

**TWO BRIDGES  
METROPOLITAN DISTRICT  
Financial Statements  
December 31, 2017**

# TWO BRIDGES METROPOLITAN DISTRICT

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Dazzio & Associates, PC

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Certified Public Accountants

**INDEPENDENT AUDITOR'S REPORT**

Board of Directors  
Two Bridges Metropolitan District  
Douglas County, Colorado

We have audited the accompanying financial statements of the governmental activities and each major fund of the Two Bridges Metropolitan District as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

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

***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 Two Bridges Metropolitan District, as of December 31, 2017, and the respective changes in financial position and the budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### *Required Supplementary Information*

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, 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 basic financial statements is not affected by this missing information.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Two Bridges Metropolitan District's basic financial statements. The budget to actual schedule for the Capital Projects Fund (the Supplementary Information) and the Schedule of Assessed Valuation, Mill Levy and Property Taxes Collected (the Other Information) is presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Supplementary Information is the responsibility of management and was 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 Supplementary Information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Other Information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

*Duggio & Associates, P.C.*

June 28, 2018

## **BASIC FINANCIAL STATEMENTS**

**TWO BRIDGES METROPOLITAN DISTRICT**

**STATEMENT OF NET POSITION**

**December 31, 2017**

	<b>Governmental Activities</b>
<b>Assets</b>	
Cash	\$ 58,607
Receivable from County Treasurer	466
Accounts Receivable - Developer	53,962
Property Taxes Receivable	78,852
Prepaid Expense	243
Capital Assets Not Being Depreciated	8,622,042
<b>Total Assets</b>	<b>8,814,172</b>
<b>Liabilities</b>	
Accounts Payable	53,962
Noncurrent Liabilities:	
Due In More Than One Year	9,736,435
<b>Total Liabilities</b>	<b>9,790,397</b>
<b>Deferred Inflows of Resources</b>	
Property Taxes	78,852
<b>Net Position</b>	
Net Investment In Capital Assets	37,839
Restricted	
Emergencies	2,120
Unrestricted	(1,095,036)
<b>Total Net Position</b>	<b>\$ (1,055,077)</b>

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

**TWO BRIDGES METROPOLITAN DISTRICT**

**STATEMENT OF ACTIVITIES**

**For the Year Ended December 31, 2017**

<u>Function/Program Activities</u>	<u>Expenses</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Net (Expense) Revenue and Changes in Net Position</u>
<b>Governmental Activities</b>				<b>Governmental Activities</b>
Administration	\$ 88,279	\$ -	\$ -	\$ (88,279)
Operations and Maintenance	1,672	-	-	(1,672)
Interest on Long-term Debt and Related Expenses	583,895	-	-	(583,895)
Total Governmental Activities	<u>\$ 673,846</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(673,846)</u>
General Revenues:				
Property Taxes				63,461
Specific Ownership Taxes				6,950
Miscellaneous				73
Total General Revenues				70,484
Changes In Net Position				(603,362)
Net Position - Beginning				(451,715)
Net Position - Ending				<u>\$ (1,055,077)</u>

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

**TWO BRIDGES METROPOLITAN DISTRICT**

**BALANCE SHEET  
GOVERNMENTAL FUNDS**

**December 31, 2017**

	<u>General</u>	<u>Capital Projects</u>	<u>Total</u>
<b>Assets</b>			
Cash	\$ 58,607	\$ -	\$ 58,607
Receivable from County Treasurer	466	-	466
Accounts Receivable - Developer	9,991	43,971	\$ 53,962
Property Taxes Receivable	78,852	-	78,852
Prepaid Expense	243	-	243
<b>Total Assets</b>	<u>\$ 148,159</u>	<u>\$ 43,971</u>	<u>\$ 192,130</u>
<b>Liabilities</b>			
Accounts Payable	\$ 9,991	\$ 43,971	\$ 53,962
<b>Deferred Inflows of Resources</b>			
Property Taxes	78,852	-	78,852
<b>Fund Balances</b>			
Nonspendable			
Prepaid Expenses	243	-	243
Restricted			
Emergencies	2,120	-	2,120
Assigned	56,952	-	56,952
<b>Total Fund Balances</b>	<u>59,316</u>	<u>-</u>	<u>59,316</u>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b>	<u>\$ 148,159</u>	<u>\$ 43,971</u>	<u>\$ 192,130</u>

