

WINTER FARM METROPOLITAN DISTRICT NO.2

WELD COUNTY, COLORADO

FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITORS' REPORT

December 31, 2020



Crady, Puca & Associates

Certified Public Accountants & Consultants

**WINTER FARM METROPOLITAN DISTRICT NO. 2
WELD COUNTY, COLORADO**

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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, 2020, 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, 2020 and the respective changes in financial position and the respective budgetary comparison for the General Fund and Special Revenue 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 22-23 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
September 20, 2021

GOVERNMENT-WIDE FINANCIAL STATEMENTS

WINTER FARM METROPOLITAN DISTRICT NO. 2
Statement of Net Position
December 31, 2020

	Total Governmental Activities
Assets:	
Cash and investments	\$ 222,473
Homeowner accounts receivable	13,464
Due from county treasurer	2,498
Intergovernmental receivable	12,568
Property tax receivable	682,160
Cash and investments - restricted	55,011
Prepaid debt insurance, net	41,473
Capital assets depreciated, net	<u>1,101,022</u>
Total assets	<u>2,130,669</u>
Deferred outflows of resources:	
Deferred charge on refunding	<u>222,993</u>
Total deferred outflows of resources	<u>222,993</u>
Liabilities:	
Accounts payable	18,560
Prepaid assessment	1,876
Accrued interest	29,423
Developer payable:	
Due in more than one year	39,917
Bonds payable:	
Due within one year	140,000
Due in more than one year	<u>9,318,682</u>
Total liabilities	<u>9,548,458</u>
Deferred inflows of resources:	
Unavailable revenue - property tax	<u>682,160</u>
Total deferred inflows of resources	<u>682,160</u>
Net position:	
Net investment in capital assets	-
Restricted for emergencies	13,235
Unrestricted	<u>(7,890,191)</u>
Total net position	<u>\$ (7,876,956)</u>

The accompanying notes are an integral part of this financial statement.

WINTER FARM METROPOLITAN DISTRICT NO. 2
Statement of Activities
For the Year Ended December 31, 2020

	Total Governmental Activities
Expenditures:	
Governmental activities:	
Audit and legal	\$ 27,378
Insurance and agent fees	10,395
Election	2,880
Architectural and setup fees	15,300
Management	41,125
Office, dues, newsletters and other	2,782
Treasurer fees	10,298
Non-potable water system expenses	4,089
Utility and utility locates	39,205
Landscape contract, maintenance and replacement	84,778
Pest control and snow removal	4,838
Capital	7,450
Depreciation	118,453
Interest expense	430,667
Total expenditures	<u>799,638</u>
Program Revenues:	
Irrigation water fees	167,750
Other homeowner fees	16,465
Total program revenues	<u>184,215</u>
Net program income (expense)	(615,423)
General Revenues:	
Property tax revenue	685,749
Specific ownership tax	32,549
Tap fees	42,900
Intergovernmental revenue	6,242
Interest income	2,439
Total general revenues	<u>769,879</u>
Change in net position	154,456
Net position, beginning of year	<u>(8,031,412)</u>
Net position, end of year	<u>\$ (7,876,956)</u>

The accompanying notes are an integral part of this financial statement.

FUND FINANCIAL STATEMENTS

WINTER FARM METROPOLITAN DISTRICT NO. 2
Balance Sheet
Governmental Funds
December 31, 2020

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Capital Projects Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
Assets:					
Cash and investments	\$ 52,937	\$ 40,904	\$ 128,632	\$ -	\$ 222,473
Homeowner accounts receivable	625	5,039	7,800	-	13,464
Due from county treasurer	668	-	-	1,830	2,498
Intergovernmental receivable	6,268	-	6,300	-	12,568
Property tax receivable	186,117	-	-	496,043	682,160
Cash and investments - restricted	-	-	-	55,011	55,011
Total assets	\$ 246,615	\$ 45,943	\$ 142,732	\$ 552,884	\$ 988,174
Liabilities:					
Accounts payable	\$ 17,166	\$ 1,394	\$ -	\$ -	\$ 18,560
Prepaid assessments	-	1,876	-	-	1,876
Total liabilities	17,166	3,270	-	-	20,436
Deferred inflows of resources					
Unavailable revenue - property tax	186,117	-	-	496,043	682,160
Total deferred inflows of resources	186,117	-	-	496,043	682,160
Fund balance:					
Restricted for emergencies	6,878	5,061	1,296	-	13,235
Restricted for debt service	-	-	-	56,841	56,841
Committed for operations	-	37,612	-	-	37,612
Committed for capital projects	-	-	141,436	-	141,436
Unassigned	36,454	-	-	-	36,454
Total fund balance	43,332	42,673	142,732	56,841	285,578
Total liabilities, deferred inflows of resources, and fund balance	\$ 246,615	\$ 45,943	\$ 142,732	\$ 552,884	\$ 988,174

