

**TIMNATH RANCH METROPOLITAN
DISTRICT NO. 2**

BASIC FINANCIAL STATEMENTS

December 31, 2017

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July 27, 2018

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FINANCIAL SECTION



JOHN CUTLER & ASSOCIATES

Board of Directors
Timnath Ranch Metropolitan District No. 2
Timnath, 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 Timnath Ranch Metropolitan District No. 2, Timnath, Colorado, as of and for the year ended December 31, 2017, 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 Timnath Ranch Metropolitan District No. 2, Timnath, Colorado, as of December 31, 2017, 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 required budgetary information on page 18 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The individual fund schedule listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain 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 individual fund schedule is fairly stated in all material respects in relation to the financial statements as a whole.

John Luthr & Associates, LLC

July 26, 2018

BASIC FINANCIAL STATEMENTS

TIMNATH RANCH METROPOLITAN DISTRICT NO. 2

STATEMENT OF NET POSITION

As of December 31, 2017

	Governmental Activities	
	2017	2016
ASSETS		
Restricted Cash and Investments	\$ 116,465	\$ 110,875
Property Taxes Receivable	21,532	12,546
Accounts Receivable	2,325	2,551
TOTAL ASSETS	<u>140,322</u>	<u>125,972</u>
LIABILITIES		
Accounts Payable	2,298	2,084
Accrued Interest Payable	1,658,143	875,235
Noncurrent Liabilities		
Due within One Year	13,721,892	13,716,892
Due in More Than One Year	<u>2,690,000</u>	<u>2,750,000</u>
TOTAL LIABILITIES	<u>18,072,333</u>	<u>17,344,211</u>
DEFERRED INFLOW OF RESOURCES		
Deferred Property Tax Revenue	<u>21,532</u>	<u>12,546</u>
NET POSITION		
Restricted for Debt Service	116,492	111,342
Unrestricted	<u>(18,070,035)</u>	<u>(17,342,127)</u>
TOTAL NET POSITION	<u>\$ (17,953,543)</u>	<u>\$ (17,230,785)</u>

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

TIMNATH RANCH METROPOLITAN DISTRICT NO. 2

STATEMENT OF ACTIVITIES
Year Ended December 31, 2017

<u>FUNCTIONS/PROGRAMS</u>	<u>Expenses</u>	<u>Program Revenues Charges for Services</u>	<u>Net (Expense) Revenues and Changes in Net Position Governmental Activities</u>	
			<u>2017</u>	<u>2016</u>
PRIMARY GOVERNMENT				
Governmental Activities				
General Government	\$ 207,015	\$ -	\$ (207,015)	\$ (189,338)
Interest on Long-Term Debt	910,055	-	(910,055)	(833,799)
	<u>\$ 1,117,070</u>	<u>\$ -</u>	(1,117,070)	(1,023,137)
GENERAL REVENUES				
Taxes			41,247	36,275
Service Fees			302,724	286,179
Interest			341	80
Special Item				
Transfer from District No. 1			50,000	100,000
			<u>394,312</u>	<u>422,534</u>
CHANGE IN NET POSITION			(722,758)	(600,603)
NET POSITION, Beginning			<u>(17,230,785)</u>	<u>(16,630,182)</u>
NET POSITION, Ending			<u>\$ (17,953,543)</u>	<u>\$ (17,230,785)</u>

