and maintained by the Lender. For each fiscal year, the Lender shall compute the Estimated Annual Debt Requirements for the next succeeding Fiscal Year and any Loan Obligations currently due and payable to the Lender and provide to the District, written notice of such amounts. The Loan Payment Fund is to be funded via transfers from the Revenue Fund.

Reserve Fund - to be administered and maintained by the Lender. The Reserve Fund is to be initially funded in the amount of the Reserve Requirement from amounts transferred from the reserve fund established in connection with the 2012 note payable issued by District No.1. The funds held in the Reserve Fund are to be used by the Lender to (a) pay interest and or principal due on the note payable on any Payment Date to the extent funds on deposit in the Loan Payment Fund are insufficient, and, (b) pay any Non-Use Fees due to the Lender.

Cost of Issuance Fund - to be administered and maintained by the Lender. The Cost of Issuance Fund was funded on the Closing Date and the Lender disbursed amounts therein for the payment of fees, costs and expenses incurred in connection with the issuance of the note payable by the District. At the time all of the funds have been disbursed, the Cost of Issuance Fund is to be closed. The Cost of Issuance Fund account was closed in 2016.

Winter Farm Metropolitan District No. 2

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE D - LONG-TERM DEBT - *continued*

2015 Note Payable - continued

The note payable is subject to both a fixed rate and a variable rate of interest.

The fixed rate loan balance is the amount of the initial funded amount less any payment of principal received by the Lender. Under the terms of the Loan Agreement, the applicable fixed rate is 3.66%.

The variable rate loan balance is the sum of all advances, subsequent to the initial funding amount, less any payments of principal received by the Lender.

The variable interest rate which will vary periodically shall be 2% plus 65% of the 30 Day LIBOR index, initially calculated as of the first Advance Date following the Closing Date and resetting on each Interest Rate Reset Date. As of December 31, 2016, there were no subsequent advances. The applicable variable rate as of December 31, 2016 was 2.462%.

The note payable is collateralized by (a) Pledged Revenue, as defined in the Loan Agreement, and (b) all amounts from time to time credited to the Revenue Fund, the Loan Payment Fund, the Reserve Fund and the Costs of Issuance Fund, together with investment earning thereon.

The note payable requires annual principal payments due on each December 1, commencing with 2015, as listed in the Loan Agreement and as shown below with a final maturity date of December 31, 2022. Under the terms of the Loan Agreement, the District is prohibited from prepaying the note payable prior to the fifth anniversary of the Closing Date, September 17, 2015. In addition, the District is required to prepay the note payable from excess amounts, if any, on deposit in the Revenue Fund, on or after December 1 of each year.

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

	Balance December 31, 2015	Borrowings	Payments	Balance December 31, 2016	Balance Due in One Year
2015 Note payable	\$ 6,000,000	\$ -	\$ 90,000	\$ 5,910,000	\$ 100,000

As of December 31, 2016, the minimum future principal payments for the 2016 Note Payable are as follows:

<u>Year ended</u>	
2017	\$ 100,000
2018	160,000
2019	170,000
2020	180,000
2021	190,000
2022	<u>5,110,000</u>
	<u>\$ 5,910,000</u>

Winter Farm Metropolitan District No. 2

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE D - LONG-TERM DEBT - *continued*

2015 Subordinate Note Payable

In September 2015, the District issued a subordinated note payable in an amount not to exceed \$4 million pursuant to the terms of the Subordinate Infrastructure Financing Agreement, dated September 17, 2015 between the District, District No. 1 and the primary Developer. As of December 31, 2016, the balance outstanding on the 2016 Subordinate Note Payable was \$0.

Authorized and Unissued Debt

As of December 31, 2016, the amount of the authorized, but unissued debt for the Winter Farm Metropolitan District No.1 was \$15,831,220.

NOTE E – FUND BALANCE/NET POSITION

Fund Balance

The District utilizes the fund balance presentation as required under GASB No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Fund balances, as applicable, are categorized as non-spendable, restricted, committed, assigned or unassigned.

Non-spendable – represents amounts that cannot be spent because they are either in non-spendable form or legally required to remain intact,

Restricted – represents amounts with external constraints placed on the use of these resources or imposed by enabling legislation,

Committed – represents amounts that can only be used for specific purposes imposed by a formal action of the District's highest level of decision-making authority, the District's Board of Directors. Committed resources cannot be used for any other purpose unless the District's Board of Directors removes or changes the specific use by the same type of action used to commit those amounts, either by resolution or by ordinance,

Assigned – represents amounts that the District intends to use for specific purposes as expressed by the District's Board of Directors or a District official delegated the authority to assign amounts,

Unassigned – represents the residual classification for the general fund or deficit balances in other funds, as applicable.

Amounts are considered to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) amounts are available. Unrestricted amounts are considered to have been spent when an expenditure is incurred for purposes for which amounts in any of these unrestricted fund balances classifications could be used.

Winter Farm Metropolitan District No. 2

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE F – FUND BALANCE/NET POSITION - *continued*

As of December 31, 2016, the District's fund balances consisted of the following:

	General Fund	Debt Service Fund	Total
Fund balances Assigned	\$ -	\$ 221,281	\$ 221,281

Net Position

The District's net position represents the difference between the District's assets, liabilities and deferred inflows of resources. The District may report 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 its 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 positions are available, the District will use the most restrictive net position first.