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

Total fund balance - governmental funds	\$ 285,578
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds.	1,101,022
Long-term liabilities are not due and payable in the current period, and therefore, are not reported in the funds.	(8,529,340)
Governmental funds report the effect of premiums, refundings and similar items when the debt is first issued, whereas amounts are deferred and amortized in the statement of activities	(734,216)
Net position of governmental activities	\$ (7,876,956)

The accompanying notes are an integral part of this financial statement.

WINTER FARM METROPOLITAN DISTRICT NO. 2
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended December 31, 2020

	General Fund	Special Revenue Fund	Capital Projects Fund	Debt Service Fund	Total Governmental Funds
Revenues:					
Property tax	\$ 183,398	\$ -	\$ -	\$ 502,351	\$ 685,749
Specific ownership tax	8,705	-	-	23,844	32,549
Irrigation water fees	-	167,750	-	-	167,750
Tap fees	-	-	42,900	-	42,900
Other homeowner fees	15,525	940	-	-	16,465
Intergovernmental revenue	6,242	-	-	-	6,242
Interest income	400	-	305	1,734	2,439
Total revenues	214,270	168,690	43,205	527,929	954,094
Expenditures:					
Current:					
General government:					
Audit and legal	27,378	-	-	-	27,378
Insurance and agent fees	8,611	-	-	400	9,011
Election	2,880	-	-	-	2,880
Architectural and setup fees	15,300	-	-	-	15,300
Management	24,000	17,125	-	-	41,125
Office, dues, newsletters and other	1,700	1,082	-	-	2,782
Treasurer fees	2,754	-	-	7,544	10,298
Non-potable water system expenses	-	4,089	-	-	4,089
Utility and utility locates	-	39,205	-	-	39,205
Landscape maintenance contract	61,985	-	-	-	61,985
Landscape replacement and repair	22,793	-	-	-	22,793
Pest control	1,640	-	-	-	1,640
Snow removal	3,198	-	-	-	3,198
Debt Service:					
Interest	-	-	-	370,137	370,137
Principal	-	-	14,000	130,000	144,000
Capital Outlay:	-	-	7,450	-	7,450
Total expenditures	172,239	61,501	21,450	508,081	755,821
Excess of revenue over (under) expenditures	42,031	107,189	21,755	19,848	190,823
Other financing sources (uses):					
Transfers in (out)	15,000	(67,906)	52,906	-	-
Total other financing sources (uses)	15,000	(67,906)	52,906	-	-
Net change in fund balance	57,031	39,283	74,661	19,848	190,823
Fund balance, beginning of year	(10,309)	-	68,071	36,993	94,755
Reclassification (Note 5)	(3,390)	3,390	-	-	-
Fund balance, beginning of year, reclassified	(13,699)	3,390	68,071	36,993	94,755
Fund balance, end of year	\$ 43,332	\$ 42,673	\$ 142,732	\$ 56,841	\$ 285,578

The accompanying notes are an integral part of this financial statement.

WINTER FARM METROPOLITAN DISTRICT NO. 2
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, 2020

	Total Governmental Funds
	<hr/>
Net change in fund balance of the governmental funds	\$ 190,823
Amounts reported for governmental activities in the statement of activities are different because:	
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. This is the amount by which depreciation expense exceeds capital outlays	(118,453)
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. The amount is the net effect of these differences in the treatment of long-term det.	144,000
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 the governmental funds.	<u>(61,914)</u>
Change in net position of governmental activities	<u>\$ 154,456</u>

The accompanying notes are an integral part of this financial statement.

