

**Jacoby Farm Metropolitan District
Financial Statements
For Year Ended December 31, 2018
with Independent Auditors' Report**

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Jacoby Farm Metropolitan District
Weld County, Colorado

We have audited the accompanying financial statements of the governmental activities and each major fund of the Jacoby Farm Metropolitan District (the "District") as of and for the year ended December 31, 2018, which collectively comprise the District's basic financial statements as listed in the table of contents and the related notes to the financial statements.

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 of 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 Jacoby Farm Metropolitan District as of December 31, 2018 and the respective changes in financial position 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

Required Supplementary Information

Management has omitted Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require 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 (GASB), who considers it to be an essential part of financial reporting for placing the basic financial statements in appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Supplementary 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 budgetary comparison schedules on pages 22 to 23 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The individual budgetary comparison schedules are the responsibility of management and were derived from and relate 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 individual fund budgetary schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Crady, Puca & Associates

Aurora, Colorado
October 7, 2019

Government-wide Financial Statements

Statement of Net Position

Jacoby Farm Metropolitan District Statement of Net Position December 31, 2018

Assets	
Cash and Investments	\$ 3,080
Accounts Receivable	7,421
Due from County Treasurer	698
Property Tax Receivable	140,381
Prepaid Expenses	2,476
Capital Assets:	
Non-depreciable	186,760
Depreciable, net	1,068,832
Total Assets	<u>1,409,648</u>
Liabilities	
Accounts Payable and Unearned Revenues	4,455
Interest Payable	2,042,228
Advances Payable	37,728
Notes Payable:	
Due within one year	-
Due in more than one year	6,999,598
Total Liabilities	<u>9,084,009</u>
Deferred Inflows of Resources	
Unavailable Property Tax	140,381
Total Deferred Inflows of Resources	<u>140,381</u>
Net position	
Net Investment in Capital Assets	-
Restricted	
Debt Service	-
Emergencies	4,800
Unrestricted	(7,819,542)
Total Net Position	<u>\$ (7,814,742)</u>

Statement of Activities

Jacoby Farm Metropolitan District
Statement of Activities
December 31, 2018

Expenditures	
Governmental Activities:	
Administrative	\$ 4,552
Management and accounting	19,945
Legal	36,699
Landscape Maintenance and Utilities	59,747
Treasurer's Fees	1,788
Interest on Long-term Debt	510,700
Conveyance of Capital Assets	3,814,291
Depreciation	66,593
Total Expenditures	4,514,315
Program Revenues	
Charges for Service:	
Irrigation Water Fees	34,131
Total Program Revenue	34,131
Net Program Income (Expense)	(4,480,184)
General Revenues	
Property Taxes	118,929
Specific Ownership Taxes	9,168
Gain on Sale of Capital Assets	123,301
Other Income	243
Total General Revenues	251,641
Special Item	
Forgiveness of Interest	64,935
Change in Net Position	(4,163,608)
Net Position, beginning of year (Note 9)	(3,651,134)
Net Position, end of year	\$(7,814,742)

Fund Financial Statements

Balance Sheet – Governmental Funds

**Jacoby Farm Metropolitan District
Balance Sheet - Governmental Funds
December 31, 2018**

	General Fund	Capital Projects	Debt Service	Total
Assets				
Cash and Investments	\$ 3,080	\$ -	\$ -	\$ 3,080
Accounts Receivable	7,421	-	-	7,421
Due from County Treasurer	698	-	-	698
Property Tax Receivable	61,197	-	79,184	140,381
Prepaid Expenses	2,476	-	-	2,476
Total Assets	<u>\$ 74,872</u>	<u>\$ -</u>	<u>\$ 79,184</u>	<u>\$ 154,056</u>
Liabilities				
Accounts Payable	\$ 3,774	\$ -	\$ -	\$ 3,774
Unearned Revenue	681	-	-	681
Total Liabilities	<u>4,455</u>	<u>-</u>	<u>-</u>	<u>4,455</u>
Deferred Inflows of Resources				
Unavailable Property Tax	61,197	-	79,184	140,381
Total Deferred Inflows of Resources	<u>61,197</u>	<u>-</u>	<u>79,184</u>	<u>140,381</u>
Fund Balance				
Nonspendable:				
Prepaid Expenses	2,476	-	-	2,476
Restricted:				
Debt Service	-	-	-	-
Emergencies	4,800	-	-	4,800
Unassigned	1,944	-	-	1,944
Total Fund Balance	<u>9,220</u>	<u>-</u>	<u>-</u>	<u>9,220</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balance				
	<u>\$ 74,872</u>	<u>\$ -</u>	<u>\$ 79,184</u>	<u>\$ 154,056</u>