NOTE F - RELATED PARTY AGREEMENTS

Intergovernmental Agreement Concerning District Operations

The District and District No. 1 entered into an Intergovernmental Agreement Concerning District Operations ("Operations Agreement") under which the District engaged District No. 1 as the operator of District-Owned Improvements as described in the Operations Agreement. Under the terms of the Operations Agreement, the District is obligated to provide sufficient money to fund the operation of the District-Owned Improvements by District No.1. The Operations Agreement may be terminated by the District at any time, upon 90 days written notice.

Winter Farm Metropolitan District No. 2

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE F - RELATED PARTY AGREEMENTS

Infrastructure Acquisition and Reimbursement Agreement

In 2015, the District, District No. 1 and the Developer entered into an Infrastructure Acquisition and Reimbursement Agreement ("IARA"). The District and District No. 1, to induce the Developer to agree to design, construct and complete Additional Public Improvements within the Winter Farm development as set forth within the IARA, agree to reimburse the Developer for approved District Eligible Costs associated with the design and construction of Additional Public Improvements. Under the terms of the IARA, upon completion of and receipt of all required approvals and final payment by the Developer, the Developer shall convey the Additional Public Improvements to District No. 1. Under the Operations Agreement, those Additional Public Improvements retained by District No. 1 shall be operated, unless the Operating Agreement is terminated, by the District.

As discussed in NOTE D, the District issued a subordinated note payable in an amount not to exceed \$4 million as part of the IARA.

NOTE G – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft of, damage to, or destruction of property, errors or omissions, or natural disasters.

The District is a member of the Colorado Special Districts Property and Liability Pool ("Pool") as of December 31, 2016. The Pool is an organization created by intergovernmental agreements to provide property, liability, public officials' liability, boiler and other coverage to its members.

The District pays annual premiums to the Pool for liability, property, public officials' liability and workers compensation coverage. In the event aggregated losses incurred by the Pool exceed amounts recoverable from reinsurance contracts and funds accumulated by the Pool, the Pool may require additional contributions from the Pool members. Any excess funds which the Pool determines are not needed for purposes of the Pool may be returned to the members pursuant to a distribution formula.

NOTE H – TAX, SPENDING AND DEBT LIMITATIONS

Article X, Section 20 of the Colorado Constitution, commonly known as the Taxpayer's Bill of Rights ("TABOR"), contains tax, spending and debt limitations which apply to the State of Colorado and all local governments.

Spending and revenue limits are determined based upon 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 calculation of the fiscal year spending limits will require judicial interpretation.

Winter Farm Metropolitan District No. 2

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE I – MANAGEMENT’S EVALUATION OF SUBSEQUENT EVENTS

The preparation of the District’s financial statements and accompanying notes in conformity with US GAAP requires management of the District to evaluate transactions and events subsequent to the financial statement date involving the District. Management has evaluated the subsequent transactions and events of the District through June 8, 2017 which is the date the financial statements and accompanying notes were available for issuance.

NOTE J – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The Governmental Funds Balance Sheet/Statement of Net Position and Statement of Governmental Funds Revenues, Expenditures and Changes in Fund Balance/Statement of Activities includes an adjustments column which reconciles the differences between the government-wide and governmental fund financial statements as follows:

Governmental Funds Balance Sheet/Statement of Net Position

Long-term liabilities, including accrued interest payable, are not due and payable in the current period and therefore are not reported in the governmental funds. \$ 5,928,371

Statement of Governmental Funds Revenue, Expenditures and Changes in Fund Balance/Statement of Activities

Principal payments on the note payable are expenditures in the governmental funds; however, the principal payment is a reduction in the note payable in the Statement of Net Position. 90,000

Interest expense on the note payable is recorded in the Statement of Activities when incurred. However, it is recorded as paid in the governmental funds. This amount represents the change in the accrued interest reflected on the Statement of Net Position. 538

SUPPLEMENTARY INFORMATION

Winter Farm Metropolitan District No.2

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

For the Year ended December 31, 2016

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUE				
Property and other taxes	\$ 369,860	\$ 365,517	\$ 363,839	\$ (1,678)
Other	100	528	527	(1)
	<u>369,960</u>	<u>366,045</u>	<u>364,366</u>	<u>(1,679)</u>
EXPENDITURES				
Operating				
Bank charges	-	285	285	-
Treasurer's fees	5,137	5,140	5,140	-
Other	-	-	-	-
Debt service				
Non-Use fee	13,788	13,980	12,795	(1,185)
Interest	219,600	223,260	223,260	-
Principal	90,000	90,000	90,000	-
	<u>328,525</u>	<u>332,665</u>	<u>331,480</u>	<u>(1,185)</u>
CHANGES IN FUND BALANCE	<u>41,435</u>	<u>33,380</u>	32,886	<u>(494)</u>
FUND BALANCE				
Beginning balance			<u>186,718</u>	
Ending balance			<u>\$ 219,604</u>	