

**FLYING HORSE METROPOLITAN DISTRICT #2**

**FINANCIAL STATEMENTS**

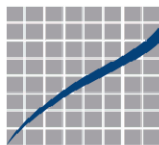
**DECEMBER 31, 2018**



## **TABLE OF CONTENTS**

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	<b>PAGE</b>
<b>INDEPENDENT AUDITOR'S REPORT</b>	1
<hr/>	
<b>BASIC FINANCIAL STATEMENTS</b>	
<b>Government-wide financial statements:</b>	
Statement of net position	5
Statement of activities	6
<hr/>	
<b>Fund financial statements:</b>	
Balance sheets - governmental funds	7
Statements of revenues, expenditures and changes in fund balances - governmental funds	8
Reconciliation of the statements of revenues, expenditures and changes in fund balances of governmental funds to the statement of activities	10
General fund - statement of revenues, expenditures and changes in fund balance - budget and actual	12
<hr/>	
Notes to financial statements	13
<hr/>	
<b>SUPPLEMENTARY INFORMATION</b>	
Debt service fund - schedule of revenues, expenditures and changes in fund balance - budget and actual	26
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**BiggsKofford**  
CERTIFIED PUBLIC ACCOUNTANTS

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## INDEPENDENT AUDITOR'S REPORT

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Board of Directors

**Flying Horse Metropolitan District #2**

Colorado Springs, Colorado

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and each major fund of Flying Horse Metropolitan District #2 ("District") as of and for the year ended December 31, 2018, 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 the District as of December 31, 2018, the respective changes in financial position and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Management has omitted management's discussion and analysis that 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 which 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 opinions on the basic financial statements are 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 supplementary information, as identified in the table of contents, 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 management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

*BiggsKofford, P.C.*

Colorado Springs, Colorado  
July 29, 2019

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## **BASIC FINANCIAL STATEMENTS**

**FLYING HORSE METROPOLITAN DISTRICT #2**  
**STATEMENT OF NET POSITION**  
**DECEMBER 31, 2018**

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	<u>Governmental Activities</u>
<b><u>ASSETS</u></b>	
Cash and investments - restricted	\$ 2,242,864
Accounts receivable - County Treasurer	23,086
Property taxes receivable	<u>2,282,757</u>
 Total assets	 <u>4,548,707</u>
<b><u>LIABILITIES</u></b>	
Accrued interest payable	82,706
Noncurrent liabilities:	
Due within one year	340,000
Due in more than one year	<u>22,375,000</u>
 Total liabilities	 <u>22,797,706</u>
<b><u>DEFERRED INFLOWS OF RESOURCES</u></b>	
Deferred property tax revenues	<u>2,282,757</u>
 Total deferred inflows of resources	 <u>2,282,757</u>
<b><u>NET POSITION</u></b>	
Restricted for:	
Debt service	2,177,658
Emergency reserve	17,168
Unrestricted	<u>(22,726,582)</u>
 Total net position	 <u>\$ (20,531,756)</u>

The accompanying notes and independent auditor's report  
should be read with this financial statement.

**FLYING HORSE METROPOLITAN DISTRICT #2**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED DECEMBER 31, 2018**

	<u>Expenses</u>	<u>Program Revenues</u>		<u>Capital Grants and Contributions</u>	<u>Net (Expenses) Revenue and Changes in Net Position</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>		
<b>FUNCTIONS/PROGRAMS</b>					
<b>PRIMARY GOVERNMENT:</b>					
General government	\$ 45,246	\$ -	\$ -	\$ -	\$ (45,246)
Intergovernmental	553,000	-	10,840	-	(542,160)
Facilities fees	-	-	250,000	-	250,000
Interest and related costs on long-term debt	1,549,517	-	-	-	(1,549,517)
<b>Total primary government</b>	<b>\$ 2,147,763</b>	<b>\$ -</b>	<b>\$ 260,840</b>	<b>\$ -</b>	<b>(1,886,923)</b>
<b>GENERAL REVENUES:</b>					
Property taxes					2,080,235
Specific ownership taxes					262,991
Investment earnings					32,873
<b>Total general revenues</b>					<b>2,376,099</b>
<b>Changes in net position</b>					<b>489,176</b>
<b>Net position, beginning of year</b>					<b>(21,020,932)</b>
<b>Net position, end of year</b>					<b>\$ (20,531,756)</b>

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should be read with this financial statement.