WINTER FARM METROPOLITAN DISTRICT NO. 2
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
General Fund
For the Year Ended December 31, 2020

	Original and Final Budget	Actual	Variance with Final
Revenues:			
Property tax	\$ 183,398	\$ 183,398	\$ -
Specific ownership tax	12,838	8,705	(4,133)
Customer fees	6,500	15,525	9,025
Intergovernmental revenue	-	6,242	6,242
Interest income	-	400	400
Total revenues	202,736	214,270	11,534
Expenditures:			
Current:			
General government:			
Audit and legal	39,500	27,378	12,122
Insurance and agent fees	9,000	8,611	389
Election	7,500	2,880	4,620
Architectural and setup fees	8,300	15,300	(7,000)
Management	24,000	24,000	-
Office, dues, newsletters and other	3,500	1,700	1,800
Treasurer fees	2,751	2,754	(3)
Landscape maintenance contract	62,000	61,985	15
Landscape replacement and repair	25,000	22,793	2,207
Pest control	2,000	1,640	360
Snow removal	6,000	3,198	2,802
Contingency	13,185	-	13,185
Total expenditures	202,736	172,239	30,497
Excess of revenues over (under) expenditures	-	42,031	42,031
Other financing sources (uses):			
Transfer in (out)	-	15,000	15,000
Total other financing sources (uses)	-	15,000	15,000
Net change in fund balance	-	57,031	57,031
Fund balance, beginning of year, reclassified	6,324	(13,699)	(20,023)
Fund balance, end of year	\$ 6,324	\$ 43,332	\$ 37,008

The accompanying notes are an integral part of this financial statement.

WINTER FARM METROPOLITAN DISTRICT NO. 2
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
Special Revenue Fund
For the Year Ended December 31, 2020

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance with Final</u>
Revenues:			
Irrigation water revenue	\$ 170,190	\$ 167,750	\$ (2,440)
Other homeowner fees	-	940	940
Total revenues	<u>170,190</u>	<u>168,690</u>	<u>(1,500)</u>
Expenditures:			
Current:			
General government:			
Management	15,000	17,125	(2,125)
Office, dues, newsletters and other	1,750	1,082	668
Non-potable water system expenses	30,000	4,089	25,911
Utility and utility locates	50,534	39,205	11,329
Contingency	5,000	-	5,000
Total expenditures	<u>102,284</u>	<u>61,501</u>	<u>40,783</u>
Excess of revenues over (under) expenditures	<u>67,906</u>	<u>107,189</u>	<u>39,283</u>
Other financing sources (uses):			
Transfer in (out)	(67,906)	(67,906)	-
Total other financing sources (uses)	<u>(67,906)</u>	<u>(67,906)</u>	<u>-</u>
Net change in fund balance	-	39,283	39,283
Fund balance, beginning of year, reclassified	-	3,390	3,390
Fund balance, end of year	<u>\$ -</u>	<u>\$ 42,673</u>	<u>\$ 42,673</u>

The accompanying notes are an integral part of this financial statement.

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

The accounting policies of the Winter Farm Metropolitan District No. 2 (the District) conform to accounting principles generally accepted in the United States of America as applicable to governments (US GAAP). 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 such 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 ("District No. 3") collectively referred to as the Districts.

The Districts' service area is located in Weld County 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 and District No.3 are considered the Financing Districts which are responsible for providing the funding and tax base needed to support the financing plan for capital improvements. District No. 1 is considered to be the Service District responsible for managing the construction and operation of facilities and improvements.

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 as 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 and specific ownership taxes.

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.

1. **Summary of Significant Accounting Policies (continued)**

Basis of Presentation (continued)

The fund financial statements provide information about the government's 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. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered *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 fees. Irrigation water fees are recognized when the fee is billed. 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 are recognized when due. General capital asset acquisitions are reported as expenditures in governmental funds.

The District reports the following major governmental funds:

General Fund – is the District's primary operating fund. It accounts for all financial resources of the District not accounted for in another fund.

Special Revenue Fund – accounts for financial resources restricted or committed to expenditures to operate and maintain the non-potable water system.

Capital Projects Fund – accounts for all financial resources that are restricted, committed or assigned to expenditures for capital projects, including the acquisition or construction of infrastructure cost or other capital assets.