Amounts reported for governmental activities in the statement of Net Position are Different because:

Total fund balance - governmental funds 9,220

Capital Assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 1,255,592

Long-term liabilities are not due and payable in the current period and therefore, are not reported in the funds. (9,079,554)
\$(7,814,742)

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds

Jacoby Farm Metropolitan District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds

For the year ended December 31, 2018

	General Fund	Capital Projects	Debt Service	Total
Revenues				
Property Tax	\$118,929	\$ -	\$ -	\$ 118,929
Specific Ownership Tax	9,168	-	-	9,168
Irrigation Water Fees	34,131	-	-	34,131
Other Revenues	243	-	-	243
Total Revenues	162,471	-	-	162,471
Expenditures				
General Government:				
Administrative	4,552	-	-	4,552
Management and Accounting	19,945	-	-	19,945
Legal	36,699	-	-	36,699
Landscape Maintenance and Utilities	59,747	-	-	59,747
Treasurer's Fees	1,788	-	-	1,788
Capital Expenditures	-	3,814,291	-	3,814,291
Debt Service:				
Principal	-	1,258,709	369,376	1,628,085
Interest	-	-	75,508	75,508
Total Expenditures	122,731	5,073,000	444,884	5,640,615
Excess (Deficiency) of Revenues over Expenditures	39,740	(5,073,000)	(444,884)	(5,478,144)
Other Financing Sources (Uses)				
Proceeds of Note Issuance	-	5,073,000	-	5,073,000
Developer Advance	-	-	17,384	17,384
Sale of Capital Assets	124,925	-	227,500	352,425
Transfers In/(Out)	(200,000)	-	200,000	-
Total Other Financing Sources (Uses)	(75,075)	5,073,000	444,884	5,442,809
Net Changes in Fund Balance	(35,335)	-	-	(35,335)
Fund Balances, beginning	44,555	-	-	44,555
Fund Balances, ending	\$ 9,220	\$ -	\$ -	\$ 9,220

Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balance of the Governmental Funds to the Statement of Activities

Jacoby Farm Metropolitan District
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of the Governmental Funds to the Statement of Activities
For the year ended December 31, 2018

	Total Governmental Funds
Net change in fund balance of the governmental funds	\$ (35,335)
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>	
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense or ultimately conveyed to the Town. This is the amount by which depreciation and conveyance exceeds capital outlay in the current year.</p>	(66,593)
<p>The net effect of various miscellaneous transactions involving capital assets (i.e. sales and donations) is to increase net position.</p>	(229,124)
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.</p>	64,935
<p>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal on long-term debt consumes the current financial resources of governmental funds. This amount is the net effect of those differences in the treatment of long-term debt.</p>	(3,462,299)
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and therefore, are not reported as expenditures or income in governmental funds.</p>	(435,192)
Change in net position of governmental activities	\$ (4,163,608)

Statement of Revenues, Expenditures and Changes in Fund Balance – Actual and Budget –
General Fund

Jacoby Farm Metropolitan District
Statement of Revenues, Expenditures and Changes in Fund Balances
Actual and Budget - General Fund
For the year ended December 31, 2018