**FLYING HORSE METROPOLITAN DISTRICT #2**  
**BALANCE SHEETS**  
**GOVERNMENTAL FUNDS**  
**DECEMBER 31, 2018**

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
<b><u>ASSETS</u></b>			
Cash and investments - restricted	\$ -	\$ 2,242,864	\$ 2,242,864
Accounts receivables - County Treasurer	5,586	17,500	23,086
Property taxes receivable	552,356	1,730,401	2,282,757
<b>Total assets</b>	<b><u>\$ 557,942</u></b>	<b><u>\$ 3,990,765</u></b>	<b><u>4,548,707</u></b>
<b><u>DEFERRED INFLOWS OF RESOURCES</u></b>			
Deferred property tax revenues	552,356	1,730,401	2,282,757
<b>Total deferred inflows of resources</b>	<b><u>552,356</u></b>	<b><u>1,730,401</u></b>	<b><u>2,282,757</u></b>
<b><u>FUND BALANCE</u></b>			
Restricted for:			
Debt service	-	2,260,364	2,260,364
Emergency reserve	17,168	-	17,168
Unassigned:			
General government	(11,582)	-	(11,582)
<b>Total fund balances</b>	<b><u>5,586</u></b>	<b><u>2,260,364</u></b>	<b><u>2,265,950</u></b>
<b>Total liabilities and fund balances</b>	<b><u>\$ 557,942</u></b>	<b><u>\$ 3,990,765</u></b>	
Amounts reported in governmental activities in the statement of net position are different because:			
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds:			
Bonds payable			(22,715,000)
Accrued interest payable			(82,706)
<b>Net position of governmental activities</b>			<b><u>\$ (20,531,756)</u></b>

The accompanying notes and independent auditor's report should be read with this financial statement.

**FLYING HORSE METROPOLITAN DISTRICT #2**  
**STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN**  
**FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**YEAR ENDED DECEMBER 31, 2018**

	<b>General Fund</b>	<b>Debt Service Fund</b>	<b>Total Governmental Funds</b>
<b>REVENUES</b>			
Property taxes	\$ 503,455	\$ 1,576,780	\$ 2,080,235
Facilities fees	-	250,000	250,000
Specific ownership taxes	63,649	199,342	262,991
Intergovernmental revenues	8,540	2,300	10,840
Net investment income	503	32,370	32,873
<b>Total revenues</b>	<b>576,147</b>	<b>2,060,792</b>	<b>2,636,939</b>
<b>EXPENDITURES</b>			
Current:			
Intergovernmental expenses	553,000	-	553,000
County Treasurer's fees	7,564	23,688	31,252
Accounting	5,325	-	5,325
Bank charges	3,154	2,300	5,454
Insurance	2,525	-	2,525
Dues	689	-	689
Debt service:	-	-	
Interest expense	-	1,550,600	1,550,600
Bond principal	-	325,000	325,000
<b>Total expenditures</b>	<b>572,257</b>	<b>1,901,588</b>	<b>2,473,845</b>
Excess of revenues over expenditures	3,890	159,204	163,094
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfer in (out) other funds	(565)	565	-
<b>Total other financing sources (uses)</b>	<b>(565)</b>	<b>565</b>	<b>-</b>
Net change in fund balances	3,325	159,769	163,094
Fund balances, beginning of year	2,261	2,100,595	2,102,856
Fund balances, end of year	<b>\$ 5,586</b>	<b>\$ 2,260,364</b>	<b>\$ 2,265,950</b>

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**FLYING HORSE METROPOLITAN DISTRICT #2**  
**RECONCILIATION OF THE STATEMENTS OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED DECEMBER 31, 2018**

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<b>Net change in fund balances - total governmental funds</b>	\$	163,094
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Amounts reported for governmental activities in the statement of activities are different because:

The issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The net effect of these differences is the treatment of long-term debt and related items as follows:

Principal payments on bonds payable		325,000
Change in accrued interest		1,082

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<b>Changes in net position of governmental activities</b>	\$	<b>489,176</b>
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The accompanying notes and independent auditor's report should be read with this financial statement.