Debt Service Fund - accounts for collection of certain revenues and payments on debt service or debt issued.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

1. Summary of Significant Accounting Policies (continued)

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

Deposits and Investments

Investments held in the local government investment pool are reported at net asset value as allowed under US GAAP.

The District 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 and disbursed from a minimum number of bank accounts. Cash in excess of immediate operating requirements may be pooled for deposit and flexibility. As applicable, investment earnings are allocated periodically.

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. As of December 31, 2020, the District did not hold any investments required to be reported under fair value.

Receivables

Accounts receivables consist of homeowner water fees as of December 31, 2020. The District considers all accounts receivables collectible as of December 31, 2020.

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.

1. **Summary of Significant Accounting Policies (continued)**

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (continued)

Capital Assets

Capital assets, including non-potable water system and landscape and trails, 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 assets are not capitalized. Improvements are capitalized and depreciated over the remaining useful 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.

Deferred Outflows/Inflows 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. The District has one item that qualifies for reporting in this category, deferred charge on refunding. The deferred charge on refunding resulted from the difference between the carrying value of the refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of net position 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 that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time frame. The District has one item that qualifies for reporting in this category, unavailable revenue – property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amount becomes available.

Long-Term Obligations

In the government-wide financial statements, long-term debt is reported as a liability in the applicable governmental activity.

Fund Balance

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.

1. Summary of Significant Accounting Policies (continued)

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (continued)

Fund Balance (continued)

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.

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. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as nonspendable and are neither restricted nor committed.

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 an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. Although not included in a formal policy, the District considers decreases in fund balance to first reduce committed, then assigned, and then unassigned balances, in that order.

Net Position

Net position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. 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.

1. Summary of Significant Accounting Policies (continued)

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (continued)

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.

2. Stewardship, Compliance, and Accountability

Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with US GAAP. State law requires the District to adopt annual appropriated budgets for all funds.

The District conforms to the following procedures, in compliance with Colorado Revised Statutes, in establishing the budgetary data reflected in the financial statements:

On or before October 15 of each year, the District's accountant submits to the Board of Directors a recommended budget which details the necessary property taxes needed along with other available revenues to meet the District's operating requirements.

After a required publication of "Notice of Proposed Budget" and a public hearing, the District adopts the proposed budget and an appropriating resolution, which legally appropriates expenditures for the upcoming year.

Prior to December 15, the District computes and certifies to the County Commissioners a rate of levy that derived the necessary property taxes as computed in the proposed budget.

The budget and the appropriating resolution are adopted prior to December 31.

After adoption of the budget resolution, the District may make the following changes: (a) it may transfer appropriated monies between funds or between spending agencies within a fund, as determined by the original appropriation level; (b) it may approve supplemental appropriations to the extent of revenues in excess of the estimated revenues in the budget; (c) it may approve emergency appropriations; and (d) it may approve the reduction of appropriations for which originally estimated revenues are insufficient. 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.

2. Stewardship, Compliance, and Accountability (continued)

TABOR Amendment - Revenue and Spending Limitation Amendment

In November 1992, Colorado voters amended Article X of the Colorado Constitution by adding Section 20 commonly known as the Taxpayer's Bill of Rights ("TABOR"). TABOR contains revenue, spending, tax and debt limitations that apply to the State of Colorado and local governments. Spending and revenue limits are determined 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 also requires local governments to establish emergency reserves to be used for declared emergencies only. Emergencies, as defined by TABOR, exclude economic conditions, revenue shortfalls, or salary or fringe benefit increases. These reserves must be at least 3% of Fiscal Year Spending (excluding bonded debt service, federal grants and sales of assets). The District has reserved a portion of its December 31, 2020 year-end fund balance in the General Fund, Special Revenue Fund and Capital Projects Fund for emergencies as required under TABOR totaling \$13,235, which is the approximate required reserve for all funds as of December 31, 2020.

On November 7, 2000, a majority of the District's electors authorized the District to collect and spend or retain in a reserve all current levied taxes and fees of the District without regard to any limitations under Article X, Section 20 of the Colorado Constitution.

The District's management believes it is in compliance with the provisions of TABOR, as it is currently understood. However, TABOR is complex and subject to interpretation. Many of the provisions may not become fully understood without judicial review.