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Property Tax	\$ 118,928	\$ 118,928	\$ 118,929	\$ 1
Specific Ownership Tax	7,136	9,169	9,168	(1)
Irrigation Water Revenue	30,000	33,052	34,131	1,079
Water Share Sales	-	124,925	124,925	-
Other Revenues	25	933	243	(690)
Total Revenues	156,089	287,007	287,396	389
Expenditures				
Administrative	5,900	4,668	4,552	116
Management and Accounting	18,000	18,000	18,000	-
Legal	30,000	38,000	36,699	1,301
Audits	1,500	1,945	1,945	-
Treasurer's Fees	2,379	1,788	1,788	-
Landscape Maintenance and Utilities	67,000	71,612	59,747	11,865
Contingency	27,575	2,000	-	2,000
Total Expenditures	152,354	138,013	122,731	15,282
Excess (Deficiency) of Revenues over Expenditures	3,735	148,994	164,665	15,671
Other Financing Sources (Uses)				
Transfers Out	-	(200,000)	(200,000)	-
Total Other Financing Sources (Uses)	-	(200,000)	(200,000)	-
Net Changes in Fund Balance	3,735	(51,006)	(35,335)	15,671
Fund Balance, beginning	-	44,555	44,555	-
Fund Balance, ending	\$ 3,735	\$ (6,451)	\$ 9,220	\$ 15,671

Jacoby Farm Metropolitan District
Notes to the Financial Statements
December 31, 2018

Notes to The Financial Statements

Note 1: Summary of Significant Accounting Policies

The accounting policies of the District conform to generally accepted accounting principles (GAAP) as applicable to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of significant policies consistently applied in the preparation of the financial statements.

Reporting Entity

Jacoby Farm Metropolitan District (the "District") is a quasi-municipal corporation organized and operated pursuant to provision set forth in the Colorado Special District Act. The District was formerly the Windsor Northwest Metropolitan District No.3 and was established as part of a quad-district structure with the Windsor Northwest Metropolitan Districts Nos. 1, 2 and 4. Originally, the Windsor Northwest Metropolitan Districts were established to provide financing and tax basis for the construction of capital improvements to benefit all four Districts. In 2008, Districts No. 1 and 4 ceased operation and were dissolved. In 2008, District No. 3 became Jacoby Farm Metropolitan District and consists of 122,475 acres known as the Jacoby Farm Subdivision in Weld County, Colorado.

The primary purpose of the District is to finance, operate and maintain the public Improvements, as specifically authorized or in an intergovernmental agreement with the Town of Windsor. The District is governed by a five-member Board of Directors (the "Board") elected by the constituents.

The District complies with GASB, Statement No. 61, *"The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34"* and GASB Statement No. 39, *"Determining Whether Certain Organizations Are Component Units"*. These statements establish standards for defining and reporting on the financial reporting entity. It defines component units as legally separate entities for which the officials of the primary government are financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The District has no component units as defined by the GASB. The District has no employees and all operations and administrative functions are contracted.

Basis of Presentation

While separate government-wide and fund financial statements are presented, they are interrelated. The government-wide financial statements (i.e. the statement of net position and the statement of activities) report information on all of the governmental activities of the District which are financed primarily by property taxes and charges for services.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by general and program revenues. Direct expenses are those that are clearly identifiable within a specific function or program. Program revenues include 1) fees or charges to citizens and other governmental entities that receive or directly benefit from services provided by a given function or program, and 2) grants, contributions and other revenues that are restricted to use in the operational or capital requirements of a specific function or program. Other revenues not directly related to a particular function or program, if any, are reported separately as general revenues. The District does not have proprietary or fiduciary funds. The fund financial statements provide information about the government's funds.

Jacoby Farm Metropolitan District
Notes to the Financial Statements
December 31, 2018

Note 1: Summary of Significant Accounting Policies - Continued

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied.

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 available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues available if they are collected within 60 days of the end of the current fiscal period except for irrigation water charges. Irrigation water charges are recognized when the service is provided. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. The exceptions to this general rule are that principal and interest on general long-term debt and expenditures related to compensated absences are recognized when due. General capital asset acquisitions are reported as expenditures in governmental funds.

The District reports the following governmental funds:

General Fund – is the District’s primary operating fund used to account for collections and payments of operating resources not accounted for in another fund.