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



**TWO BRIDGES METROPOLITAN DISTRICT**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET POSITION**

**December 31, 2017**

Total Fund Balances - Governmental Funds	\$	59,316
<p>Total net position reported for governmental activities in the statement of of net position is different because:</p>		
<p>Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of:</p>		
Construction in Process		8,622,042
<p>Long-term liabilities applicable to the District's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the statement of net position.</p>		
Balances at December 31, 2017 are:		
Developer Advance - Operations	\$ (149,164)	
Developer Advance - Operations - Accrued Interest	(5,672)	
Developer Advance - Capital	(8,584,203)	
Developer Advance - Capital - Accrued Interest	(997,396)	(9,736,435)
Net Position - Governmental Activities		<u><u>\$ (1,055,077)</u></u>

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

**TWO BRIDGES METROPOLITAN DISTRICT**

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

**For the Year Ended December 31, 2017**

	<u>General</u>	<u>Capital Projects</u>	<u>Total</u>
<b>Revenues</b>			
Property Taxes	\$ 63,461	\$ -	\$ 63,461
Specific Ownership Tax	6,950	-	6,950
Miscellaneous Income	73	-	73
<b>Total Revenues</b>	<u>70,484</u>	<u>-</u>	<u>70,484</u>
<b>Expenditures</b>			
Current			
Management	31,940	-	31,940
Covenant Control	12,104	-	12,104
Accounting	16,180	-	16,180
Audit	5,056	-	5,056
Election	53	-	53
Insurance	3,428	-	3,428
Legal	15,494	-	15,494
Office Supplies & Miscellaneous	3,072	-	3,072
Landscape Maintenance	1,630	-	1,630
Repairs and Maintenance	42	-	42
Treasurer's Fees	952	-	952
Capital Outlay			
Planning	-	39,921	39,921
Environmental Consultant	-	6,713	6,713
Civil Engineering	-	45,876	45,876
Survey	-	33,971	33,971
Soil Engineering	-	9,606	9,606
Construction Mgt	-	20,895	20,895
Legal	-	55,303	55,303
Over Ex Grading	-	12,579	12,579
Erosion Control	-	43,497	43,497
Storm Sewer	-	117,947	117,947
Domestic Water	-	759	759
Irrigation Mains	-	22,208	22,208
Utility Crossings	-	15,395	15,395
Electrical Distribution	-	6,156	6,156
Paving	-	38,879	38,879
Signage	-	33,151	33,151
Fencing and Monumentation	-	2,700	2,700
Landscaping	-	491,860	491,860
Mailboxes	-	7,250	7,250
Clean up	-	5,125	5,125
Permitting and Inspections	-	8,540	8,540
Special Construction	-	343,313	343,313
<b>Total Expenditures</b>	<u>89,951</u>	<u>1,361,644</u>	<u>1,451,595</u>
<b>Excess Expenditures over Revenues</b>	<u>(19,467)</u>	<u>(1,361,644)</u>	<u>(1,381,111)</u>
<b>Other Financing Sources (Uses)</b>			
Developer Advances	113,719	1,323,805	1,437,524
Transfers	(37,839)	37,839	-
<b>Total Other Financing Sources (Uses)</b>	<u>75,880</u>	<u>1,361,644</u>	<u>1,437,524</u>
<b>Net Change in Fund Balances</b>	56,413	-	56,413
<b>Fund Balances - Beginning</b>	2,903	-	2,903
<b>Fund Balances - Ending</b>	<u>\$ 59,316</u>	<u>\$ -</u>	<u>\$ 59,316</u>

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

**TWO BRIDGES METROPOLITAN DISTRICT**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND  
BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