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

TIMNATH RANCH METROPOLITAN DISTRICT NO. 2

BALANCE SHEET
GOVERNMENTAL FUNDS
As of December 31, 2017

	GENERAL FUND	DEBT SERVICE FUND	CAPITAL PROJECTS FUND	TOTALS	
				2017	2016
ASSETS					
Restricted Cash and Investments	\$ -	\$ 116,465	\$ -	\$ 116,465	\$ 110,875
Property Taxes Receivable	4,785	16,747	-	21,532	12,546
Accounts Receivable	2,298	27	-	2,325	2,551
TOTAL ASSETS	\$ 7,083	\$ 133,239	\$ -	\$ 140,322	\$ 125,972
LIABILITIES, DEFERRED INFLOWS, AND FUND EQUITY					
LIABILITIES					
Accounts Payable	\$ 2,298	\$ -	\$ -	\$ 2,298	\$ 2,084
TOTAL LIABILITIES	2,298	-	-	2,298	2,084
DEFERRED INFLOWS OF RESOURCES					
Deferred Property Tax Revenue	4,785	16,747	-	21,532	12,546
FUND EQUITY					
Fund Balance					
Restricted for Debt Service	-	116,492	-	116,492	111,342
TOTAL FUND EQUITY	-	116,492	-	116,492	111,342
TOTAL LIABILITIES, DEFERRED INFLOWS, AND FUND EQUITY	\$ 7,083	\$ 133,239	\$ -		

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

Long-term liabilities are not due and payable in the current period and are not reported in the funds. These include loans payable (\$2,750,000), capital note payable (\$13,661,892) and accrued interest (\$1,658,143)	(18,070,035)	(17,342,127)
Net position of governmental activities	<u>\$ (17,953,543)</u>	<u>\$ (17,230,785)</u>

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

TIMNATH RANCH METROPOLITAN DISTRICT NO. 2

STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
Year Ended December 31, 2017

	GENERAL FUND	DEBT SERVICE FUND	CAPITAL PROJECTS FUND	TOTALS	
				2017	2016
REVENUES					
Property Taxes	\$ 7,286	\$ 5,260	\$ -	\$ 12,546	12,594
Specific Ownership Taxes	28,701	-	-	28,701	23,681
Service Fees	168,662	134,062	-	302,724	286,179
Interest and Other Income	11	330	-	341	80
TOTAL REVENUES	204,660	139,652	-	344,312	322,534
EXPENDITURES					
General					
Payment to District 1	204,515	-	-	204,515	186,838
Treasurer's Fees	145	106	-	251	253
Non Use Fee	-	-	-	-	-
Paying Agent Fee	-	2,500	-	2,500	2,500
Debt Service					
Principal	-	55,000	-	55,000	50,000
Interest	-	76,896	50,000	126,896	178,586
TOTAL EXPENDITURES	204,660	134,502	50,000	389,162	418,177
EXCESS OF REVENUES OVER (UNDER) EXPENSES	-	5,150	(50,000)	(44,850)	(95,643)
OTHER FINANCING SOURCES (USES)					
Transfers from Other Districts	-	-	50,000	50,000	100,000
TOTAL OTHER FINANCING SOURCES (USES)	-	-	50,000	50,000	100,000
NET CHANGE IN FUND BALANCES	-	5,150	-	5,150	4,357
FUND BALANCES, Beginning	-	111,342	-	111,342	106,985
FUND BALANCES, Ending	\$ -	\$ 116,492	\$ -	\$ 116,492	\$ 111,342

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

TIMNATH RANCH METROPOLITAN DISTRICT NO. 2

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

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

Net Changes in Fund Balances - Total Governmental Funds	\$ 5,150
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 includes the increase in accrued interest (\$782,908) and loan principal payment of \$55,000.	<u>(727,908)</u>
Change in Net Position of Governmental Activities	<u>\$ (722,758)</u>

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

TIMNATH RANCH METROPOLITAN DISTRICT NO. 2

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Timnath Ranch Metropolitan District No. 2 (“District”) 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 (“Board”) elected by the constituents. The District was formed in conjunction with Timnath Ranch Metropolitan District Nos. 1, 3 and 4, collectively, “Districts” and was established as a Financing District. Timnath Ranch Metropolitan District Nos. 3-4 were also established as the Financing Districts and District No. 1 was established as the Service District.

The accounting policies of the District conform to generally accepted accounting principles (“GAAP”) as applicable to governments. The following is a summary of the more significant policies.