Debt Service Fund – is the District’s fund used to account for collections and payments of the District’s debt resources.

Capital Projects Fund—is the District’s fund used to account for all financial resources that are restricted, committed or assigned to expenditures for capital projects, including the acquisition or construction of capital facilities and other capital assets.

Assets

Cash and Investments

Cash includes cash on hand and demand deposits.

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.

Jacoby Farm Metropolitan District
Notes to the Financial Statements
December 31, 2018

Note 1: Summary of Significant Accounting Policies - Continued

Fair Value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The District categorizes its fair value 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 market prices in active markets for identical assets; level 2 inputs are significant other observable inputs; and level 3 inputs are significant unobservable inputs. At December 31, 2018, the District did not hold any investments required to be reported under fair value.

Accounts Receivable

Accounts receivable consist of unpaid water fees and late charges as of December 31, 2018. The District considers all receivables collectible as of December 31, 2018.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of the prepaid item is recorded as an expenditure when consumed rather than when purchased.

Property Taxes

Property taxes are levied annually and attach as an enforceable lien on property as of January 1. At the option of the taxpayer, property taxes may be paid in full or in two equal installments. The first of such installment is to be paid as of February 28 and the second installment is to be paid no later than June 15. If elected to be paid in full, the amount is to be paid no later than April 30. If payments are not made timely, delinquent interest accrues. If the taxes are not paid within subsequent statutory periods, the property tax lien will be sold at public auction. The County bills and collects the property taxes and remits collections to the District on a monthly basis. No provision has been made for uncollected taxes, as all taxes are deemed collectible.

Property taxes are recorded initially as deferred inflows in the year they are levied and measurable since they are not normally available nor are, they budgeted as a resource until the subsequent year. These amounts are recorded as revenue in the subsequent year when they are available or collected.

Capital Assets

Capital assets, which include land, water shares and infrastructure, are reported in the applicable governmental column in the government- wide financial statements.

Capital assets are defined by the District as assets with an initial cost of \$5,000 or more and an estimated useful life in excess of one year. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at the estimated fair value at the date of donation. Capital expenditures for projects are capitalized as constructed.

Normal maintenance and repairs that do not add value to assets or materially extend the life of the assets are not capitalized. Improvements are capitalized and depreciated over the remaining lives of the capital assets. Depreciation is reported as a current charge in the statement of activities. Capital assets are depreciated using the straight-line method over the estimated useful life of 20 years.

Jacoby Farm Metropolitan District
Notes to the Financial Statements
December 31, 2018

Note 1: Summary of Significant Accounting Policies - Continued

Liabilities

Long-Term Obligations

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

Deferred Outflows/Inflows of Resources

Deferred Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. In the current year, the District did not have any items in this reporting category.

Deferred Inflows of Resources

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

Net Position

Net position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. Net position is reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors, laws or regulations of other governments.

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted-net position and unrestricted-net position in the government-wide financial statements, a flow assumption must be made about the order in which resources are considered to be applied. It is the District's policy to consider restricted-net position to have been depleted before unrestricted-net position is applied.

Fund Balance Classification

In the fund financial statements, governmental funds report aggregate amounts for five classes of fund balances on the constraints imposed on the use of these resources. The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not spendable in form which include items such as prepaid items or inventories; or (b) legally or contractually required to be maintained intact.

The spendable portion of the fund balance comprises the remaining four classifications: restricted, committed, assigned, and unassigned.

Restricted fund balance. This classification reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Jacoby Farm Metropolitan District
Notes to the Financial Statements
December 31, 2018

Note 1: Summary of Significant Accounting Policies - Continued

Committed fund balance. These amounts can only be used for specific purposes pursuant to constraints imposed by formal resolutions of the District's Board of Directors, the District's highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the District's Board of Directors removes the specified use by taking the same type of action imposing the commitment.

Assigned fund balance. This classification reflects the amounts constrained by the District's intent to be used for specific purposes but are neither restricted nor committed. The intended use may be expressed by the Board or other individual's authorized to assign funds to be used for a specific purpose. Unlike commitments, assignments are generally only temporary and do not require a formal action to remove the assignment.