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**FLYING HORSE METROPOLITAN DISTRICT #2**  
**GENERAL FUND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**YEAR ENDED DECEMBER 31, 2018**

	Budget		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b><u>REVENUES</u></b>				
Property taxes	\$ 503,736	\$ 503,455	\$ 503,455	\$ -
Specific ownership taxes	43,563	63,649	63,649	-
Intergovernmental revenues	8,151	8,540	8,540	-
Net investment income	-	503	503	-
<b>Total revenues</b>	<b>555,450</b>	<b>576,147</b>	<b>576,147</b>	<b>-</b>
<b><u>EXPENDITURES</u></b>				
Intergovernmental expenses	534,400	553,000	553,000	-
Accounting	5,325	5,325	5,325	-
County Treasurer's fees	7,556	7,564	7,564	-
Insurance	2,526	2,525	2,525	-
Bank charges	240	3,154	3,154	-
Dues	300	689	689	-
<b>Total expenditures</b>	<b>550,347</b>	<b>572,257</b>	<b>572,257</b>	<b>-</b>
Excess of revenues over (under) expenditures	5,103	3,890	3,890	-
<b><u>OTHER FINANCING SOURCES (USES)</u></b>				
Transfer from other funds	-	-	(565)	(565)
<b>Total other financing sources</b>	<b>-</b>	<b>-</b>	<b>(565)</b>	<b>(565)</b>
<b>Net change in fund balance</b>	<b>\$ 5,103</b>	<b>\$ 3,890</b>	3,325	<b>\$ (565)</b>
Fund balance, beginning of year			2,261	
Fund balance, end of year			<b>\$ 5,586</b>	

The accompanying notes and independent auditor's report  
should be read with this financial statement.

**FLYING HORSE METROPOLITAN DISTRICT #2**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

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**1. DEFINITION OF REPORTING ENTITY**

Flying Horse Metropolitan District #2 ("District #2"), a quasi-municipal corporation and a political subdivision of the State of Colorado created pursuant to the Special District Act, was formed in 2005 for the purpose of providing the funding for streets, safety protection, water, sanitary sewer, drainage and park and recreation improvements, facilities, and services within the Flying Horse subdivision located in the City of Colorado Springs.

District #2 was formed in conjunction with Flying Horse Metropolitan District #1 ("District #1") and Flying Horse Metropolitan District #3 ("District #3") to serve the needs of the Flying Horse development for the purpose of financing, construction and operation of improvements and infrastructure serving the districts. District #1 is responsible for managing the construction, operation and maintenance of all improvements not transferred to the City of Colorado Springs. District #2 and District #3 are responsible for providing the funding and tax base needed to support the financing plan for capital improvements and to fund ongoing operations. District #1 and District #3 are not component units of District #2.

District #2 follows the Governmental Accounting Standards Board ("GASB") accounting pronouncements which provide guidance for determining which governmental activities, organizations and functions should be included within the financial reporting entity. GASB pronouncements set forth the financial accountability of a governmental organization's elected governing body as the basic criterion for including a possible component governmental organization in a primary government's legal entity. Financial accountability includes, but is not limited to, appointment of a voting majority of the organization's governing body, ability to impose its will on the organization, a potential for the organization to provide specific financial benefits or burdens and fiscal dependency.

District #2 is not financially accountable for any other organization nor is District #2 a component unit of any other primary governmental entity.

District #2 has no employees and all operational and administrative functions are contracted.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Government-wide and fund financial statements

The government-wide financial statements include the statement of net position and the statement of activities. These financial statements include all of the activities of District #2. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are normally supported by taxes and intergovernmental revenues.

The statement of net position reports all financial and capital resources of District #2. The difference between the assets and deferred outflows of resources, and liabilities and deferred inflows of resources of District #2 is reported as net position.

