

ROCKINGHORSE METROPOLITAN DISTRICT NO. 2

Financial Statements

Year Ended December 31, 2015

with

Independent Auditors' Report

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FINANCIAL CONSULTANTS/CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

Board of Directors
RockingHorse Metropolitan District No. 2
Douglas County, Colorado

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the RockingHorse Metropolitan District No. 2, Douglas County, Colorado, as of and for the year ended December 31, 2015, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion 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 opinion.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each major fund of the RockingHorse Metropolitan District No. 2, Douglas County, Colorado, as of December 31, 2015, and the respective changes in financial position 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 not presented Management's Discussion and Analysis that governmental accounting principles generally accepted in the United States of America require to be presented to supplement the basis financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basis financial statements is not affected by the missing information

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental information listed in the table of contents are presented for the purpose of additional analysis and were not a required part of the financial statements. The supplemental information is the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Yanari Watson Mc Gaughey P.C.

Yanari Watson McGaughey, PC

September 1, 2016
Greenwood Village, Colorado

ROCKINGHORSE METROPOLITAN DISTRICT NO. 2

BALANCE SHEET/STATEMENT OF NET POSITION GOVERNMENTAL FUNDS December 31, 2015

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
ASSETS						
Cash and investments	\$ 63,655	\$ -	\$ -	\$ 63,655	\$ -	\$ 63,655
Cash and investments - restricted	14,480	39,473	1,321	55,274	-	55,274
Receivable - County Treasurer	752	3,833	-	4,585	-	4,585
Assessments receivable	5,340	-	-	5,340	-	5,340
Property taxes receivable	116,914	596,264	-	713,178	-	713,178
Prepaid Insurance	7,190	-	-	7,190	-	7,190
Capital assets not being depreciated	-	-	-	-	30,974,362	30,974,362
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$ 208,331</u>	<u>\$ 639,570</u>	<u>\$ 1,321</u>	<u>\$ 849,222</u>	<u>30,974,362</u>	<u>31,823,584</u>
LIABILITIES						
Accounts payable	\$ 42,571	\$ -	\$ 530	\$ 43,101	-	43,101
Regional Mill levy payable	-	31,189	-	31,189	-	31,189
Prepaid assessments	11,255	-	-	11,255	-	11,255
Accrued interest on bonds	-	-	-	-	257,750	257,750
Long-term liabilities:						
Due in more than one year	-	-	-	-	48,928,617	48,928,617
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>53,826</u>	<u>31,189</u>	<u>530</u>	<u>85,545</u>	<u>49,186,367</u>	<u>49,271,912</u>
DEFERRED INFLOWS OF RESOURCES						
Deferred property taxes	116,914	596,264	-	713,178	-	713,178
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Deferred Inflows of Resources	<u>116,914</u>	<u>596,264</u>	<u>-</u>	<u>713,178</u>	<u>-</u>	<u>713,178</u>
FUND BALANCES						
Fund Balances:						
Nonspendable:						
Prepays	7,190	-	-	7,190	(7,190)	-
Restricted:						
Emergencies	14,480	-	-	14,480	(14,480)	-
Capital improvements	-	-	791	791	(791)	-
Debt service	-	12,117	-	12,117	(12,117)	-
Assigned:						
Subsequent years expenditures	23,111	-	-	23,111	(23,111)	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Fund Balances	<u>37,591</u>	<u>12,117</u>	<u>791</u>	<u>50,499</u>	<u>(50,499)</u>	<u>-</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 208,331</u>	<u>\$ 639,570</u>	<u>\$ 1,321</u>	<u>\$ 849,222</u>	<u> </u>	<u> </u>
NET POSITION						
Restricted for:						
Capital improvements					791	791
Emergencies					14,480	14,480
Unrestricted					(18,176,777)	(18,176,777)
					<u> </u>	<u> </u>
Total Net Position					<u>\$(18,161,506)</u>	<u>\$(18,161,506)</u>

The notes to the financial statements are an integral part of these statements.