**For the Year Ended December 31, 2017**

Net Change in Fund Balances - Total Governmental Funds	\$	56,413
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>Governmental funds report capital outlays as expenditures. In the statement of activities, capital outlay is not reported as an expenditure. However, the statement of activities will report as depreciation expense the allocation of the cost of any depreciable asset over the estimated useful life of the asset.</p>		
Capital outlay		1,361,644
<p>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. The net effect of these differences in the treatment of long-term debt is as follows:</p>		
Developer Advances - Principal	\$ (1,437,524)	
Developer Advances - Accrued Interest	(583,895)	(2,021,419)
Change in Net Position - Governmental Activities	\$	<u><u>(603,362)</u></u>

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

**TWO BRIDGES METROPOLITAN DISTRICT**

**GENERAL FUND**

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

**For the Year Ended December 31, 2017**

**(With Comparative Totals for the Year Ended December 31, 2016)**

	<b>Original and Final Budget</b>	<b>Actual Amounts</b>	<b>Variance with Final Budget - Positive (Negative)</b>	<b>2016 Actual</b>
<b>Revenues</b>				
Property Taxes	\$ 63,461	\$ 63,461	\$ -	\$ -
Specific Ownership Tax	3,808	6,950	3,142	-
Operations and Maintenance Fees	7,200	-	(7,200)	-
Park and Recreation Fee	5,000	-	(5,000)	-
Miscellaneous Income	-	73	73	-
<b>Total Revenues</b>	<b>79,469</b>	<b>70,484</b>	<b>(8,985)</b>	<b>-</b>
<b>Expenditures</b>				
Current				
Management	20,000	\$ 31,940	\$ (11,940)	\$ 10,006
Covenant Control	5,000	12,104	(7,104)	238
Accounting	10,000	16,180	(6,180)	1,848
Audit	5,000	5,056	(56)	-
Election	-	53	(53)	-
Insurance	3,000	3,428	(428)	543
Legal	20,000	15,494	4,506	19,705
Billing	5,000	-	5,000	-
Wildlife Management	2,000	-	2,000	-
Office Supplies & Miscellaneous	1,000	3,072	(2,072)	202
Landscape Maintenance	15,500	1,630	13,870	-
Native Areas	15,700	-	15,700	-
Irrigation Repairs	3,000	-	3,000	-
Trail Maintenance	20,000	-	20,000	-
Well Maintenance	4,000	-	4,000	-
Utilities	6,700	-	6,700	-
Snow Removal	42,000	-	42,000	-
Detention Pond	9,000	-	9,000	-
Park and Rec Expense	5,000	-	5,000	-
Repairs and Maintenance	5,000	42	4,958	-
Trash and Recycling	1,000	-	1,000	-
Treasurer's Fees	952	952	-	-
Contingency	5,000	-	5,000	-
Emergency Reserve	6,305	-	6,305	-
<b>Total Expenditures</b>	<b>210,157</b>	<b>89,951</b>	<b>120,206</b>	<b>32,542</b>
<b>Excess Expenditures over Revenues</b>	<b>(130,688)</b>	<b>(19,467)</b>	<b>111,221</b>	<b>(32,542)</b>
<b>Other Financing Sources</b>				
Developer Advances	130,688	113,719	(16,969)	35,445
Transfers Out	-	(37,839)	(37,839)	-
<b>Total Other Financing Sources</b>	<b>130,688</b>	<b>75,880</b>	<b>(54,808)</b>	<b>35,445</b>
<b>Net Change in Fund Balance</b>	<b>-</b>	<b>56,413</b>	<b>56,413</b>	<b>2,903</b>
<b>Fund Balance - Beginning</b>	<b>-</b>	<b>2,903</b>	<b>2,903</b>	<b>-</b>
<b>Fund Balance - Ending</b>	<b>\$ -</b>	<b>\$ 59,316</b>	<b>\$ 59,316</b>	<b>\$ 2,903</b>

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

## TWO BRIDGES METROPOLITAN DISTRICT

### NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

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#### **Note 1 – Definition of Reporting Entity**

The Two Bridges Metropolitan District (the District), a quasi-municipal corporation and political subdivision of the State of Colorado was organized by recorded order and decree of the District Court for the County of Douglas dated December 14, 2009, which order was recorded on January 4, 2010, and is governed pursuant to provisions of the Colorado Special District Act (Title 32, Article 1, Colorado Revised Statutes). The District operates under a Service Plan approved by Douglas County, Colorado (County) on September 15, 2009, and amended and restated on November 7, 2017. The District's service boundaries are located entirely within the County.

