

**Winter Farm Metropolitan District No. 2
Financial Statements
December 31, 2018
with Independent Auditors' Report**

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Winter Farm Metropolitan District No. 2
Weld County, Colorado

We have audited the accompanying financial statements of the governmental activities and each major fund of the Winter Farm Metropolitan District No. 2 (the "District") as of and for the year ended December 31, 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 Winter Farm Metropolitan District No. 2 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 17-18 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
June 13, 2019

Basic Financial Statements

Governmental Funds Balance Sheet/Statement of Net Position

Winter Farm Metropolitan District No. 2 Governmental Funds Balance Sheet/Statement of Net Position December 31, 2018

| | General | Debt Service | Capital Projects | Total | Adjustments | Statement of Net Position |
|---|-------------------|-------------------|---------------------|-------------------|-----------------------|------------------------------|
| Assets | | | | | | |
| Cash | \$ 2,001 | \$ - | \$ - | \$ 2,001 | \$ - | \$ 2,001 |
| Restricted Cash and Investments | - | 287,198 | - | 287,198 | - | 287,198 |
| Due from County Treasurer | 386 | 2,695 | - | 3,081 | - | 3,081 |
| Property Tax Receivable | 197,932 | 461,842 | - | 659,774 | - | 659,774 |
| Total Assets | \$ 200,319 | \$ 751,735 | \$ - | \$ 952,054 | - | 952,054 |
| Liabilities | | | | | | |
| Due to District No. 1 | \$ 386 | \$ - | \$ - | \$ 386 | - | 386 |
| Interest Payable | - | - | - | - | 76,103 | 76,103 |
| Notes Payable | | | | | | |
| Due in one year | - | - | - | - | 170,000 | 170,000 |
| Due in more than one year | - | - | - | - | 9,149,597 | 9,149,597 |
| Total Liabilities | 386 | - | - | 386 | 9,395,700 | 9,396,086 |
| Deferred Inflows of Resources | | | | | | |
| Unavailable Property Tax | 197,932 | 461,842 | - | 659,774 | - | 659,774 |
| Total Liabilities and Deferred Inflows of Resources | 197,932 | 461,842 | - | 659,774 | - | 659,774 |
| Fund Balances | | | | | | |
| Restricted | | | | | | |
| Emergencies | 2,123 | - | - | 2,123 | (2,123) | - |
| Debt Service | - | 289,893 | - | 289,893 | (289,893) | - |
| Unassigned | (122) | - | - | (122) | 122 | - |
| Total Fund Balances | 2,001 | 289,893 | - | 291,894 | (291,894) | - |
| Total Liabilities, Deferred Inflows of Resources and Fund Balances | \$ 200,319 | \$ 751,735 | \$ - | \$ 952,054 | | |
| Net Position (Deficit) | | | | | | |
| Restricted | | | | | | |
| Emergencies | | | | | 2,123 | 2,123 |
| Debt Service | | | | | 213,790 | 213,790 |
| Unassigned | | | | | (9,319,719) | (9,319,719) |
| Total Net Position | | | | | \$ (9,103,806) | \$ (9,103,806) |

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

**Winter Farm Metropolitan District No. 2
Statement of Revenues, Expenditures and
Changes in Governmental Fund Balances/Statement of Activities
For the Year Ended December 31, 2018**