ROCKINGHORSE METROPOLITAN DISTRICT NO. 2

STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES/STATEMENT OF ACTIVITIES
GOVERNMENTAL FUNDS

For the Year Ended December 31, 2015

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
EXPENDITURES						
Insurance	\$ 7,018	\$ -	\$ -	\$ 7,018	\$ -	\$ 7,018
Accounting/Audit	15,115	-	-	15,115	-	15,115
Legal	53,280	-	-	53,280	-	53,280
Professional Svcs- Mgmt	18,000	-	-	18,000	-	18,000
Admin/business supplies-operations	2,414	-	-	2,414	-	2,414
Activities	6,056	-	-	6,056	-	6,056
Operational gas/electric	1,533	-	-	1,533	-	1,533
Utilities - IRR water	74,083	-	-	74,083	-	74,083
Contract maintenance	15,975	-	-	15,975	-	15,975
Landscape Maintenance	55,488	-	-	55,488	-	55,488
Trash disposal services	29,756	-	-	29,756	-	29,756
Miscellaneous expense	680	-	-	680	-	680
Treasurer fees	1,315	6,704	-	8,019	-	8,019
2014 Bonds - Principal	-	229,000	-	229,000	(229,000)	-
2014 Bonds -Interest	-	157,495	-	157,495	2,565,616	2,723,111
Cost of Issuance	-	-	8,556	8,556	-	8,556
Trustee Fees	-	8,750	-	8,750	-	8,750
Regional ARI mill levy	-	9,472	-	9,472	-	9,472
Capital improvements	-	-	4,274,337	4,274,337	(4,274,337)	-
Total Expenditures	280,713	411,421	4,282,893	4,975,027	(1,937,721)	3,037,306
PROGRAM REVENUES						
Owner assessments and fees	193,027	-	-	193,027	-	193,027
Total Program Revenues	193,027	-	-	193,027	-	193,027
Net Program Income (Expense)	(87,686)	(411,421)	(4,282,893)	(4,782,000)	1,937,721	(2,844,279)
GENERAL REVENUES						
Property taxes	87,332	436,660	-	523,992	-	523,992
Property taxes - Regional ARI	-	8,733	-	8,733	-	8,733
Specific ownership taxes	8,396	41,980	-	50,376	-	50,376
Specific ownership taxes - Regional ARI	-	840	-	840	-	840
Interest income and Other	472	1,841	-	2,313	-	2,313
Total General Revenues	96,200	490,054	-	586,254	-	586,254
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES						
	8,514	78,633	(4,282,893)	(4,195,746)	1,937,721	(2,258,025)
OTHER FINANCING SOURCES (USES)						
Development fees	-	28,000	-	28,000	-	28,000
Developer Advances	8,420	-	-	8,420	(8,420)	-
Developer Contribution	-	-	2,111	2,111	-	2,111
Bond Proceeds	-	-	4,272,225	4,272,225	(4,272,225)	-
Total Other Financing Source (Uses)	8,420	28,000	4,274,336	4,310,756	(4,280,645)	30,111
NET CHANGE IN FUND BALANCES	16,934	106,633	(8,557)	115,010	(115,010)	
CHANGE IN NET POSITION					(2,227,914)	(2,227,914)
FUND BALANCE/NET POSITION:						
BEGINNING OF YEAR	20,657	(94,516)	9,348	(64,511)	(15,869,081)	(15,933,592)
END OF YEAR	\$ 37,591	\$ 12,117	\$ 791	\$ 50,499	\$(13,931,360)	\$(18,161,506)

The notes to the financial statements are an integral part of these statements.

ROCKINGHORSE METROPOLITAN DISTRICT NO. 2

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND

For the Year Ended December 31, 2015

	Original & Final <u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
REVENUES			
Property taxes	\$ 87,322	\$ 87,332	\$ 10
Specific ownership taxes	5,676	8,396	2,720
Owner assessments and fees	189,564	193,027	3,463
Other	13,500	-	(13,500)
Interest income and Other	<u>386</u>	<u>472</u>	<u>86</u>
 Total Revenues	 <u>296,448</u>	 <u>289,227</u>	 <u>(7,221)</u>
EXPENDITURES			
Insurance	10,000	7,018	2,982
Accounting/Audit	20,000	15,115	4,885
Legal	40,000	53,280	(13,280)
Professional Svcs- Mgmt	24,000	18,000	6,000
Admin/business supplies-operations	4,600	2,414	2,186
Activities	8,400	6,056	2,344
Operational gas/electric	8,800	1,533	7,267
Utilities - IRR water	85,400	74,083	11,317
Landscape Renovations	8,000	-	8,000
Pool Operations	30,800	-	30,800
Contract maintenance	9,000	15,975	(6,975)
Landscape Maintenance	86,800	55,488	31,312
Trash disposal services	32,400	29,756	2,644
Miscellaneous expense	-	680	(680)
Treasurer fees	1,310	1,315	(5)
Contingency	311	-	311
Emergency reserve	<u>2,997</u>	<u>-</u>	<u>2,997</u>
 Total Expenditures	 <u>372,818</u>	 <u>280,713</u>	 <u>92,105</u>
 EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	 <u>(76,370)</u>	 <u>8,514</u>	 <u>84,884</u>
OTHER FINANCING SOURCES (USES)			
Developer Advances	<u>76,051</u>	<u>8,420</u>	<u>(67,631)</u>
 Total Other Financing Sources (Uses)	 <u>76,051</u>	 <u>8,420</u>	 <u>(67,631)</u>
 CHANGE IN FUND BALANCE	 <u>(319)</u>	 <u>16,934</u>	 <u>17,253</u>
FUND BALANCE:			
BEGINNING OF YEAR	<u>319</u>	<u>20,657</u>	<u>20,338</u>
END OF YEAR	<u>\$ -</u>	<u>\$ 37,591</u>	<u>\$ 37,591</u>