Reporting Entity

In accordance with governmental accounting standards, the District 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.

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.

TIMNATH RANCH METROPOLITAN DISTRICT NO. 2

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-Wide and Fund Financial Statements (Continued)

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. Service fees, 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.

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.

The *Debt Service Fund* accounts for the District's debt activities.

The *Capital Projects Fund* accounts for the District's capital activities.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Fund Balance/Net Position

Investments

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.

As of December 31, 2017, the District has no capital assets to report.

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 assets.

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.

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Financial Position and Balance Sheets will sometimes report a separate section for deferred outflows or resources. This separate financial statement element, deferred outflow of resources, represents a consumption of net position and fund balance that applies to a future period(s) and so will not be recognized as an outflow of resources expense/expenditure) until then.

In addition to liabilities, the statement of financial position and balance sheets will sometimes report a separate section for deferred inflows or resources. This separate financial statement element, deferred inflow of resources, represents an acquisition of net position and fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Fund Balance/Net Position (Continued)

Net Position

The Government-Wide fund financial statements utilize a net position presentation. Net position is categorized as investment in capital assets, restricted, and unrestricted. Investment in capital assets is intended to reflect the portion of net position which is associated with non-liquid, capital assets less outstanding capital asset related debt. The net related debt is the debt less the outstanding liquid assets and any associated unamortized cost. Restricted net position is liquid assets, which have third party limitations on their use. Unrestricted net position represents assets that do not have any third party limitations on their use.

Fund Balance Classification

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:

- Nonspendable – This classification includes amounts that cannot be spent because they are either not in a spendable form (such as inventories and prepaid amounts) or are legally or contractually required to be maintained intact. The District does not report any fund balances as nonspendable as of December 31, 2017.
- 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 \$116,492 as restricted to comply with debt service covenants.
- Committed – This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the District Board of Directors. These amounts cannot be used for any other purpose unless the Board 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 does not report any committed fund balances as of December 31, 2017.

TIMNATH RANCH METROPOLITAN DISTRICT NO. 2

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Fund Balance/Net Position (Continued)

Fund Balance Classification (Continued)

- Assigned – This classification includes amounts the government intends to use for specific purposes that do not meet the criteria to be classified as restricted or committed. The District does not report any assigned fund balances as of December 31, 2017.
- Unassigned – This classification includes the residual fund balance for the General Fund. The District does not report any unassigned fund balances as of December 31, 2017.

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 Fund Balances.

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 also assessed and submitted to Timnath Ranch Metropolitan District Nos. 3 and 4 and forwarded to the District as a payment for administrative and other services. These payments are labeled as Service Fees in the financial statements.

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, comparative data has not been presented in all statements because such inclusion would make certain statements unduly complex and difficult to understand. Also, certain amounts presented in the prior year data have been reclassified to be consistent with current year's presentation.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

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 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 line items within any fund. However, any revisions that alter the total expenditures of any fund must be approved by the Board.
- Budgets are legally adopted for all funds of the District on a basis consistent with GAAP.
- Budgeted amounts in the financial statements are as originally adopted or as amended by the Board. All appropriations lapse at year end.

NOTE 3: CASH AND INVESTMENTS

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, 2017, State regulatory commissioners have indicated that all financial institutions holding deposits for the District are eligible public depositories.

TIMNATH RANCH METROPOLITAN DISTRICT NO. 2

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

NOTE 3: CASH AND INVESTMENTS (Continued)

Deposits (Continued)

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, 2017, the District had no deposits with financial institutions.

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, but adheres to state statute requirements.

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
- Certain international agency securities
- General obligation and revenue bonds of U.S. local government entities
- Bankers' acceptances of certain banks
- Commercial paper
- 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.

TIMNATH RANCH METROPOLITAN DISTRICT NO. 2

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

NOTE 3: CASH AND INVESTMENTS (Continued)

Investments (Continued)

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.