| | General | Debt Service | Capital Projects | Total | Adjustments | Statement of Activities |
|--|-----------------|-------------------|---------------------|-------------------|-----------------------|----------------------------|
| Expenditures | | | | | | |
| Current: | | | | | | |
| Intergovernmental Service Fees | \$ 67,799 | \$ - | \$ - | \$ 67,799 | \$ - | \$ 67,799 |
| Treasurer's Fees | 986 | 6,883 | - | 7,869 | - | 7,869 |
| Other Expenditures | - | 54 | - | 54 | - | 54 |
| Debt Service: | | | | | | |
| Principal | - | 160,000 | - | 160,000 | (160,000) | - |
| Interest Expense | - | 307,625 | - | 307,625 | 34,936 | 342,561 |
| <i>Total Expenditures</i> | <u>68,785</u> | <u>474,562</u> | <u>-</u> | <u>543,347</u> | <u>(125,064)</u> | <u>418,283</u> |
| Revenues | | | | | | |
| Property Taxes | 65,694 | 458,761 | - | 524,455 | - | 524,455 |
| Specific Ownership Taxes | 5,076 | 35,190 | - | 40,266 | - | 40,266 |
| Interest Income | 16 | 1,282 | - | 1,298 | - | 1,298 |
| <i>Total Revenues</i> | <u>70,786</u> | <u>495,233</u> | <u>-</u> | <u>566,019</u> | <u>-</u> | <u>566,019</u> |
| Excess (Deficiency) of Revenues over Expenditures | 2,001 | 20,671 | - | 22,672 | 125,064 | 147,736 |
| Other Financing Sources (Uses) | | | | | | |
| Repayment of 2015 Subordinate Note | - | - | (144,652) | (144,652) | 144,652 | - |
| Proceeds from the issuance of Debt | - | - | 144,652 | 144,652 | (144,652) | - |
| <i>Total Other Financing Sources (Uses)</i> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Net Change in Fund Balances | 2,001 | 20,671 | - | 22,672 | 125,064 | |
| Net Change in Net Position | | | | | | 147,736 |
| Fund Balances/Net Position | | | | | | |
| Beginning of year | - | 269,222 | - | 269,222 | (9,520,764) | (9,251,542) |
| End of year | <u>\$ 2,001</u> | <u>\$ 289,893</u> | <u>\$ -</u> | <u>\$ 291,894</u> | <u>\$ (9,395,700)</u> | <u>\$ (9,103,806)</u> |

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

Winter Farm Metropolitan District No. 2
Statement of Revenues, Expenditures and Changes in Fund Balances
Actual and Budget - General Fund
For the year ended December 31, 2018

| | Original and Final Budget | Actual | Variance Favorable (Unfavorable) |
|-----------------------------------|--------------------------------------|------------------------|---|
| Revenues | | | |
| Property Tax | \$ 65,681 | \$ 65,694 | \$ 13 |
| Specific Ownership Tax | 3,941 | 5,076 | 1,135 |
| Interest Income | - | 16 | 16 |
| <i>Total Revenues</i> | <u>69,622</u> | <u>70,786</u> | <u>1,164</u> |
| Expenditures | | | |
| Intergovernmental Service Fees | 68,637 | 67,799 | 838 |
| Treasurer's Fees | 985 | 986 | (1) |
| <i>Total Expenditures</i> | <u>69,622</u> | <u>68,785</u> | <u>837</u> |
| Net Change in Fund Balance | - | 2,001 | 2,001 |
| Fund Balance, beginning | - | - | - |
| Fund Balance, ending | <u><u>\$ -</u></u> | <u><u>\$ 2,001</u></u> | <u><u>\$ 2,001</u></u> |

Notes to The Financial Statements

Note 1: Summary of Significant Accounting Policies

The accounting policies of the Winter Farm Metropolitan District No. 2 (the "District") conform to generally accepted accounting principles (GAAP) as applicable to governments. The Governmental Accounting Standard 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

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

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

The District complies with GASB, Statement No. 61, *"The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 24 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

The accompanying financial statements are presented per GASB Statement No. 34- Special Purpose Governments.

The government-wide financial statements (i.e., the Governmental Funds Balance Sheet/Statement of Net Position and Governmental Funds Statement of Revenue, Expenditures and Changes in Fund Balance/Statement of Activities), report information on all of the governmental activities of the District. The statement of net position reports all financial and capital resources of the District. The difference between (a) assets and deferred outflows of resources and the (b) liabilities and deferred inflows of resources of the District is reported as net position. The statement of activities demonstrates the degree to which expenditures/expenses of the governmental funds are supported by general revenues.

Note 1: Summary of Significant Accounting Policies - continued

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.

Major individual governmental funds are reported as separate columns in the fund financial statements. The District does not have proprietary or fiduciary funds.

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. 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.

Note 1: Summary of Significant Accounting Policies - continued

Assets

Cash and Investments

Cash includes cash on hand, demand deposits, and money market accounts. Investments held in local government investment pools are reported at net asset value as allowed under US GAAP.

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.

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.

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. Weld 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.

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

Note 1: Summary of Significant Accounting Policies – continued

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 Sheet 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/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.

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.

Note 1: Summary of Significant Accounting Policies - continued

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.

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.

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.