The notes to the financial statements are an integral part of these statements.

ROCKINGHORSE METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2015

Note 1: Summary of Significant Accounting Policies

The accounting policies of the RockingHorse Metropolitan District No. 2 (“the District”), located in Douglas County, Colorado, within the City of Aurora (“City”), conform to the accounting principles generally accepted in the United States of America (“GAAP”) as applicable to governmental units. The Governmental Accounting Standards Board (“GASB”) is the accepted standard setting body for establishing governmental accounting and financial reporting principals. The following is a summary of the more significant policies consistently applied in the preparation of financial statements.

Definition of Reporting Entity

The District was organized on March 4, 2002, as a quasi-municipal organization established under the State of Colorado Special District Act, concurrently with RockingHorse Metropolitan District No. 1 (“District No. 1”). The District was organized to provide financing for water, sewer and street improvements, safety protection, park and recreational improvements, transportation, mosquito control services, and television relay and translator facilities. Upon completion, the District dedicates and transfers certain facilities to the City or other appropriate jurisdiction, for maintenance and operation (see Note 1). When the facilities are complete and all bonds issued by the District are paid or defeased, the District intends to dissolve. The District is governed by an elected Board of Directors.

As required by GAAP, these financial statements present the activities of the District, which is legally separate and financially independent of other state and local governments. The District follows the GASB pronouncements which provide guidance for determining which governmental activities, organizations and functions should be included within the financial reporting entity. GASB sets forth the financial accountability of a governmental organization’s elected governing body as the basic criterion for including a possible component governmental organization in a primary government’s legal entity. Financial accountability includes, but is not limited to, appointment of a voting majority of the organization’s governing body, ability to impose its will on the organization, a potential for the organization to provide specific financial benefits or burdens and fiscal dependency. The pronouncements also require including a possible component unit if it would be misleading to exclude it.

The District is not financially accountable for any other organization. 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.

ROCKINGHORSE METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2015

The government-wide financial statements (i.e. the governmental funds balance sheet/statement of net position and the governmental funds statement of revenues, expenditures, and changes in fund balances/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 the (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. For the most part, the effect of interfund activity has been removed from these statements.

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

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when 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 collected.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures, other than interest on long-term obligations, are recorded when the liability is incurred or the long-term obligation is paid.

The District reports the following major governmental funds:

General Fund - The General Fund is the general operating fund of the District. It is used to account for all financial resources not accounted for and reported in another fund.

ROCKINGHORSE METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2015

Debt Service Fund – The Debt Service Fund is used to account for all financial resources that are restricted, committed or assigned to expenditures for principal, interest and other debt related costs.

Capital Projects Fund – The Capital Projects Fund is used to account for all financial resources that are restricted, committed or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other assets.

Budgetary Accounting

Budgets are adopted on a GAAP basis for the governmental funds. In accordance with the State Budget Law of Colorado, the District's Board of Directors holds public hearings in the fall of each year to approve the budget and appropriate the funds for the ensuing year. The District's Board of Directors can modify the budget by line item within the total appropriation without notification. The appropriation can only be modified upon completion of notification and publication requirements. The budget includes each fund on its basis of accounting unless otherwise indicated. The appropriation is at the total fund expenditures level and lapses at year end.