The District was originally organized under the name of High Prairie Polo Club Metropolitan District No. 2 (District No. 2) along with High Prairie Polo Club Metropolitan District No. 1 (District No. 1). The Service Plan called for District No. 1 to serve as the Servicing District and District No. 2 to serve as the financing District. The District changed its name to Two Bridges Metropolitan District, effective August 25, 2016, pursuant to an Order Granting Petition for Name Change, dated August 24, 2016, which order was recorded on August 25, 2016. Agreements executed under the name "High Prairie Polo Club Metropolitan District No. 2" are considered to be the same as those executed under the Two Bridges Metropolitan District. District No. 1 was dissolved pursuant to an Order and Decree Dissolving District, dated October 27, 2016, effective upon recording on November 3, 2016.

The District was established principally to coordinate the acquisition and financing of public improvements, including storm sewer, street improvements, traffic safety protection, parks and recreation improvements, television relay and translation, mosquito control, covenant enforcement and design review, and security services (the Improvements).

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

The District has no employees and all operations and administrative functions are contracted.

The District is not financially accountable to any other organization, nor is the District a component unit of any other primary governmental entity.

## TWO BRIDGES METROPOLITAN DISTRICT

### NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

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#### **Note 2 – Summary of Significant Accounting Policies**

The more significant accounting policies of the District are described as follows:

##### **Government-Wide and Fund Financial Statements**

The government-wide financial statements include the statement of net position and the statement of activities. These financial statements include all of the activities of the District. Governmental activities are normally supported by taxes and intergovernmental revenues.

The statement of net position reports all financial and capital resources of the District. The difference between the assets and liabilities of the District is reported as net position.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenue. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenue* 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 revenue are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported in 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*. Revenue are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial statements are reported using the current *financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are 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 revenue to be available if they are collected within 60 days of the end of the current fiscal period. The major source of revenue susceptible to accrual are developer advances. All other revenue items are considered to be measurable and available only when cash is received by the District. Expenditures other than interest on long-term obligations are recorded when the liability is incurred or the long-term obligation paid.

## TWO BRIDGES METROPOLITAN DISTRICT

### NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017

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The District reports the following major governmental funds:

**General Fund** – This fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

**Capital Projects Fund** – This fund is used to account for financial resources earmarked or segregated for the acquisition and construction of major capital facilities and other project-oriented activities.

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

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

#### **Budgets**

In accordance with the State Budget Law, the District's Board of Directors holds public hearings in the fall each year to approve the budget and appropriate the funds for the ensuing year. The appropriation is at the total fund expenditures level and lapses at year end. The District 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.

#### **Pooled Cash and Investments**

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 single account. Cash in excess of immediate operating requirements is pooled for deposit and investment flexibility. Investment earnings are allocated periodically to the participating funds based upon each fund's average equity balance in the total cash and investments. Investments are carried at fair value.

Cash and investments are presented on the balance sheet in the basic financial statements at fair value.

## TWO BRIDGES METROPOLITAN DISTRICT

### NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

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#### **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 taxpayer's election, in February and June. Delinquent taxpayers are notified in August and generally sales of the tax liens on delinquent properties are 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 inflow of resources in the year they are levied and measurable. The unearned property tax revenues are recorded as revenue in the year they are available or collected.

#### **Operations and Maintenance Fees**

The District adopted a Resolution effective November 15, 2017 to impose an operations and maintenance fee of \$200 on each residential lot in the District to provide funding for the operation and maintenance of District assets such as trails, entry monument and related landscaping and to provide covenant enforcement services. On May 1, 2018 the Resolution was amended to include an administrative fee of \$50 on each transfer of a residential unit to an end user. The administrative fee may be waived under certain circumstances as defined in the Resolution. Additionally, the revenues generated by the fee may only be used for paying operations and maintenance described above and may not be used for general administrative costs of the District.