Winter Farm Metropolitan District No. 2
Notes to the Financial Statements
December 31, 2018

Note 3: Cash and Investments

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

| | | |
|---------------------------------|------------|--|
| Cash and investments | \$ 2,001 | |
| Restricted Cash and Investments | 287,198 | |
| | \$ 289,199 | |

The following is a summary of deposits and investment held by the District at December 31, 2018:

| Type | Ratings per Standard & Poor's | Carrying Value |
|--------------------------------------|----------------------------------|----------------|
| Deposits with Financial Institutions | | \$ 270,505 |
| ColoTrust Plus+ | AAAm | 18,694 |
| | | \$ 289,199 |

Cash Deposits

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 of the uninsured deposits and assets maintained in collateral pools.

Investments

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

As of December 31, 2018, the District invested in the Colorado Local Governmental Liquid Asset Trust (COLOTRUST), a local government investment vehicle established for local governmental entities in Colorado to pool surplus funds. COLOTRUST offers two investment options: COLOTRUST PRIME and COLOTRUST PLUS+. As an investment pool, COLOTRUST operates under the Colorado Revised Statutes (24-75-701) and is overseen by the Colorado Securities Commissioner. COLOTRUST limits its investments to those allowed by State statutes. Purchases and redemptions are available daily at a net asset value (NAV) of \$1.00. A designated custodial bank provides safekeeping and depository services to COLOTRUST in connection with the direct investment and withdrawal function of COLOTRUST. The custodian's internal records identify the investments owned by participating governments. COLOTRUST PLUS+ records its investment at fair value and the District records its investment in COLOTRUST PLUS+ using the net asset value method. There are no unfunded commitments and there is no redemption notice period.

Custodial Credit Risk: As of 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.

Winter Farm Metropolitan District No. 2
Notes to the Financial Statements
December 31, 2018

Note 3: Cash and Investments - continued

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. The District holds investments in certain money market accounts, included in deposits, which are unrated. 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: Long-Term Obligations

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

| | Beginning Balance | Additions | Deletions | Ending Balance | Due within One Year |
|-----------------------|----------------------|-------------------|--------------------|---------------------|------------------------|
| 2015 Note Payable | \$ 8,415,348 | \$ 144,652 | \$ (160,000) | \$ 8,400,000 | \$ 170,000 |
| 2015 Subordinate Note | 1,064,249 | - | 144,652 | 919,597 | - |
| | <u>\$ 9,479,597</u> | <u>\$ 144,652</u> | <u>\$ (15,348)</u> | <u>\$ 9,319,597</u> | <u>\$ 170,000</u> |

2015 Note Payable

In September 2015, the District issued a Note Payable ("2015 Note Payable") with a financial institution (the "Lender") with a maximum principal amount of \$8,850,000. The initial draw under the note payable was \$6,100,000. A portion of the initial draw, \$5,897,034, was transferred to District No. 1 and was used to retire a note payable issued in 2012 by District No. 1. The remaining Advance Amount, \$2,750,000, was intended to be used by the District to repay a portion of the amount outstanding, if any, on the 2015 Subordinate Note Payable further discussed below. During 2017, the District took two draws totaling \$2,605,348 and in 2018 the District took the remaining draw of \$144,652. As of December 31, 2018, no amounts remain available.

Under the terms of the Loan Agreement, the District shall pay to the Lender a semi-annual, June 1 and December 1, Non-Use Fee in the amount of .5% of the unfunded Advance Amount. As the remaining amount was advanced in 2018, no non-use fee payments were made in 2018.

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

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

Winter Farm Metropolitan District No. 2
Notes to the Financial Statements
December 31, 2018

Note 4: Long-Term Obligations - continued

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

Reserve Fund - to be administered and maintained by the Lender. The Reserve Fund is to be initially funded in the amount of the Reserve Requirement, \$153,000, from amounts transferred from the reserve fund established in connection with the 2012 note payable issued by District No.1. The funds held in the Reserve Fund are to be used by the Lender to (a) pay interest and or principal due on the note payable on any Payment Date to the extent funds on deposit in the Loan Payment Fund are insufficient, and, (b) pay any Non-Use Fees due to the Lender.

The Series 2015 Note Payable is subject to both a fixed rate and a variable rate of interest.