Assets, Liabilities and Net Position

Fair Value of Financial Instruments

The District's financial instruments include cash and cash equivalents, accounts receivable and accounts payable. The District estimates that the fair value of all financial instruments at December 31, 2015, does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying balance sheet. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

Deposits and Investments

The District's cash and cash equivalents are considered to be cash on hand and short-term investments with maturities of three months or less from the date of acquisition. Investments for the government are reported at fair value.

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

Estimates

The preparation of these financial statements in conformity with GAAP requires the District management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

ROCKINGHORSE METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2015

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial 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 did not have any items that qualified for reporting in this category.

In addition to liabilities, the statement of financial 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. The District has one item that qualifies for reporting in this category. Deferred property taxes are deferred and recognized as an inflow of resources in the period that the amounts become available.

Long-Term Obligations

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

Property Taxes

Property taxes are levied by the District's Board of Directors. The levy is based on assessed valuations determined by the County Assessor generally as of January 1 of each year. The levy is normally set by December 15 by certification to the County Commissioners to put the tax lien on the individual properties as of January 1 of the following year. The County Treasurer collects the determined taxes during the ensuing calendar year. The taxes are payable by April or if in equal installments, at the taxpayers' election, in February and June. Delinquent taxpayers are notified in July or August and the sales of the resultant tax liens on delinquent properties are generally held in November or December. The County Treasurer remits the taxes collected monthly to the District.

Property taxes, net of estimated uncollectible 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. The deferred property taxes are recorded as revenue in the subsequent year when they are available or collected.

Fund Equity

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. Because circumstances differ among governments, not every government or every governmental fund will present all of these components. The following classifications make the nature and extent of the constraints placed on a government's fund balance more transparent:

ROCKINGHORSE METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2015

Nonspendable Fund Balance

Nonspendable fund balance includes amounts that cannot be spent because they are either not spendable in form (such as inventory or prepaids) or are legally or contractually required to be maintained intact.

The nonspendable fund balance in the General Fund in the amount of \$7,190 represents prepaid expenditures.

Restricted Fund Balance

The restricted fund balance includes amounts restricted for a specific purpose by external parties such as grantors, bondholders, constitutional provisions or enabling legislation.

The restricted fund balance in the General Fund represents Emergency Reserves that have been provided as required by Article X, Section 20 of the Constitution of the State of Colorado. A total of \$14,480 of the General Fund balance has been restricted in compliance with this requirement.

The restricted fund balance in the Debt Service Fund in the amount of \$12,117 is restricted for the payment of the debt service costs associated with the future payment of the principal, interest and other costs related to the Long Term Debt (see Note 4).

The restricted fund balance in the Capital Projects Fund in the amount of \$791 is reserved for capital improvements within the District.

Committed Fund Balance

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

Assigned Fund Balance

Assigned fund balance includes amounts the District intends to use for a specific purpose. Intent can be expressed by the District's Board of Directors or by an official or body to which the Board of Directors delegates the authority.

The assigned fund balance in the General Fund represents the amount appropriated for use in the budget for the year ending December 31, 2016.

Unassigned Fund Balance

Unassigned fund balance includes amounts that are available for any purpose. Positive amounts are reported only in the General Fund.

ROCKINGHORSE METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements
December 31, 2015

For classification of Governmental Fund balances, the District considers an expenditure to be made from the most restrictive first when more than one classification is available.

Net Position

Net Position represents the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources. The District can report three categories of net position, as follows:

Net investment in capital assets – consists of net capital assets, reduced by outstanding balances of any related debt obligations and deferred inflows of resources attributable to the acquisition, construction, or improvement of those assets and increased by balances of deferred outflows or resources related to those assets. At December 31, 2015, the District did not have any net investment in capital assets to report.

Restricted net position – net position is considered restricted if their use is constrained to a particular purpose. Restrictions are imposed by external organizations such as federal or state laws. Restricted net position is reduced by liabilities and deferred inflows of resources related to the restricted assets.

Unrestricted net position – consists of all other net position that does not meet the definition of the above two components and is available for general use by the District.

When an expense is incurred for purposes for which both restricted and unrestricted net position are available, the District will use the most restrictive net position first.