#### **Capital Assets**

Capital assets, which include property and equipment, are reported in the government-wide financial statements. Capital assets defined by the District as assets include improvements to buildings and equipment with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Improvements not conveyed either to the County or to other governmental entities for ownership and maintenance, are owned and maintained by the District.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable.



## TWO BRIDGES METROPOLITAN DISTRICT

### NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

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#### Deferred Inflows of Resources

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

#### Fund Equity

##### Fund Balances

Generally, the fund balance represents the difference between the current assets and current liabilities. In the fund financial statements, governmental funds report fund balance classifications that comprise a hierarchy based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

Governmental funds report up to five classifications of fund balance: nonspendable, restricted, committed, assigned and unassigned. Due to circumstances which differ amongst governments, not every government or every governmental fund will present all of these components. The following classifications describe the relative strength of the spending constraints:

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

*Restricted fund balance* – The portion of fund balances that is constrained to be used for a specific purpose by external parties (such as bondholders), constitutional provisions or enabling legislation. The District reports the following Restricted Fund Balances:

##### *Restricted for TABOR Emergencies*

Emergency reserves have been provided for as required by Article X, Section 20 of the Constitution of the State of Colorado (see Note 11).

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

## TWO BRIDGES METROPOLITAN DISTRICT

### NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

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

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

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

#### **Note 3 – Cash and Investments**

##### Custodial credit risk

Custodial risk for deposits is the risk that, in the event of a failure of a depository financial institution, the District will not be able to recover its deposits or will not be able to recover collateral securities that are in possession of an outside party. The Colorado Public Deposit Protection Act (PDPA) governs the investment of public funds. 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 (\$250,000) 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 for all the uninsured public deposits as a group is to be maintained by another institution or held in trust. The market value of the collateral must be at least equal to 102% of the aggregate uninsured deposits. The institution's internal records identify the collateral by depositor and as such, these deposits are considered to be uninsured but collateralized. The State Regulatory Commissions for banks and financial services are required by statute to monitor the naming of eligible depositories and reporting of the uninsured deposits and assets maintained in the collateral pools. At December 31, 2017, the District's bank deposits amounting to \$58,510 were insured by federal depository insurance and consequently were not exposed to custodial credit risk.

## TWO BRIDGES METROPOLITAN DISTRICT

### NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

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#### Investments

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

The District generally limits its concentration of investments to obligations of the United States, certain U.S. government agency securities and Local Government Investment Pools, which are believed to have minimal credit risk; minimal interest rate risk and no foreign currency risk. Additionally, the District is not subject to concentration risk disclosure requirements or subject to investment custodial credit risk for investments that are in the possession of another party.

Colorado revised statutes limit investment maturities to five years or less unless formally approved by the Board of Directors, such actions are generally associated with a debt service reserve or sinking fund requirements.

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

- Obligations of the United States, certain U.S. government agency securities and securities of the World Bank
- General obligation and revenue bonds of US local government entities
- Certain certificates of participation
- Certain securities lending agreements
- Bankers' acceptances of certain banks
- Commercial paper
- Written repurchase agreements and certain reverse repurchase agreements collateralized by certain authorized securities
- Certain money market funds
- Guaranteed investment contracts
- Local government investment pools

At December 31, 2017, the District did not have any investments.

**TWO BRIDGES METROPOLITAN DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

**Note 4 – Capital Assets**

An analysis of the changes in capital assets for the year ended December 31, 2017 follows:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deletions</b>	<b>Ending Balance</b>
Construction in Process	<u>\$ 7,260,398</u>	<u>\$ 1,361,644</u>	<u>\$ -</u>	<u>\$ 8,622,042</u>

**Note 5 – Long-Term Obligations**

The following is an analysis of changes in the District’s long-term obligations for the year ended December 31, 2017:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deletions</b>	<b>Ending Balance</b>	<b>Due Within One Year</b>
<b>Developer Advances</b>					
<b>Capital</b>					
Principal	\$ 7,260,398	\$ 1,323,805	\$ -	\$ 8,584,203	\$ -
Interest	419,095	578,301	-	997,396	-
<b>Operating</b>					
2016 - 2017 OFA - Principal	35,445	113,719	-	149,164	-
2016 - 2017 OFA - Interest	78	5,594	-	5,672	-
	<u>\$ 7,715,016</u>	<u>\$ 2,021,419</u>	<u>\$ -</u>	<u>\$ 9,736,435</u>	<u>\$ -</u>