See independent auditor's report

**FLYING HORSE METROPOLITAN DISTRICT #2**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Government-wide and fund financial statements (continued)

The statement of activities demonstrates the degree to which the direct and indirect expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for the governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement focus, basis of accounting and financial statement position

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

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 collectable within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, District #2 considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The major sources of revenue susceptible to accrual are property taxes and intergovernmental revenues. All other revenue items are considered to be measurable and available only when cash is received by District #2. Expenditures, other than interest on long-term obligations are recorded when the liability is incurred or the long-term obligation is due.

District #2 reports the following major governmental funds:

*General fund* - The general fund is used to account for all financial resources of District #2 except those required to be accounted for in another fund.

*Debt service fund* - The debt service fund accounts for the servicing of general long-term debt and revenues generated and received by District #2 that are required to be used in payment of long-term debt.

See independent auditor's report

**FLYING HORSE METROPOLITAN DISTRICT #2**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Budgets

In accordance with state budget law, District #2's board of directors holds public hearings in the fall each year to approve the budget and appropriate the funds for the ensuing year. The appropriation is at the total fund expenditures and other financing uses level and lapses at year-end. District #2's board of directors can modify the budget by line item within the total appropriation without notification. The appropriation can only be modified upon completion of notification and publication requirements. The budget includes each fund on its basis of accounting unless otherwise indicated.

District #2 amended its annual budget for the year ended ended December 31, 2018.

Pooled cash and investments

District #2 follows the practice of pooling cash and investments of all funds to maximize investment earnings. Except when required by trust or other agreements, all cash is deposited to and disbursed from a single bank account. Cash in excess of immediate operating requirements is pooled for deposit and investment flexibility. Investment earnings are allocated periodically to the participating funds based upon each fund's average equity balance in the total cash.

Property taxes

Property taxes are levied by District #2's board of directors. The levy is based on assessed valuations determined by the County Assessor generally as of January 1 of each year. The levy is normally set by December 15 and attaches as an enforceable lien 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, at the taxpayer's election, in February and June in equal installments. Delinquent taxpayers are notified in August and sales of the tax liens on delinquent properties are generally held in November or December. The County Treasurer remits the taxes collected to District #2 monthly.

Property taxes, net of estimated uncollectable taxes, are recorded initially as deferred revenues in the year they are levied and measurable. The deferred property tax revenues are recorded as revenues in the year they are available or collected.

Deferred inflows of resources

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Accordingly, property tax revenue is deferred and recognized as an inflow of resources in the period that the amounts become available.

See independent auditor's report

**FLYING HORSE METROPOLITAN DISTRICT #2**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Equity

*Net position*

For government-wide presentation purposes when both restricted and unrestricted resources are available for use, it is District #2's practice to use restricted resources first, then unrestricted resources as they are needed.

*Fund balances*

Fund balance for governmental funds should be reported in classifications that comprise a hierarchy based on the extent to which the government is bound to honor constraints on the specific purposes for which spending can occur. Governmental funds report up to five classifications of fund balance: nonspendable, restricted, committed, assigned and unassigned. Because circumstances differ among governments, not every government or every governmental fund will present all of these components. The following classifications describe the relative strength of the spending constraints:

*Nonspendable fund balance* - The portion of fund balance that cannot be spent because it is either not in spendable form (such as prepaid amounts or inventory) or is legally or contractually required to be maintained intact.

*Restricted fund balance* - The portion of fund balance that is constrained to being used for a specific purpose by external parties (such as bondholders), constitutional provisions, or enabling legislation.

*Committed fund balance* - The portion of fund balance that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, the board of directors. The constraint may be removed or changed only through formal action of the board of directors.

*Assigned fund balance* - The portion of fund balance that is constrained by the government's intent to be used for specific purposes, but is neither restricted nor committed. Intent is expressed by the board of directors to be used for a specific purpose. Constraints imposed on the use of assigned amounts are more easily removed or modified than those imposed on amounts that are classified as committed.

*Unassigned fund balance* - The residual portion of fund balance that does not meet any of the criteria described above.

If more than one classification of fund balance is available for use when an expenditure is incurred, it is District #2's policy to use the most restrictive classification first.