At December 31, 2017, the District held investments in the First American Government Obligation Fund in the amount of \$116,465 with maturity dates of less than one and four years. The Fund consists primarily of governmental securities and is rated AAAM by Standard and Poor's. Given the low risk of this type of investment, the District has not established a policy limiting the amount of investments in this type of security and deems it unnecessary at this time. These investments are valued with Level 1 inputs.

Restricted Cash

At December 31, 2017, \$116,465 was restricted in the Debt Service Fund to comply with debt service requirements.

NOTE 4: LONG-TERM DEBT

Following is a summary of long-term debt transactions for the governmental activities for the year ended December 31, 2017.

	Balance <u>12/31/16</u>	<u>Additions</u>	<u>Payments</u>	Balance <u>12/31/17</u>	Due In <u>One Year</u>
Loan Payable 2014A	\$ 2,200,695	\$ -	\$ 55,000	\$ 2,145,695	\$ 60,000
Loan Payable 2014B	604,305	-	-	604,305	-
Capital Note Payable	13,661,892	-	-	13,661,892	13,661,892
Capital Note Accrued Interest	<u>875,235</u>	<u>832,908</u>	<u>50,000</u>	<u>1,658,143</u>	<u>1,658,143</u>
Total	<u>\$ 17,342,127</u>	<u>\$ 832,908</u>	<u>\$ 105,000</u>	<u>\$ 18,070,035</u>	<u>\$ 15,380,035</u>

TIMNATH RANCH METROPOLITAN DISTRICT NO. 2

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

NOTE 4: LONG-TERM DEBT (Continued)

Loans Payable

On April 15, 2014, the District entered into a loan agreement with US Bank, and received an initial loan in the amount of \$1,675,000 (“2014A Loan”). Proceeds were used to partially pay down the District’s capital note payable. In addition to the 2014A Loan, the District also received an additional loan up to a maximum amount of \$1,250,000 (“2014B Loan”). On October 1, 2014, the District received a draw of \$604,305 in loan proceeds from the 2014B Loan. Proceeds were used to pay down accrued interest owed on the District’s capital note payable. On October 20, 2015, the District received a draw of \$645,695 in loan proceeds from the 2014B Loan. Proceeds were used to pay down accrued interest owed on the District’s capital note payable.

The 2014A loan carries an interest rate of 2.86%. Principal payments are due annually beginning December 1, 2014 through December 1, 2018. Interest payments are due semi-annually on June 1 and December 1 and a final balloon payment of all outstanding principal and accrued interest is due on April 15, 2019. The additional draw on the 2014A loan carries an interest rate of 2.09%. Semi-annual interest payments are due on June 1 and December 1, beginning on December 1, 2015 through 2018. A final balloon payment of all outstanding principal and accrued interest is due on April 15, 2019.

The 2014B loan carries an interest rate of 2.99%. Semi-annual interest payments are due on June 1 and December 1, beginning on December 1, 2014 through 2018. A final balloon payment of all outstanding principal and accrued interest is due on April 15, 2019.

Annual debt service requirements for the outstanding loans payable at December 31, 2017 are as follows:

<u>Year Ended December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 60,000	\$ 76,059	\$ 136,059
2019	<u>2,690,000</u>	<u>23,101</u>	<u>2,713,101</u>
Total Debt Service Requirements	<u>\$ 2,750,000</u>	<u>\$ 99,160</u>	<u>\$ 2,849,160</u>

Capital Note Payable

On November 17, 2015, the District entered into a subordinate promissory note and loan agreement with Timnath Ranch, LLC (“Developer”) in order to finance improvements within the District boundaries. This promissory note calls for interest at 2% plus the Federal Reserve Bank Prime Rate. The interest rate at December 31, 2017 was 6.50%. This loan matures on November 16, 2018 and may be renewed on an annual basis.