Unassigned fund balance. This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

When both restricted and unrestricted resources are available for use, it is the District's policy to use externally restricted resources first, then unrestricted resources – committed, assigned, and unassigned – in order as needed.

Transfers

During 2018, the District made a transfer from the general fund to the debt service fund in the amount of \$200,000 to paydown long-term debt.

Use of Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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:

- As required by State statutes, budgets are legally adopted for all funds of the District on a basis consistent with GAAP.
- 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 15, the budget is legally enacted through passage of a resolution.

Appropriations are adopted at total fund expenditure level. District Management is authorized to transfer budgeted amounts within any fund. However, any revisions that alter the total expenditures of any fund must be approved by the Board. The budget is only amended in conformity with Colorado Revised Statutes which allows the District to amend the budget and adopt a supplementary appropriation if money for a specific purpose, other than ad valorem taxes, becomes available to meet a contingency. The level of control in the budget at which expenditures exceeded appropriations is at the fund level. All appropriations lapse at year end.

Jacoby Farm Metropolitan District
Notes to the Financial Statements
December 31, 2018

Note 2: Stewardship, Compliance and Accountability- Continued

The District incurred expenditures in the Debt Service Fund in excess of appropriations for the year ended December 31, 2018, which may be in violation of Local Government Budget Law.

TABOR Amendment – Revenue Spending Limitation Amendment

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 has reserved a portion of its December 31, 2018 fund balance in the General Fund for emergencies required under TABOR totaling \$4,800 which is the approximate required reserve at December 31, 2018.

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.

Note 3: Cash and Investments

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

Cash and Investments	<u>\$ 3,080</u>
	<u>\$ 3,080</u>

All of the District’s cash and investments are held as deposits with a financial institution.

The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. State regulators determine eligibility. Amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is determined by the PDPA. PDPA allows the institution to create a single collateral pool for all public funds. The pool is to be maintained by another institution, or held in trust for all the uninsured public deposits as a group. The market value of the collateral must be at a minimum of 102% of the aggregate uninsured deposits.

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

Jacoby Farm Metropolitan District
Notes to the Financial Statements
December 31, 2018

Note 3: Cash and Investments - Continued

Investments

The District has not adopted a formal investment policy; however, it follows state statutes regarding investments

Custodial Credit Risk: At December 31, 2018, all of the District's deposits and investments were insured by the Federal Deposit Insurance Corporation or held in eligible public depositories as required by PDPA.

Interest Rate Risk: Colorado Revised Statutes (CRS) limit investment maturities to five years or less unless formally approved by the Board. In accordance with CRS, the District manages its exposure to declines in fair value by limiting the weighted average maturity of its investments.

Credit Risk: Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. The District follows the general provisions of the Colorado Revised Statutes (CRS) which limits the District's exposure to credit risk. CRS specify investment instruments meeting defined rating and risk criteria in which local governmental entities may invest. The allowed investments may include but are not limited to the following:

- Certain money market funds
- Certain certificates of deposit
- Local government investment pools

Note 4: Capital Assets

Capital asset activity for the year ended December 31, 2018 was as follows:

	Beginning Balance, Restated	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 185,884	\$ -	\$ (6,624)	\$ 179,260
Water rights	230,000	-	(222,500)	7,500
Construction in progress	-	3,814,291	(3,814,291)	-
Total capital assets, not being depreciated	415,884	3,814,291	(4,043,415)	186,760
Capital assets being depreciated:				
Irrigation system	1,331,858	-	-	1,331,858
Less Accumulated Depreciation for:				
Irrigation system	(196,433)	(66,593)	-	(263,026)
Total capital assets being depreciated, net	1,135,425	(66,593)	-	1,068,832
Capital assets, net	\$ 1,551,309	\$ 3,747,698	\$ (4,043,415)	\$ 1,255,592

Jacoboby Farm Metropolitan District
Notes to the Financial Statements
December 31, 2018