See independent auditor's report

**FLYING HORSE METROPOLITAN DISTRICT #2**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

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**3. CASH AND INVESTMENTS**

Cash and investments as of December 31, 2018 are classified in the accompanying financial statements as follows:

Statement of net position:	
Cash and investments - restricted	<u>\$ 2,242,864</u>
Total cash and investments	<u><u>\$ 2,242,864</u></u>

Cash and investments as of December 31, 2018 consist of the following:

Deposits with financial institutions	\$ 1,951,450
Investments	<u>291,414</u>
	<u><u>\$ 2,242,864</u></u>

Deposits with financial institutions

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 regulators. Amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is determined by the PDPA. The PDPA allows the institution to create a single collateral pool for all public funds. The pool for all the uninsured public deposits as a group is to be maintained by another institution or held in trust. The market value of the collateral must be 102% of the aggregate uninsured deposits.

The state commissioners for banks and financial services are required by statute to monitor the naming of eligible depositories and reporting of the uninsured deposits and assets maintained in the collateral pools.

As of December 31, 2018, District #2's cash deposits had a bank balance of \$1,951,450 and a book balance of \$1,951,450.

Investments

District #2 has not adopted a formal investment policy; however, District #2 follows state statutes regarding investments.

District #2 generally limits its concentration of investments to those which are believed to have minimal credit risk, minimal interest rate risk and no foreign currency risk. Additionally, District #2 is not subject to concentration risk disclosure requirements or subject to investment custodial credit risk for investments that are in the possession of another party.

See independent auditor's report

**FLYING HORSE METROPOLITAN DISTRICT #2**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

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**3. CASH AND INVESTMENTS (CONTINUED)**

Investments (continued)

Colorado revised statutes limit investment maturities to five years or less unless otherwise formally approved by the board of directors. Such actions are generally associated with a debt service reserve or sinking fund requirements.

Colorado statutes specify investment instruments meeting defined rating and risk criteria in which local governments may invest which include:

- Obligations of the United States and certain United States government agency securities
- Certain international agency securities
- General obligation and revenue bonds of United States local government entities
- Bankers' acceptances of certain banks
- Commercial paper
- Written repurchase agreements collateralized by certain authorized securities
- Certificates of deposit in Colorado PDPA approved banks or savings banks
- Certain money market funds
- Guaranteed investment contracts
- Local government investment pools

As of December 31, 2018, District #2 had the following in investments.

<u>Investment</u>	<u>Maturity</u>	<u>Fair Value</u>
Colorado Local Government Liquid Asset Trust (COLOTRUST)	Weighted average under 60 days	<u>\$ 291,414</u>

See independent auditor's report

**FLYING HORSE METROPOLITAN DISTRICT #2**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

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**3. CASH AND INVESTMENTS (CONTINUED)**

COLOTRUST

District #2 invested in the Colorado Local Government Liquid Asset Trust ("COLOTRUST" or "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. The Trust offers shares in two portfolios, COLOTRUST PRIME and COLOTRUST PLUS+. Both portfolios may invest in US Treasury securities and repurchase agreements collateralized by US Treasury securities. COLOTRUST PLUS+ may also invest in certain obligations of US government agencies, highest rated commercial paper and any security allowed under CRS 24-75-601. A designated custodial bank serves as custodian for the Trust's portfolios pursuant to a custodian agreement. The custodian acts as safekeeping agent for the Trust's investment portfolios and provides services as the depository in connection with direct investments and withdrawals. The custodian's internal records segregate investments owned by the Trust. COLOTRUST is rated AAAM by Standard & Poor's. COLOTRUST records its investments at fair value and District #2 records its investment in COLOTRUST using the net asset value method. There are no unfunded commitments, the redemption frequency is daily and there is no redemption notice period.

**4. LONG-TERM OBLIGATIONS**

Series 2013A Bonds and Series 2013B Bonds

In 2013, Districts #2 issued general obligation limited tax refunding bonds to replace the Series 2005 Bonds. The bonds were reissued in two separate issuances: the Series 2013A and Series 2013B Bonds for a combined amount of \$24,225,000. The interest rate on the 2013A Bonds is 4.00% per annum and the rate on the Series 2013B Bonds is 8.00% per annum. Interest on the 2013A Bonds is payable to the bondholders semi-annually on each June 1 and December 1, commencing December 1, 2013. The 2013B Bonds will not bear interest from the date of issuance to December 15, 2017. Commencing December 15, 2017, interest will accrue on the Series 2013B Bonds at 8.00% per annum, and will be payable annually on December 15 each year, commencing December 15, 2018. The Series 2013A Bonds mature on December 1, 2033 and the Series 2013B Bonds mature on December 15, 2042. The 2013B Bonds were issued at a discount of \$4,574,560 which represents the present value, at issuance, of interest payments that were not required from the date of issuance through December 15, 2017.