Note 2: Investments

As of December 31, 2015, investments are classified in the accompanying financial statements as follows:

Statement of Net Position:	
Cash and Investments	\$ 63,655
Cash and Investments – restricted	<u>55,274</u>
	\$ <u>118,929</u>

Cash and investments as of December 31, 2015 consist of the following:

Deposits with financial institutions	\$ 69,003
Investments – COLOTRUST	<u>49,926</u>
	\$ <u>118,929</u>

ROCKINGHORSE METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2015

Credit Risk

The District has not adopted a formal investment policy; however the District follows state statutes regarding investments. Colorado statutes specify the types of investments meeting defined rating and risk criteria in which local governments may invest. These investments include obligations of the United States and certain U.S. Government agency entities, certain money market funds, guaranteed investment contracts, and local government investment pools.

As of December 31, 2015, the District had the following investments:

The local government investment pool, Colorado Local Government Liquid Asset Trust ("COLOTRUST") is rated AAAM by Standard & Poor's with a weighted average maturity of under 60 days. COLOTRUST is an investment trust/joint ventures established for local government entities in Colorado to pool surplus funds. The trusts operate similarly to a money market fund with each share maintaining a value of \$1.00. The Trust offers shares in two portfolios, COLOTRUST PRIME and COLOTRUST PLUS+. Both investments consist of U.S. Treasury bills and notes and repurchase agreements collateralized by U.S. Treasury securities. COLOTRUST PLUS+ may also invest in certain obligations of U.S. government agencies, highest rated commercial paper and repurchase agreements collateralized by certain obligations of U.S. government agencies. Designated custodian banks provide safekeeping and depository services to the trusts. Substantially all securities owned by the trusts are held by the Federal Reserve Bank in the accounts maintained for the custodian banks. The custodians' internal records identify the investments owned by COLOTRUST. At December 31, 2015, the District had \$49,926 invested in COLOTRUST.

Custodial and Concentration of Credit Risk

None of the District's investments are subject to custodial or concentration of credit risk.

Interest Rate Risk

Colorado revised statutes limit investment maturities to five years or less unless formally approved by the Board of Directors.

Note 3: Capital Assets

An analysis of the changes in capital assets for the year ended December 31, 2015 follows:

	Balance 1/1/2015	Additions	Deletions	Balance 12/31/2015
Governmental Type Activities:				
Capital assets not being depreciated:				
Construction in progress	\$ 26,700,025	\$ 4,274,337	\$ -	\$ 30,974,362
Total capital assets not being depreciated:	\$ 26,700,025	\$ 4,274,337	\$ -	\$ 30,974,362

ROCKINGHORSE METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2015

Upon completion and acceptance, all fixed assets except for park and recreation improvements will be conveyed by the District to other local governments. The District will not be responsible for the maintenance of the improvements to be conveyed.

Note 4: Long Term Debt

Taxable Subordinate Limited Tax General Obligation Bond Series 2010 (“Series 2010 Bonds”) – On December 15, 2010, the District issued \$30,648,000 of Taxable Subordinate Limited Tax General Obligation Bond Series 2010. Interest payable on the bond commences December 15, 2011 and thereafter on each December 15 at the rate of 8.0% per annum, until the principal amount is paid at maturity or upon prior redemption. Principal is payable upon the maturity date of December 15, 2049 or prior redemptions.

The principal and interest on this bond are payable only out of pledged revenue which consists of 1) the required mill levy of 50 mills; 2) development fees and; 3) any other legally available moneys which the District determines to credit to the bond fund. In accordance with the service plan, the District shall not be permitted to impose the required mill levy for payment of this bond after December 15, 2051, for collection in calendar year 2052. On January 3, 2014 the Series 2010 Bonds were paid in full.

On January 3, 2014, the District issued 6 series of bonds totaling \$40,412,498. The bonds were issued to refund the Series 2010 bonds and to acquire infrastructure constructed by the Developer pursuant to the Infrastructure Acquisition and Reimbursement Agreement, and to pay a portion of the cost of issuance.

The Taxable Senior Limited Tax General Obligation Refunding Bond Series 2014 A-1, 2014 A-2, and 2014 A-3 (“Series 2014”) in the total amount of \$2,640,000 bear interest at 6.5% and are payable semi-annually on June 1st and December 1st of each year commencing June 1, 2014 through December 1, 2016. The Series 2014 bonds are payable from pledged revenue including property taxes and development fees. The Series 2014 bonds are not subject to redemption at the option of the District prior to maturity. The Series 2014 bonds are subject to mandatory redemption on June 1 and December 1 of each year, commencing on June 1, 2014 to the extent pledged revenue is available 45 days prior to the redemption date.