Note 5: Long-term Obligations

Changes in long-term obligation for the year ended December 31, 2018 are as follows:

	Beginning Balance, Restated	Additions	Deletions	Ending Balance	Due within One Year
Series 2010 Note	\$ 1,926,598	\$ -	\$ -	\$ 1,926,598	\$ -
Series 2018 Note	-	5,073,000	-	5,073,000	-
AAR Advances	1,258,709	-	(1,258,709)	-	-
Operating Advances	389,720	17,384	(369,376)	37,728	-
	<u>\$ 3,575,027</u>	<u>\$ 5,090,384</u>	<u>\$ (1,628,085)</u>	<u>\$ 7,037,326</u>	<u>\$ -</u>

Due to the uncertainty of the timing of principal and interest payments on the notes and advances, no schedule of principal and interest payments have been presented.

Limited Tax General Obligation Noted, Series 2010 (“Series 2010 Note”)

In 2010, the District issued its Series 2010 Note in the amount of \$1,926,598 to The Windsor Land Company (“Former Developer”) for reimbursement of funds advanced on behalf of the District for certain public improvements, all of which were conveyed to the Town of Windsor. On September 30, 2013, the Former Developer entered into an agreement with Windsor CAS, LLC (the "Company") under which the Series 2010 Note was assigned to the Company.

The Series 2010 Note has a final maturity date of November 2, 2040 and carries an interest rate of 9%. The Series 2010 Note is to be repaid plus interest, to the extent that Pledged Revenue, as defined in the Revised Note, are available, but no later than the maturity date. Funds available for payment shall be made annually on December 15th. Any amount of principal and unpaid interest on the maturity date shall be cancelled and discharged.

As of December 31, 2018, the balance due, including unpaid interest in the amount of \$1,357,703, was \$3,284,301.

Taxable Subordinate Limited Tax Go Note, Series 2018 (“Series 2018 Note”)

On February 23, 2018, the District Entered into a Series 2018 Note with the Company. The Series 2018 Note is subordinate to the Series 2010 Note. The proceeds of the Series 2018 Note were issued for the purpose of funding certified costs of the District which include costs of \$1,258,709 which had been accepted and funded through an Advance, Acquisition and Reimbursement Agreement noted below.

The Series 2018 Note has a final maturity date of February 25, 2048 and carries an interest rate of 7%. The Series 2018 Note is to be repaid plus interest, to the extent that Pledged Revenue, as defined in the Revised Note, are available, but no later than the maturity date. No payments shall be made on the Series 2018 Note until the full amount has been paid on the Series 2010 Note. Funds available for payment shall be made annually on December 15th. Any amount of principal and unpaid interest on the maturity date shall be cancelled and discharged.

Jacoby Farm Metropolitan District
Notes to the Financial Statements
December 31, 2018

Note 5: Long-term Obligations- Continued

As of December 31, 2018, the balance due, including unpaid interest in the amount of \$303,816, was \$5,376,816.

Advance, Acquisition and Reimbursement Agreement

On September 30, 2013, the District entered into an Advance, Acquisition and Reimbursement Agreement ("AAR Agreement") with Richmond American Homes of Colorado (the "Residential Builder") under which the Residential Builder agreed to construct and complete various public improvements on behalf of the District, and to transfer the completed public improvements to the District or the Town of Windsor. Under the terms of the AAR Agreement, the District was to reimburse the Residential Developer for the Reimbursable Costs, as defined and subject to the terms in the agreement, associated with the acquisition or construction of the various public improvements.

To the extent that the District (i) receives bond proceeds for the acquisition or completion of the public improvements or (ii) has other legally available revenue, the District will, from such available sources, reimburse the Residential Builder all advances together with interest at the rate of 9% per annum. Under the AAR Agreement in 2014, the Residential Builder transferred to the District a non-potable irrigation water system in the amount \$1,258,709. The value of the non-potable irrigation water system was established by a cost verification completed by an independent professional engineering firm.