3. Detailed Notes on the Funds

Deposits and Investments

As of December 31, 2020, cash and investments are classified in the accompanying financial statements as follows:

Cash and investments	\$ 222,473
Cash and investments - restricted	55,011
	<u>\$ 277,484</u>

The following is a summary of deposits and investments held by the District at December 31, 2020:

<u>Type</u>	<u>Ratings per Standards & Poor's</u>	<u>Total as of December 31, 2020</u>
Deposits with financial institutions		\$ 32,147
COLOTRUST PLUS+	AAAm	245,337
Total		<u>\$ 277,484</u>

3. Detailed Notes on the Funds (continued)

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 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.

At December 31, 2020, 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 PLUS+ may invest in U.S. Treasuries, government agencies, the highest-rated commercial paper, certain corporate securities, certain money market funds, and certain repurchase agreements, and 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. There are no unfunded commitments and there is no redemption notice period.

Custodial Credit Risk: At December 31, 2020, all of the District's deposits 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.

WINTER FARM METROPOLITAN DISTRICT NO. 2
Notes to Financial Statements
December 31, 2020

3. Detailed Notes on the Funds (continued)

Investments (continued)

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 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
- Local government investment pool

Capital Assets

Capital asset activity for the year ended December 31, 2020 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets being depreciated:				
Non-potable water system	\$ 1,852,573	\$ -	\$ -	\$ 1,852,573
Landscape and trails	516,478	-	-	516,478
Total capital assets being depreciated	<u>2,369,051</u>	<u>-</u>	<u>-</u>	<u>2,369,051</u>
Less accumulated depreciation for:				
Non-potable water system	(778,485)	(92,629)	-	(871,114)
Landscape and trails	(371,091)	(25,824)	-	(396,915)
Total accumulated depreciation	<u>(1,149,576)</u>	<u>(118,453)</u>	<u>-</u>	<u>(1,268,029)</u>
Capital assets being depreciated, net	\$ <u>1,219,475</u>	\$ <u>(118,453)</u>	\$ <u>-</u>	\$ <u>1,101,022</u>

Depreciation expense of \$118,453 was charged to general government.

Long-Term Obligations

Changes in long-term obligations for the year ended December 31, 2020 are as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
General Obligation Bonds:					
2019 GO Refunding Bonds	\$ 8,590,000	\$ -	\$ 130,000	\$ 8,460,000	\$ 140,000
Premium 2019 GO Refunding Bonds	1,053,792		55,110	998,682	-
Direct Borrowings:					
Developer Advance	53,917	-	14,000	39,917	-
Governmental activities long-term debt	<u>\$ 9,697,709</u>	<u>\$ -</u>	<u>\$ 199,110</u>	<u>\$ 9,498,599</u>	<u>\$ 140,000</u>

Authorized Debt

As of December 31, 2020, the District had total authorized debt of \$45,450,000 of which \$43,838,377 has been issued, leaving an authorized but unissued balance of \$1,611,623 not including \$16,650,000 remaining for refundings.

3. Detailed Notes on the Funds (continued)

Long-Term Obligations (continued)

2019 General Obligation Refunding Bonds

On September 25, 2019, the District issued \$8,590,000 of General Obligation Refunding Bonds ("Series 2019 Bonds") with a premium of \$1,063,899. The Series 2019 Bonds were issued for the purpose of repaying the full amount of the 2015 Note Payable, repaying the full amount of the 2015 Subordinate Note Payable, purchasing the reserve insurance policy, purchasing bond insurance, and paying the costs of issuance. The Series 2019 Bonds bear interest ranging from 3.25% to 5%, payable semiannually on each June 1 and December 1, commencing on December 1, 2019, and maturing on December 1, 2050.

The Series 2019 Bonds are subject to a mandatory sinking fund redemption commencing on December 1, 2035 and are subject to redemption prior to maturity, at the option of the District, as a whole or in integral multiples of \$5,000, in any order of maturity and in whole or partial maturities, commencing on September 1, 2030, upon payment of principal and accrued interest. There is no redemption premium.

The Series 2019 Bonds are secured by pledged Property Tax revenue and other monies transferred to or deposited into the bond account pursuant to the bond resolution or reserve policy. In connection with the issuance the District purchased a bond insurance policy and a reserve policy.