ROCKINGHORSE METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2015

Senior Limited Tax (Convertible to Unlimited Tax) General Obligation Convertible Capital Appreciation Refunding Bonds, Series 2014A (“Series 2014A”) in the amount of \$20,000,651. Prior to the December 1, 2016, the Bonds shall pay no current interest and accrete in value in accordance with the Accretion Table, compounding semi-annually on each June 1 and December 1, commencing June 1, 2014. On December 1, 2016 and until the maturity date of December 1, 2051 or prior redemption, the Bonds shall bear interest at the rate of 6.00% per annum, calculated on the basis of a 360-day year of twelve 30-day months, payable to the extent of Pledged Revenue available semi-annually, on each June 1 and December 1, commencing June 1, 2017. The Series 2014A bonds are payable from pledged revenue including property taxes and development fees and are subject to redemption prior to maturity, at the option of the District, on and after January 1, 2024, upon payment of par plus accrued interest, without redemption premium.

Subordinate (Convertible to Senior) Limited Tax (Convertible to Unlimited Tax) General Obligation Convertible Capital Appreciation Refunding and Improvement Bonds, Series 2014B in the amount of \$17,771,847 (“Series 2014B”). Prior to December 1, 2019, the Series 2014B bonds shall pay no current interest and accrete in value in accordance with the Accretion Table, compounding semi-annually on each June 1 and December 1, commencing June 1, 2014. On December 1, 2019 and until maturity date of December 1, 2051, or prior redemption, the Series 2014B bonds shall bear interest at the rate of 6.50% per annum, calculated on the basis of a 360-day year of twelve 30-day months, payable to the extent of Pledged Revenue available semi-annually, on each June 1 and December 1, commencing June 1, 2020. The Series 2014B bonds are payable from pledged revenue including property taxes and development fees and are subject to redemption prior to maturity, at the option of the District, on and after January 1, 2024, upon payment of par plus accrued interest, without redemption premium.

Junior Lien (Convertible to Senior) Limited Tax (Convertible to Unlimited Tax) General Obligation Convertible Capital Appreciation Refunding Bonds, Series 2014C (Drawdown) in the amount up to \$9,785,000 (“Series 2014C”) The Series 2014C bonds were issued with no balance, and will “fill-up” as infrastructure costs are accepted by the District under the Facility Acquisition Agreement. On November 12, 2015 bonds in the amount of \$4,272,225 were issued (Series 2014C-1 and Series 2014C-2). Prior to the December 1, 2023, the Series 2014C bonds shall pay no current interest and accrete in value in accordance with the Accretion Table, compounding semi-annually on each June 1 and December 1, commencing June 1, 2014. On December 1, 2023 and until the maturity date of December 1, 2051, or prior redemption, the Series 2014C bonds shall bear interest at the rate of 7.00% per annum, calculated on the basis of a 360-day year of twelve 30-day months, payable to the extent of Pledged Revenue available semi-annually, on each June 1 and December 1, commencing June 1, 2024. The Series 2014C bonds are payable from pledged revenue including property taxes and development fees and are subject to redemption prior to maturity, at the option of the District, on and after January 1, 2024, upon payment of par plus accrued interest, without redemption premium.

ROCKINGHORSE METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements
December 31, 2015

The following is an analysis of the changes in the District's long-term obligations for the year ended December 31, 2015:

	Balance 1/1/2015	Additions	Deletions	Balance 12/31/2015	Due Within One year
Series 2014	\$ 2,423,000	\$ -	\$ 229,000	\$ 2,194,000	\$ -
Series 2014A	21,096,958	1,284,842	-	22,381,800	-
Series 2014B	18,828,550	1,243,622	-	20,072,172	-
Series 2014C	-	4,272,225	-	4,272,225	-
Developer Advance	-	8,420	-	8,420	-
Total	<u>\$42,348,508</u>	<u>\$ 6,809,109</u>	<u>\$ 229,000</u>	<u>\$48,928,617</u>	<u>\$ -</u>

The following is a summary of the annual long-term debt principal and interest requirements for the Series 2014A, Series 2014B and Series 2014C bonds:

	Principal	Interest	Total
2016	\$ -	\$ -	\$ -
2017	-	1,424,700	1,424,700
2018	-	1,424,700	1,424,700
2019	-	1,424,700	1,424,700
2020	-	3,109,825	3,109,825
2021-2025	-	16,590,025	16,590,025
2026-2030	1,590,000	18,011,775	19,601,775
2031-2035	4,360,000	17,184,400	21,544,400
2036-2040	8,525,000	15,311,375	23,836,375
2041-2045	14,280,000	11,923,575	26,203,575
2046-2050	22,630,000	6,390,225	29,020,225
2051	5,720,000	364,300	6,084,300
	<u>\$ 57,105,000</u>	<u>\$ 93,159,600</u>	<u>\$ 150,264,600</u>

Debt Authorization

As of December 31, 2015 the District has \$1,120,805,310 in remaining voter authorization for operations and \$232,220,503 in remaining voter authorization for refundings. The District's service plan, as approved by the City, allows for a total debt amount (through elections held in 2004), combined with District No. 1, of \$119,700,000.

ROCKINGHORSE METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2015

Note 5: Amended and Restated Fee Resolution

On October 20, 2015, the District adopted a Resolution Concerning the Imposition of an Operations Fee, which imposes: 1) an Operations Fee on each Residential Unit at a rate of \$48 a month; 2) an Operations Fee on each Vacant Lot at a rate of \$24 a month 3) a Transfer fee on each Residential Unit transfer of \$500, and 4) a Transfer fee on each Vacant Lot transfer of \$500.

On July 16, 2010, the Board of Directors of the Districts adopted a Joint Resolution Concerning District Fees for the Use of District Recreational Facilities by Non-Residents and Non-Property Owners. Persons not residing or owning property within the legal boundaries of the District, as may be amended from time to time (the "Outside Users"), shall be entitled to utilize the RockingHorse tennis courts (the "Recreation Amenities") in accordance with, and to the extent set forth within the resolution and the rules and regulations of the Districts. The annual Outside User Fee is \$1,260 per year.

Note 6: Developer Agreements

On July 21, 2015, the District and Nash Inspiration, LLC, ("Developer") entered into a Funding and Reimbursement Agreement whereby the Developer agreed to loan up to \$100,000 per year for operations through December 31, 2015, and the District agreed to repay Developer for funds advanced plus accrued interest at 7% per annum. This agreement was subsequently extended by the 2016 Extension to Funding and Reimbursement Agreement with a new termination date of December 31, 2016. At December 31, 2015, the amount due to the developer under this agreement was \$8,420 excluding accrued interest.

Note 7: Intergovernmental Agreements

City of Aurora – On August 6, 2004, the District, along with the District No. 1, entered into an Amended and Restated Intergovernmental Agreement with the City of Aurora, as required by the Amended and Restated Consolidated Service Plan. Under this agreement, the District must obtain the approval of the Aurora City Council prior to any inclusion of property into the boundaries of the District, or any consolidation with any other special district. Prior to issuance of any privately placed debt, the District shall obtain a certificate from an External Financial Advisor certifying the reasonableness of the interest rate and the structure. Pursuant to the agreement and the Amended and Restated Consolidated Service Plan, the Taxing District is required to levy a regional mill levy and to remit it to an Aurora Regional Improvement ("ARI") Authority or to the City under certain circumstances.

The Amended and Restated Consolidated Service Plan requires the District to dedicate the public improvements to the City of Aurora for ownership and maintenance. The District is authorized, but not obligated to, operate and maintain the park and recreation improvements.

ROCKINGHORSE METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2015

Note 8: Related Party

All of the Board of Directors are employees, owners or are otherwise associated with the Developer and may have conflicts of interest in dealing with the District. Management believes that all potential conflicts, if any, have been disclosed to the Board.

Note 9: Tax, Spending and Debt Limitations

Article X, Section 20 of the Colorado Constitution, commonly known as the Taxpayer Bill of Rights (“TABOR”) contains tax, spending, revenue and debt limitations which apply to the State of Colorado and all local governments. Spending and revenue limits are determined based on the prior year’s Fiscal Year Spending adjusted for allowable increases based upon inflation and local growth. Fiscal Year Spending is generally defined as expenditures plus reserve increases with certain exceptions. Revenue in excess of the Fiscal Year Spending limit must be refunded unless the voters approve retention of such revenue.

TABOR requires local governments to establish Emergency Reserves. These reserves must be at least 3% of Fiscal Year Spending (excluding bonded debt service). Local governments are not allowed to use the emergency reserves to compensate for economic conditions, revenue shortfalls, or salary or benefit increases.

The District’s management believes it is in compliance with the provisions of TABOR. However, TABOR is complex and subject to interpretation. Many of the provisions, including the interpretation of how to calculate Fiscal Year Spending limits will require judicial interpretation.