On September 30, 2013, the Residential Builder entered into an agreement with the Company under which the Residential Builder assigned its reimbursement under the AAR Agreement to the Company. All of the advances under AAR Agreement, the Operating Agreement and any other obligations shall be subordinate to all bonds or other multiple-fiscal year debt and financial obligations, including the District's Series 2010 Note and Series 2018 Note and not comprise multiple-fiscal year debt.

Principal amounts of \$1,258,709 advanced under the AAR were retired upon issuance of the Series 2018 Note. As of December 31, 2018, accrued and unpaid interest was \$369,646.

Operating Reimbursement Agreement

On November 6, 2013, the District entered into an Operating Reimbursement Agreement ("Operating Agreement") with the Company under which the Company in its sole and absolute discretion may advance funds to the District for identified funding shortfalls related to the payment of operating, maintenance, and or administrative expenses of the District.

Under the terms of the Operating Agreement, if and to the extent the District has legally available revenue, the District will from such available sources reimburse the Company for all advances together with interest at the rate of 9% per annum.

The Operating Agreement shall terminate on the date the entire advance and any accrued interest has been paid in full or November 5, 2043, whichever date occurs first in time.

During 2018, the District reimbursed the Company \$369,376 for operating advances by selling water shares to other entities and by selling Land and Water Shares to the Company in the amount of \$227,500. During the year, the Company advanced the District \$17,834 under this agreement.

Jacoby Farm Metropolitan District
Notes to the Financial Statements
December 31, 2018

Note 5: Long-term Obligations- Continued

As of December 31, 2018, the balance due, including unpaid interest in the amount of \$11,063, was \$48,791.

As of December 31, 2018, the District had total authorized debt of \$7,000,000 of which \$7,000,000 has been issued, leaving an authorized but unissued balance of zero. Per the District's Service Plan, the District may not issue debt in excess of \$7,000,000 without approval of the Town.

Note 6: Risk Management

The District is exposed to various risks of loss related to general liability, torts, theft of, damage to, and destruction of assets, and errors and omissions. The District has elected to participate in the Colorado Special Districts Property and Liability Pool ("the Pool"). The Pool is an organization created by intergovernmental agreement to provide common liability and casualty insurance coverage to its members at a cost that is considered economically appropriate. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

The District pays annual premiums to the Pool for auto, public official's liability, property and general liability coverage. In the event aggregated losses incurred by the Pool exceed its amounts recoverable from reinsurance contracts and its accumulated reserves, the District may be called upon to make additional contributions to the Pool on the basis proportionate to other members. Any excess funds which the Pool determines are not needed for purposes of the Pool may be returned to the members pursuant to a distribution formula. During the year ended December 31, 2018, the Pool has made no distributions nor required additional contributions from the District.

Note 7: Related Parties

All members of the Board of Directors are employees, owners, family members and are associated with the Company which is the current developer and may have conflict on interest in dealing with the District. Management believes that all potential conflicts, if any, have been disclosed to the Board.

The District has entered into various funding agreements and notes with the Company. In connection with the funding agreements, the District sold water rights and land to the Company in the amount of \$227,500 in order to paydown the Operating Agreement. In addition, the Company forgave \$64,935 in interest expense on the Operating Advance agreement. See Note 5.

Jacoby Farm Metropolitan District
Notes to the Financial Statements
December 31, 2018

Note 8: Reconciliation of Government-Wide and Fund Financial Statements

Explanation of differences between the Governmental Fund Balance Sheet and the Government-Wide Statement of Net Position

The governmental funds balance sheet includes a reconciliation between fund balance- total governmental funds and net position-governmental activities as reported in the government-wide statement of net position. Explanation of the reconciling items is as follows:

Capital assets of \$1,518,618, less accumulated depreciation of \$263,026 or a net book value of \$1,255,592 are not financial resources and therefore are not reported in the funds.

Long-term liabilities are not due and payable in the current period and; therefore, are not reported in the funds. Notes and advances payable amounted to \$7,037,326 and Interest payable amounted to 2,042,228 for a total of \$9,079,554.