Under the 2015 Note Payable, the initial funded amount less any payment of principal received is subject to a fixed interest rate of 3.66% and requires semi-annual interest payments due on June 1 and December 1 and annual principal payments due on December 1. The Advance Amount is subject to a variable rate. The variable interest rate shall be 2% plus 65% of the 6-month LIBOR index, initially calculated as of the first Advance Date following the Closing Date and resetting on each Interest Rate Reset Date. The applicable variable rate as of December 31, 2018, the bank's last reported reset date, was 3.5270%.

The 2015 Note Payable matures on December 31, 2022. Under the terms of the Loan Agreement, the District is prohibited from prepaying the note prior to September 17, 2020. In addition, the District is required to prepay the note payable from excess amounts, if any, on deposit in the Revenue Fund, on or after December 1 of each year. The 2015 Note Payable is collateralized by (a) Pledged Revenue, as defined in the Loan Agreement, and (b) all amounts from time to time credited to the Revenue Fund, the Loan Payment Fund, the Reserve Fund and the Costs of Issuance Fund, together with investment earnings thereon.

The following is a summary of the annual long-term debt principal and interest requirements for the initial funded amount of the 2015 Note Payable. Due to the uncertainty of the timing of principal and interest payments on the Advance Amount, \$2,750,000, no schedule of principal or interest payments is presented for this amount.

| Year Ending December 31, | Principal | Interest | Total |
|--------------------------|---------------------|-------------------|------------------|
| 2019 | \$ 170,000 | \$ 209,662 | \$ 379,662 |
| 2020 | 180,000 | 203,911 | 383,911 |
| 2021 | 190,000 | 196,674 | 386,674 |
| 2022 | 5,110,000 | 189,623 | 5,299,623 |
| Total | <u>\$ 5,650,000</u> | <u>\$ 799,870</u> | <u>6,449,870</u> |

As of December 31, 2018, the District had total authorized debt of \$13,050,000 of which \$11,438,377 has been issued, leaving an authorized but unissued balance of \$1,611,623. Per the District's Service Plan, the District cannot issue debt in excess of \$10,000,000 without the approval of the City.

Note 4: Long-Term Obligations - continued

2015 Subordinate Note Payable

The 2015 Subordinate Note Payable was issued in September 2015 and in an amount not to exceed \$4 million pursuant to the terms of the Subordinate Infrastructure Financing Agreement dated September 17, 2015. The 2015 Subordinate Note Payable was entered into between the District and the Developer.

In July 2017, District No. 1 presented an Engineer's Cost Verification and Certification in the amount of \$7,482,000 representing costs incurred by the Developer for various public infrastructures within the Winter Farm development. It was determined that the District had electoral authorization in the amount of \$3,669,597 available. A portion of this amount was funded by the 2015 Note Payable.

The 2015 Subordinate Note matures December 15, 2025. Under the terms of the 2015 Subordinate Note Payable, repayments are to be made from available Subordinate Debt Pledged Revenue, as defined in the 2015 Subordinate Note Payable. As the amount of the Subordinate Debt Pledged Revenue cannot be determined, the future minimum payment cannot be determined as of December 31, 2018. In addition, the outstanding balance on the 2015 Subordinate Note Payable carried an interest equal to the lower of 8% or 2% plus 65% of the 12-month LIBOR rate. As of December 31, 2018, the effective interest rate was estimated at 4.04% and the District has accrued interest payable of \$51,276.

Note 5: 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 6: Tax, Spending and Debt Limitations

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

Spending and revenue limits are determined based upon the prior year's fiscal year spending, adjusted for allowable increases based upon inflation and local growth. Fiscal year spending is generally defined as expenditures plus reserve increases with certain exceptions. Revenue in excess of the fiscal year spending limit must be refunded unless the voters approve retention of such revenue.

Winter Farm Metropolitan District No. 2
Notes to the Financial Statements
December 31, 2018

Note 6: Tax, Spending and Debt Limitations - continued

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 \$2,123 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 7: Related Party Agreements

Intergovernmental Agreement Concerning District Operations

The District and District No. 1 entered into an Intergovernmental Agreement Concerning District Operations ("Operations Agreement") under which the District engaged District No. 1 as the operator of District-Owned Improvements as described in the Operations Agreement. Under the terms of the Operations Agreement, the District is obligated to provide sufficient money to fund the operation of the District-Owned Improvements by District No.1. The Operations Agreement may be terminated by the District at any time, upon 90 days written notice. For the year ended December 31, 2018, the District paid \$67,799 to District No. 1 under this agreement. As of December 31, 2018, \$386 is due to District No. 1 and is included in Due to Other Entities.