The bond debt will be repaid from the proceeds of an ad valorem property tax and a specific ownership tax on the taxable property within District #2 and facilities fees through an agreement with the developer.

See independent auditor's report

**FLYING HORSE METROPOLITAN DISTRICT #2**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

**4. LONG-TERM OBLIGATIONS (CONTINUED)**

Series 2013A Bonds and Series 2013B Bonds (continued)

District #2 is required, pursuant to the bond agreements, to maintain project, bond, and surplus cash accounts. The purpose of the project reserve account is to account for the project proceeds and associated costs related to the project (including repayment of debt); any excess cash after the project is completed will be added to the bond reserve account fund. The purpose of the bond reserve cash account is to provide adequate reserves to meet principal and interest requirements if the bond account does not have enough funding. The surplus account is required to be maintained as long as the bonds are outstanding.

The following is a summary of changes in bond obligations of District #2 during the year ended December 31, 2018:

	<u>Balance 1/1/18</u>	<u>Additions</u>	<u>Repayments/ Accretion</u>	<u>Balance 12/31/18</u>	<u>Due within one year</u>
2013A Series Bonds	\$ 7,315,000	\$ -	\$ (325,000)	\$ 6,990,000	\$ 340,000
2013B Series Bonds	<u>15,725,000</u>	<u>-</u>	<u>-</u>	<u>15,725,000</u>	<u>-</u>
	<u>\$ 23,040,000</u>	<u>\$ -</u>	<u>\$ (325,000)</u>	<u>\$ 22,715,000</u>	<u>\$ 340,000</u>

The 2013A Series Bond annual requirements to amortize long-term obligations are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 340,000	\$ 279,600	\$ 619,600
2020	355,000	266,000	621,000
2021	365,000	251,800	616,800
2022	380,000	237,200	617,200
2023	395,000	222,000	617,000
2024-2028	2,240,000	858,800	3,098,800
2029-2033	<u>2,915,000</u>	<u>374,400</u>	<u>3,289,400</u>
Total	<u>\$ 6,990,000</u>	<u>\$ 2,489,800</u>	<u>\$ 9,479,800</u>

See independent auditor's report

**FLYING HORSE METROPOLITAN DISTRICT #2**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

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**4. LONG-TERM OBLIGATIONS (CONTINUED)**

Series 2013A Bonds and Series 2013B Bonds (continued)

The 2013B Series Bond annual requirements to amortize long-term obligations are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ -	\$ 1,258,000	\$ 1,258,000
2020	-	1,258,000	1,258,000
2021	-	1,258,000	1,258,000
2022	-	1,258,000	1,258,000
2023	-	1,258,000	1,258,000
2024-2028	730,000	6,209,200	6,939,200
2029-2033	1,945,000	5,758,800	7,703,800
2034-2038	5,935,000	4,358,400	10,293,400
2039-2042	<u>7,115,000</u>	<u>1,487,200</u>	<u>8,602,200</u>
Total	<u>\$ 15,725,000</u>	<u>\$ 24,103,600</u>	<u>\$ 39,828,600</u>

**5. FACILITIES FEE**

In 2013, District #2 entered into a facilities fee agreement with the developer to assist in the funding for the repayment of District #2 general obligation limited tax refunding bonds and subordinated general obligation limited tax refunding and improvement bonds issued in 2013. Facilities fees are due and payable to District #2 upon the earlier of the issuance of a building permit by the Regional Building Department or the sale of a platted lot. Any unpaid fees that are due and owing bear interest at a rate of 12.00% per annum. Under the agreement, the developer will prepay fees to District #2 if there is a shortfall relative to the projected and agreed-upon schedule. In the event District #2 receives fees in any semi-annual period in excess of the amount required by the agreement, such excess payments are carried forward and credited against future required payments.