TIMNATH RANCH METROPOLITAN DISTRICT NO. 2

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

NOTE 5: DEVELOPER AGREEMENT

The promissory notes referenced in Note 4 were issued in accordance with the Funding and Reimbursement Agreement for Operating Costs dated March 11, 2008 (the “Funding and Reimbursement Agreement”), the Advance and Reimbursement Agreement for Capital Costs dated March 11, 2008 (the “Advance and Reimbursement Agreement”), and that certain Infrastructure Acquisition Agreement (“Infrastructure Acquisition Agreement”) dated March 11, 2008, under which the Developer agreed to loan the District up to \$25,000,000 for capital costs related to public infrastructure.

The Funding and Reimbursement Agreement also specifies that the District will reimburse the Developer from legally available resources of the District, including fees, rates, and taxes.

The Infrastructure Acquisition Agreement provides for funds to be loaned to the Districts in one or a series of installments and shall be available to the District through December 31, 2008 as may be amended pursuant to an annual review and annual appropriations of the District. The Funding and Reimbursement Agreement provides for fund to be loaned to the District one or a series of installments and shall be available to the District through December 31, 2017.

The amounts outstanding to the Developer as of April 15, 2014 pursuant to the Funding and Reimbursement Agreement, Advance and Reimbursement Agreement and Infrastructure Acquisition Agreement were refinanced through a the Intergovernmental Agreement Concerning District Operation and Outstanding Reimbursement Obligations (“Master IGA”) dated April 15, 2014, secured by the Capital Pledge and Assignment Agreement dated April 15, 2014 (“Pledge Agreement”) and a subordinate promissory note to the Developer which was renewed on November 9, 2016.

The Infrastructure Acquisition Agreement with the Developer 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 of 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 Obligations Bonds, revenue bonds, promissory notes or other indebtedness of the Districts which will be issued by the District.

TIMNATH RANCH METROPOLITAN DISTRICT NO. 2

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

NOTE 6: RELATED PARTIES

The Developers of the property which constitutes the District are Timnath Ranch, LLC. Four of the members of the Board are employees, owners or are otherwise associated with the Developers, and have disclosed any potential conflicts of interest in taking action on matters brought before the Board. The District owes Timnath Ranch, LLC. \$13,661,892 in principal and \$1,658,143 in accrued interest for public improvements costs certified as constructed and acquired by the District as of December 31, 2017.

NOTE 7: RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, thefts of, damage to, and destruction of assets, injuries to employees, and natural disasters. The District participates in the Colorado Special Districts Property and Liability Pool ("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, deductible, and uninsured losses through the General Fund. Settled claims have not exceeded this coverage in any of the past three fiscal years.

NOTE 8: DEBT AUTHORIZATION

On November 6, 2007, a majority of the qualified electors of the District authorized the issuance of general indebtedness as follows:

- An amount not to exceed \$175,000,000 at an interest rate not to exceed 15% per annum, for providing public improvements; and
- An amount not to exceed \$25,000,000 in an interest rate not to exceed 15% per annum, for IGA purposes: and

As of December 31, 2017, the amount of debt authorized but unissued was \$22,250,000. The District intends to issue over time a part or all 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.

TIMNATH RANCH METROPOLITAN DISTRICT NO. 2

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

NOTE 9: DEFICIT NET POSITION

As of December 31, 2017, the District had a government-wide net position deficit of \$17,953,543. This deficit was created as the District used funding from the Developer to construct capital assets that were later transferred to the Town of Timnath, East Larimer County Water District, and the Boxelder Sanitation District. The District expects to eliminate the deficit net position as the District pays down its debt.

NOTE 10: 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.

NOTE 11: SUBSEQUENT EVENTS

On February 26, 2018 Timnath Ranch Metropolitan District No. 4 issued bonds in the amount of \$13,969,000. Proceeds of the Bonds were used to pay off the US Bank Loan and refunded only a portion of the District's Developer Notes Payable. District's revenues have been pledged to repay District No.4's bonds and debt authorization was used at that time.