On March 26, 2018, the District notified District No. 1 of its intent to terminate the Operation Agreement and the Districts anticipate completing termination of the Operation Agreement in 2019.

Infrastructure Acquisition and Reimbursement Agreement

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

Winter Farm Metropolitan District No. 2
Notes to the Financial Statements
December 31, 2018

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

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

Governmental Funds Balance Sheet/Statement of Net Position

Long-term liabilities, including accrued interest payable, are not due and payable in the current periods and; therefore, are not reported in the Governmental Funds Balance Sheet.

\$ 9,395,700

Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances/Statement of Activities:

Governmental funds report the proceeds from issuance of debt as revenue; however, for the government-wide financial statements, the revenue is not reflected, and the debt is recognized on the Statement of Net Position.

\$ 144,652

Principal Payments on notes payable are expenditures in the government funds; however, the principal payment is a reduction in the notes payable in the Statement of Net Position

\$ (160,000)

Payments on developer notes payable are expenditures in the government funds; however, the principal payment is a reduction in the notes payable in the Statement of Net Position

\$ (144,652)

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

\$ 34,936

Note 9: Subsequent Events

Management has evaluated the subsequent transactions and events of the District through June 10, 2019 which is the date the financial statements and accompanying notes were available for issuance.

Winter Farm District No. 3, one of the original financing districts, filed a petition for order and certification of dissolution in January 2019.

Supplementary Information

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

Winter Farm Metropolitan District No. 2
Statement of Revenues, Expenditures and Changes in Fund Balances
Actual and Budget - Debt Service
For the year ended December 31, 2018

| | Original and Final Budget | Actual | Variance Favorable (Unfavorable) |
|---|------------------------------|--------------------------|--|
| Revenues | | | |
| Property Tax | \$ 458,673 | \$ 458,761 | \$ 88 |
| Specific Ownership Taxes | 27,520 | 35,190 | 7,670 |
| Interest Income | 400 | 1,282 | 882 |
| <i>Total Revenues</i> | <u>486,593</u> | <u>495,233</u> | <u>8,640</u> |
| Expenditures | | | |
| Current: | | | |
| Treasurer's Fees | 6,880 | 6,883 | (3) |
| Other Expenditures | 125 | 54 | 71 |
| Debt Service: | | | |
| Principal | 160,000 | 160,000 | - |
| Interest | 293,465 | 307,625 | (14,160) |
| <i>Total Expenditures</i> | <u>460,470</u> | <u>474,562</u> | <u>(14,092)</u> |
| Excess of Revenue over Expenditures | 26,123 | 20,671 | (5,452) |
| Other Financing Sources (Uses) | | | |
| Repayment of 2015 Subordinate Note | - | - | - |
| Proceeds from the issuance of Debt | - | - | - |
| <i>Total Other Financing Sources (Uses)</i> | <u>-</u> | <u>-</u> | <u>-</u> |
| Net Change in Fund Balance | 26,123 | 20,671 | (5,452) |
| Fund Balance, beginning | 269,222 | 269,222 | - |
| Fund Balance, ending | <u>\$ 295,345</u> | <u>\$ 289,893</u> | <u>\$ (5,452)</u> |

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

Winter Farm Metropolitan District No. 2
Statement 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 | \$ - | \$ - | \$ - |
| Specific Ownership Taxes | - | - | - |
| Interest Income | - | - | - |
| <i>Total Revenues</i> | - | - | - |
| Expenditures | | | |
| Current: | | | |
| Treasurer's Fees | - | - | - |
| Other Expenditures | - | - | - |
| Debt Service: | | | |
| Principal | - | - | - |
| Interest | - | - | - |
| <i>Total Expenditures</i> | - | - | - |
| Excess of Revenue over Expenditures | - | - | - |
| Other Financing Sources (Uses) | | | |
| Repayment of 2015 Subordinate Note | (144,652) | (144,652) | - |
| Proceeds from the issuance of Debt | 144,652 | 144,652 | - |
| <i>Total Other Financing Sources (Uses)</i> | - | - | - |
| Net Change in Fund Balance | - | - | - |
| Fund Balance, beginning | 269,222 | 269,222 | - |
| Fund Balance, ending | \$ 269,222 | \$ 269,222 | \$ - |