Events of default as defined in the Series 2019 Bonds Indenture are 1) the payment of principal of or redemption premium on bonds is not made by the District when due, 2) the payment of any interest on the bonds is not made by the District when due, 3) the default by the District in the performance or observance of any other of the covenants, agreements, or conditions of the Indentures or bond resolutions, other than as described in the Indentures, and failure to remedy the same after notice thereof pursuant to the indentures, 4) the filing of a petition under the federal bankruptcy laws or other applicable laws seeking to adjust the obligations represented by the Series 2019 Bonds.

In the event of default of the payment of the scheduled principal or interest on the Series 2019 Bonds when the same become due, the owner of the bonds, will have a claim under the bond insurance policy for such defaulted payments. Remedies available in the event of default include 1) receivership, 2) suit for judgment, and 3) mandamus or other suits. Acceleration of the Series 2019 Bonds is not an available remedy for an event of default.

WINTER FARM METROPOLITAN DISTRICT NO. 2
Notes to Financial Statements
December 31, 2020

3. Detailed Notes on the Funds (continued)

Long-Term Obligations (continued)

The following is a summary of the annual long-term debt principal and interest requirements for the Series 2019 Bonds.

Year Ending December 31,	Principal	Interest	Total
2021	\$ 140,000	\$ 364,937	\$ 504,937
2022	145,000	359,338	504,338
2023	150,000	353,537	503,537
2024	155,000	347,538	502,538
2025	160,000	341,337	501,337
2026-2030	910,000	1,599,787	2,509,787
2031-2035	1,160,000	1,353,938	2,513,938
2036-2040	1,475,000	1,034,187	2,509,187
2041-2045	1,885,000	626,188	2,511,188
2045-2050	2,280,000	226,850	2,506,850
Total	\$ 8,460,000	\$ 6,607,637	\$ 15,067,637

Advance Refunding of Debt

The Series 2019 Bonds were issued to provide resources to current refund the 2015 Note Payable. Proceeds of \$8,280,476 (after payment of underwriter and other issuance costs) were deposited with the trustee for redemption of the 2015 Note Payable. Proceeds of \$995,641 were used to pay off the 2015 Subordinated Note Payable. The reacquisition price exceeded the net carrying amount of the old debt by \$370,169. This amount is being amortized over the remaining life of the refunded debt which is shorter than the life of the new debt issued. This advance refunding was undertaken to reduce debt service payments in the short-term. The refunding increased the District's total debt service payments and resulted in an economic loss as the purpose of the refunding was to (1) amortize the 2015 Note Payable balloon payment due in 2022; (2) maintain the average homeowner payment; (3) reduce the required debt service mill levy; and (4) pay off the developer note.

3. Detailed Notes on the Funds (continued)

Long-Term Obligations (continued)

Developer Advance

On September 17, 2015, The District and District No. 1 entered into an Infrastructure and Acquisition Agreement and Reimbursement Agreement (“IARA”) with the Developer. The District agreed to reimburse the Developer for approved District Eligible Costs associated with the design and construction of Additional Public Improvements up to \$4,000,000. Under the terms of the IARA, upon completion of and receipt of all required approvals for final payment by the Developer, the Developer shall convey the Additional Public Improvements to District No. 1 or the Town. Under the Operations Agreement, those Additional Public Improvements conveyed to District No. 1 shall be retained and operated by District No. 1 unless the Operating Agreement is terminated by the District. The Operating Agreement was terminated effective September 30, 2019 at which time District No. 1 and the District entered into an Assignment and Assumption Services Agreement and Conveyance and Acceptance of Public Improvements agreement which terminated the operations and administration services which District No. 1 provided to the District. The agreement resulted in the assumption of certain obligations and dedication of district property from District No. 1 to the District. In connection with this agreement, \$53,917 of Developer debt was assumed by the District as of December 31, 2019.

4. Risk Management

The District is exposed to various risks of loss related to workers compensation, general liability, unemployment, 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, 2020, the Pool has made no distributions nor required additional contributions from the District.

5. Reclassification

As of January 1, 2020, the District created a special revenue fund to better manage its non-potable irrigation system. In order to reflect prior year activity related to the non-potable system, a reclassification was made from the fund balance of the general fund to the special revenue fund in the amount of \$3,390. This reclassification had no effect on total fund balance or total net position for the year ended December 31, 2019.