The District has evaluated subsequent events through July 26, 2018, the date which the financial statements were available to be issued. There were no material subsequent events that required recognition or additional disclosure.

REQUIRED SUPPLEMENTAL INFORMATION

TIMNATH RANCH METROPOLITAN DISTRICT NO. 2

GENERAL FUND
 BUDGETARY COMPARISON SCHEDULE
 Year Ended December 31, 2017

	2017			VARIANCE	2016 ACTUAL
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	Positive (Negative)	
REVENUES					
Property Taxes	\$ 7,286	\$ 7,286	\$ 7,286	\$ -	\$ 7,099
Specific Ownership Taxes	12,552	28,199	28,701	502	23,681
Service Fees	172,035	172,035	168,662	(3,373)	156,160
Interest and Other Income	10,000	7	11	4	40
TOTAL REVENUES	201,873	207,527	204,660	(2,867)	186,980
EXPENDITURES					
Current					
General Government					
Payment to District 1	188,287	207,380	204,515	2,865	186,838
Treasurer's Fees	3,586	147	145	2	142
Contingency	10,000	-	-	-	-
TOTAL EXPENDITURES	201,873	207,527	204,660	2,867	186,980
NET CHANGE IN FUND BALANCE	-	-	-	-	-
FUND BALANCE, Beginning	-	-	-	-	-
FUND BALANCE, Ending	\$ -	\$ -	\$ -	\$ -	\$ -

See the accompanying independent auditors' report.

INDIVIDUAL FUND SCHEDULE

TIMNATH RANCH METROPOLITAN DISTRICT NO. 2

DEBT SERVICE FUND
BUDGETARY COMPARISON SCHEDULE
Year Ended December 31, 2017

	2017		VARIANCE Positive (Negative)	2016 ACTUAL
	ORIGINAL AND FINAL BUDGET	ACTUAL		
REVENUES				
Property Taxes	\$ 5,260	\$ 5,260	\$ -	\$ 5,495
Service Fees	136,493	134,062	(2,431)	130,019
Interest and Other Income	-	330	330	40
TOTAL REVENUES	141,753	139,652	(2,101)	135,554
EXPENDITURES				
Current				
General Government	5,089	2,606	2,483	2,611
Debt Service				
Principal	55,000	55,000	-	50,000
Interest	80,179	76,896	3,283	178,586
Contingency	1,000	-	1,000	-
TOTAL EXPENDITURES	141,268	134,502	6,766	231,197
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	485	5,150	4,665	(95,643)
OTHER FINANCING SOURCES				
Transfers from Other Districts	-	-	-	100,000
TOTAL OTHER FINANCING SOURCES (USES)	-	-	-	100,000
NET CHANGE IN FUND BALANCE	485	5,150	4,665	4,357
FUND BALANCE, Beginning	110,520	111,342	822	106,985
FUND BALANCE, Ending	<u>\$ 111,005</u>	<u>\$ 116,492</u>	<u>\$ 5,487</u>	<u>\$ 111,342</u>

See the accompanying independent auditors' report.

TIMNATH RANCH METROPOLITAN DISTRICT NO. 2

CAPITAL PROJECTS FUND
 BUDGETARY COMPARISON SCHEDULE
 Year Ended December 31, 2017

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE Positive (Negative)</u>
EXPENDITURES				
Debt Service				
Interest	<u>\$ -</u>	<u>\$ 50,000</u>	<u>\$ 50,000</u>	<u>\$ -</u>
TOTAL EXPENDITURES	<u>-</u>	<u>50,000</u>	<u>50,000</u>	<u>-</u>
OTHER FINANCING SOURCES AND (USES)				
Transfers from Other Districts	<u>-</u>	<u>50,000</u>	<u>50,000</u>	<u>-</u>
TOTAL OTHER FINANCING SOURCES	<u>-</u>	<u>50,000</u>	<u>50,000</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCE, Beginning	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCE, Ending	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

See the accompanying independent auditors' report.