Explanation of Difference between the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-Wide Statement of Activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net position of governmental activities as reported in the government-wide statement of activities. Explanation of the reconciling items is as follows:

Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense or ultimately conveyed to the Town. The details of the difference are as follows:

Depreciation expense	\$	(66,593)
Conveyance of infrastructure		(3,814,291)
Capital outlay		<u>3,814,291</u>
Net adjustment	\$	<u>(66,593)</u>

The net effect of various miscellaneous transactions involving capital assets (i.e., sales and donations) is to increase net position. In the statement of activities, only the gain on the sale of capital assets is reported. However, in the governmental funds, the proceeds from the sale increases financial resources. The amount of the proceeds in excess of the gain was \$(229,124).

Some revenues reported in the statement of activities do not provide current financial resources and therefore, are not recorded as revenue in the governmental funds. The difference is due to interest forgiveness of \$64,935.

Jacoby Farm Metropolitan District
Notes to the Financial Statements
December 31, 2018

Note 8: Reconciliation of Government-Wide and Fund Financial Statements -
Continued

The issuance of long-term debt (e.g. notes payable) 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. The details of the difference are as follows:

Note issuance	\$	(5,073,000)
Developer advance		(17,384)
Principal payment on AAR Advance		1,258,709
Principal payment on Operating Advance		<u>369,376</u>
Net adjustment	\$	<u>(3,462,299)</u>

Another element of the reconciliation states that “some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.” The difference is due to the change in accrued interest of \$(435,192).

Note 9: Prior Period

An audit was not performed for the District in the prior year; therefore, the District has not reported prior year net position. However, during the audit, it was noted that the capital and debt activity had not been properly reflected in the reporting provided to the state of Colorado for the year ended December 31, 2017. Therefore, the audit schedules provided in Note 4 and Note 5 have been adjusted to properly reflect the activity at December 31, 2017.

Supplementary Information

Schedule of Revenues, Expenditures and Changes in Fund Balances –Actual and Budget –
Debt Service

Jacoby Farm Metropolitan District
Schedule of Revenues, Expenditures and Changes in Fund Balances
Actual and Budget - Debt Service
For the year ended December 31, 2018

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Property Tax	\$ -	\$ -	\$ -	\$ -
Total Revenues	-	-	-	-
Expenditures				
Principal	-	75,907	369,376	(293,469)
Interest	-	124,093	75,508	48,585
Total Expenditures	-	200,000	444,884	(244,884)
Excess (Deficiency) of Revenues over Expenditures	-	(200,000)	(444,884)	(244,884)
Other Financing Sources (Uses)				
Developer Advance		-	17,384	17,384
Sale of Capital Assets			227,500	227,500
Transfers In	-	200,000	200,000	-
Total Other Financing Sources (Uses)	-	200,000	444,884	244,884
Net Changes in Fund Balance	-	-	-	-
Fund Balance, beginning	-	-	-	-
Fund Balance, ending	\$ -	\$ -	\$ -	\$ -

Schedule of Revenues, Expenditures and Changes in Fund Balance –Actual and Budget –
Capital Projects

Jacoby Farm Metropolitan District
Schedule of Revenues, Expenditures and Changes in Fund Balances
Actual and Budget - Capital Projects
For the year ended December 31, 2018

	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Property Tax	\$ -	\$ -	\$ -
Total Revenues	-	-	-
Expenditures			
Capital Expenditures	8,000,000	3,814,291	4,185,709
Principal	-	1,258,709	(1,258,709)
Total Expenditures	8,000,000	5,073,000	2,927,000
Excess (Deficiency) of Revenues over Expenditures	(8,000,000)	(5,073,000)	2,927,000
Other Financing Sources (Uses)			
Proceeds of Note Issuance	-	5,073,000	5,073,000
Developer Advance	8,000,000	-	(8,000,000)
Total Other Financing Sources (Uses)	8,000,000	5,073,000	(2,927,000)
Net Changes in Fund Balance	-	-	-
Fund Balance, beginning	-	-	-
Fund Balance, ending	\$ -	\$ -	\$ -