During the year ended December 31, 2018, District #2 received \$250,000 as facilities fees.

**6. NET POSITION**

District #2 has net position consisting of two components - restricted and unrestricted.

Restricted items include net positions that are subject to restrictions for use either by external restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

See independent auditor's report

**FLYING HORSE METROPOLITAN DISTRICT #2**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

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**6. NET POSITION (CONTINUED)**

District #2 had restricted net positions of as of December 31, 2018:

Restricted net position:

Emergencies (see Note 9)	\$ 17,168
Debt service (see Note 4)	<u>2,177,658</u>
	<u>\$ 2,194,826</u>

District #2's unrestricted net position as of December 31, 2018 totaled a deficit of \$22,726,582. This deficit amount was a result of District #2 being responsible for the repayment of general obligation bonds, the proceeds of which were transferred primarily to District #1.

**7. RELATED PARTIES**

The developer of the property which constitutes District #2 is Classic Development-Flying Horse, LLC, which is 100% owned by Elite Properties of America, Inc. ("EPA"). The members of the board of directors are officers, employees or associates of EPA and may have conflicts of interest in dealing with District #2.

**8. RISK MANAGEMENT**

District #2 is exposed to various risks of loss related to torts, thefts of, damage to, or destruction of assets; errors or omissions; injuries to employees; or acts of God.

District #2 is a member of the Colorado Special Districts Property and Liability Pool ("Pool") as of December 31, 2018. The Pool is an organization created by intergovernmental agreement to provide property, liability, public officials liability, boiler and machinery and workers compensation coverage to its members. Settled claims have not exceeded this coverage in any of the past three fiscal years.

District #2 pays annual premiums to the Pool for liability, property and public officials liability 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.

**9. 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, revenue and debt limitations which apply to the State of Colorado and all local governments within the State of Colorado.

See independent auditor's report

**FLYING HORSE METROPOLITAN DISTRICT #2**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

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**9. TAX, SPENDING AND DEBT LIMITATIONS (CONTINUED)**

Spending and revenue limits are determined based on the prior 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. Revenues in excess of the fiscal year spending limit must be refunded unless the voters approve retention of such revenues. District #2's voters approved a ballot issue allowing District #2 to retain all revenues.

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.

District #2's management believes it is in compliance with the provisions of TABOR. However, TABOR is complex and subject to interpretation. Many of the provisions, including the interpretation of how to calculate fiscal year spending limits, will likely require judicial interpretation.

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## **SUPPLEMENTARY INFORMATION**

**FLYING HORSE METROPOLITAN DISTRICT #2**  
**DEBT SERVICE FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**YEAR ENDED DECEMBER 31, 2018**

	<u>Budget</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b><u>REVENUES</u></b>				
Property taxes	\$ 1,577,660	\$ 1,576,780	\$ 1,576,780	\$ -
Facilities fees	208,000	250,000	250,000	-
Specific ownership taxes	136,437	199,342	199,342	-
Intergovernmental revenues	2,300	2,300	2,300	-
Net investment income	22,699	32,370	32,370	-
<b>Total revenues</b>	<b>1,947,096</b>	<b>2,060,792</b>	<b>2,060,792</b>	<b>-</b>
<b><u>EXPENDITURES</u></b>				
County Treasurer's fees	23,665	23,688	23,688	-
Bank charges	2,300	2,300	2,300	-
Interest expense	1,550,600	1,550,600	1,550,600	-
Bond principle	325,000	325,000	325,000	-
<b>Total expenditures</b>	<b>1,901,565</b>	<b>1,901,588</b>	<b>1,901,588</b>	<b>-</b>
Excess of revenues over (under) expenditures	45,531	159,204	159,204	-
<b><u>OTHER FINANCING SOURCES (USES)</u></b>				
Transfer from other funds	-	-	565	565
<b>Total other financing sources</b>	<b>-</b>	<b>-</b>	<b>565</b>	<b>565</b>
<b>Net change in fund balance</b>	<b>\$ 45,531</b>	<b>\$ 159,204</b>	<b>159,769</b>	<b>\$ 565</b>
Fund balance, beginning of year			2,100,595	
Fund balance, end of year			<b>\$ 2,260,364</b>	

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