6. Reconciliation of Government-Wide and Fund Financial Statements

Explanation of Differences between the Governmental Funds 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 \$2,369,051 less accumulated depreciation of \$1,268,029 or a net book value of \$1,101,022 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. The details of this difference are as follows:

Developer note	\$ (39,917)
2019 general obligation bonds	(8,460,000)
Accrued interest on long-term debt	(29,423)
Net adjustment	<u>\$ (8,529,340)</u>

Governmental funds report the effects of premiums, refundings and similar items when the debt is first issued, whereas amounts are deferred and amortized in the statement of activities. The details of this difference are as follows:

Premium on general obligation bonds	\$ (998,682)
Deferred amount on refunding	222,993
Deferred insurance	41,473
Net adjustment	<u>\$ (734,216)</u>

Explanation of Differences 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. The difference is due to current year depreciation expense of \$118,453.

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. The details of this difference is as follows:

Principal payment on developer debt	\$ 14,000
Principal payment on general obligation bonds	130,000
Net adjustment	<u>\$ 144,000</u>

6. **Reconciliation of Government-Wide and Fund Financial Statements (continued)**

Explanation of Differences between the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances and the Government-Wide Statement of Activities (continued)

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 details of this difference is as follows:

Interest on long-term debt	\$	954
Amortization of premium		55,110
Amortization of deferred charge on refunding		(116,594)
Amortization of insurance on refunding general obligation bonds		(1,384)
Net adjustment	\$	<u>(61,914)</u>

SUPPLEMENTARY INFORMATION

WINTER FARM METROPOLITAN DISTRICT NO. 2
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
Capital Projects Fund
For the Year Ended December 31, 2020

	Original and Final Budget	Actual	Variance with Final
Revenues:			
Tap fees	\$ 70,200	\$ 42,900	\$ (27,300)
Interest income	-	305	305
Total revenues	<u>70,200</u>	<u>43,205</u>	<u>(26,995)</u>
Expenditures:			
Current:			
Other	25,000	-	25,000
Debt service:			
Principal	34,317	14,000	20,317
Capital outlay:			
Meter installation	19,800	7,450	12,350
Total expenditures	<u>79,117</u>	<u>21,450</u>	<u>57,667</u>
Excess of revenues over (under) expenditures	<u>(8,917)</u>	<u>21,755</u>	<u>30,672</u>
Other financing sources (uses):			
Transfer in (out)	67,906	52,906	(15,000)
Total other financing sources (uses)	<u>67,906</u>	<u>52,906</u>	<u>(15,000)</u>
Net change in fund balance	<u>58,989</u>	<u>74,661</u>	<u>15,672</u>
Fund balance, beginning of year	<u>23,300</u>	<u>68,071</u>	<u>44,771</u>
Fund balance, end of year	<u><u>\$ 82,289</u></u>	<u><u>\$ 142,732</u></u>	<u><u>\$ 60,443</u></u>

The accompanying notes are an integral part of this financial statement.

WINTER FARM METROPOLITAN DISTRICT NO. 2
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
Debt Service Fund
For the Year Ended December 31, 2020

	Original and Final Budget	Actual	Variance with Final
Revenues:			
Property tax	\$ 502,351	\$ 502,351	\$ -
Specific ownership tax	30,141	23,844	(6,297)
Interest income	500	1,734	1,234
Total revenues	<u>532,992</u>	<u>527,929</u>	<u>(5,063)</u>
Expenditures:			
Current:			
General government:			
Treasurer fees	7,535	7,544	(9)
Agent fees	-	400	(400)
Other expense	7,500	-	7,500
Debt service:			
Interest	370,138	370,137	1
Principal	130,000	130,000	-
Total expenditures	<u>515,173</u>	<u>508,081</u>	<u>7,092</u>
Net change in fund balance	17,819	19,848	2,029
Fund balance, beginning of year	<u>11,205</u>	<u>36,993</u>	<u>25,788</u>
Fund balance, end of year	<u>\$ 29,024</u>	<u>\$ 56,841</u>	<u>\$ 27,817</u>

The accompanying notes are an integral part of this financial statement.