On November 2, 2004 a majority of the District’s electors authorized the District to collect and spend or retain in a reserve all currently levied taxes and fees of the District without regard to any limitations under Article X, Section 20 of the Colorado Constitution.

Note 10: Risk Management

Except as provided in the Colorado Governmental Immunity Act, 24-10-101, et seq., CRS, the District may be exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets; errors or omissions; injuries to agents; and natural disasters. The District has elected to participate in the Colorado Special Districts Property and Liability Pool (“the Pool”) which 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.

ROCKINGHORSE METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2015

The District pays annual premiums to the Pool for auto, public officials' liability, and 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.

Note 11: Reconciliation of Government-Wide Financial Statements and Fund Financial Statements

The Government Funds Balance Sheet/Statement of Net Position includes an adjustments column. The adjustments have the following elements:

- 1) Long-term liabilities are not due and payable in the current period and, therefore, are not included in the funds.

The Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balances/Statement of Activities includes an adjustments column. The adjustments have the following elements:

- 1) Governmental funds report interest expense on the modified accrual basis; however, interest expense is reported on the full accrual method on the Statement of Activities; and
- 2) governmental funds report long-term debt payments as expenditures, however, in the statement of activities, the payment of long-term debt is recorded as a decrease of long-term liabilities.

SUPPLEMENTAL INFORMATION

ROCKINGHORSE 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, 2015

	Original & Final <u>Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
REVENUES			
Property taxes	\$ 436,612	\$ 436,660	\$ 48
Property taxes - Regional ARI	8,732	8,733	1
Specific ownership taxes	30,563	41,980	11,417
Specific ownership taxes - Regional ARI	611	840	229
Other income	<u>-</u>	<u>1,841</u>	<u>1,841</u>
 Total Revenues	 <u>476,518</u>	 <u>490,054</u>	 <u>13,536</u>
 EXPENDITURES			
Treasurer fees	6,680	6,704	(24)
2014 Bonds - Principal	360,000	229,000	131,000
2014 Bonds -Interest	152,100	157,495	(5,395)
Trustee Fees	-	8,750	(8,750)
Regional ARI mill levy	<u>9,212</u>	<u>9,472</u>	<u>(260)</u>
 Total Expenditures	 <u>527,992</u>	 <u>411,421</u>	 <u>116,571</u>
 EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	 <u>(51,474)</u>	 <u>78,633</u>	 <u>130,107</u>
 OTHER FINANCING SOURCES (USES)			
Development fees	<u>150,000</u>	<u>28,000</u>	<u>(122,000)</u>
 Total Other Financing Source (Uses)	 <u>150,000</u>	 <u>28,000</u>	 <u>(122,000)</u>
 CHANGE IN FUND BALANCE	 <u>98,526</u>	 <u>106,633</u>	 <u>8,107</u>
 FUND BALANCE:			
BEGINNING OF YEAR	<u>(95,783)</u>	<u>(94,516)</u>	<u>1,267</u>
END OF YEAR	<u>\$ 2,743</u>	<u>\$ 12,117</u>	<u>\$ 9,374</u>

The notes to the financial statements are an integral part of these statements.

ROCKINGHORSE 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, 2015

	Original & Final		Variance
	<u>Budget</u>	<u>Actual</u>	Favorable <u>(Unfavorable)</u>
EXPENDITURES			
Cost of Issuance	-	8,556	(8,556)
Capital improvements	<u>5,000,000</u>	<u>4,274,337</u>	<u>725,663</u>
Total Expenditures	<u>5,000,000</u>	<u>4,282,893</u>	<u>717,107</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(5,000,000)	(4,282,893)	717,107
OTHER FINANCING SOURCES (USES)			
Developer Contribution	-	2,111	2,111
Bond Proceeds	<u>5,000,000</u>	<u>4,272,225</u>	<u>(727,775)</u>
Total Other Financing Source (Uses)	<u>5,000,000</u>	<u>4,274,336</u>	<u>(725,664)</u>
CHANGE IN FUND BALANCE	-	(8,557)	(8,557)
FUND BALANCE - BEGINNING OF YEAR	<u>-</u>	<u>9,348</u>	<u>9,348</u>
FUND BALANCE - END OF YEAR	<u>\$ -</u>	<u>\$ 791</u>	<u>\$ 791</u>

The notes to the financial statements are an integral part of these statements.