**Developer Advances**

The District entered into an Operation Funding Agreement and a Facilities Funding and Reimbursement Agreement with the Developer as follows:

**Operation Funding Agreement**

Operation Funding Agreement

The District and Lokal Two Bridges, LLC (the Developer) entered into a 2016 Operation Funding Agreement on July 8, 2016, with an effective date of June 15, 2016. The 2016 OFA was amended on November 4, 2016 to fund 2016 and 2017 (2016 – 2017 OFA). The 2016 – 2017 OFA provides for the Developer to provide funding to the District for operation and maintenance expenses of the District for fiscal year 2016 and 2017, up to \$190,688, together with simple interest at the rate of

**TWO BRIDGES METROPOLITAN DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2017**

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the current Bond Buyer 20-Bond GO Index plus four percent (4%), up to a maximum of 8% per annum.

The obligation of the Developer to advance funds under the 2016 – 2017 OFA will expire upon advance to the District of amounts sufficient to pay expenses incurred in 2016 and 2017. In the event the District has not reimbursed the Developer for any Developer Advances made pursuant to the 2016 – 2017 OFA on or before December 31, 2057, any amount of principal and accrued interest outstanding on such date shall be deemed to be forever discharged and satisfied in full. As of December 31, 2017, the total amount advanced under the 2016 – 2017 OFA was \$149,164.

Reimbursement payments made under the 2016 – 2017 OFA are applied first to accrued interest and then to principal. The 2016 – 2017 OFA provides that the obligation under the 2016 – 2017 OFA shall not constitute a debt or indebtedness of the District within the meaning of any constitutional or statutory provision, nor shall it constitute a multiple fiscal year financial obligation, and the making of any reimbursement hereunder shall be at all times subject to annual appropriation by the District in its absolute discretion.

On June 6, 2018, the 2016 – 2017 OFA was amended to provide funding to the District for operation and maintenance expenses of the District through 2018, up to \$304,164.

**Facilities Funding and Reimbursement Agreement**

On July 8, 2016, with an effective date of June 15, 2016, the District entered into a Facilities Funding and Reimbursement Agreement (FFRA) with the Developer (the District and the Developer known collectively as the Parties).

Previously, High Prairie Polo Club Metropolitan District No. 1 (District No. 1) issued an \$8,000,000 promissory note dated January 10, 2010 (Note), and entered into that certain Improvement Acquisition and Reimbursement Agreement dated January 10, 2010 with High Prairie Polo Construction Company, Inc. (IARA).

High Prairie Polo Club Metropolitan District No. 2 (District No. 2) adopted Resolution 2016-07-04 Acknowledging the Dissolution of High Prairie Polo Club Metropolitan District No. 1, which states that District No. 2 will assume any and all obligations of District No. 1, and perform all functions listed under the Service Plan, including the responsibility of reimbursement under the IARA and the Note. As explained in Note 1, above, District No. 2 changed its name to Two Bridges Metropolitan District (the District) in August 2016.

Pursuant to the FFRA, the Developer acknowledged the termination and extinguishment of the IARA and the Note as of the date of the FFRA. The FFRA provides that the District will reimburse the Developer for: (1) any advances made to the District for construction of Improvements and construction-related expenses associated with the costs of Improvements to be provided by the

**TWO BRIDGES METROPOLITAN DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2017**

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District for fiscal years 2016 through 2018, up to \$4,500,000, together with simple interest at the rate of the current Bond Buyer 20-Bond GO Index plus four percent (4%), up to a maximum of 8% per annum (Developer Advances); and (2) the principal formerly due under the Note, in the amount of \$5,926,812 (Initial Construction Advances), together with interest at the same rate of the Developer Advances beginning from January 11, 2016 until paid, which interest amounted to \$872,050 at December 31, 2017.

As of December 31, 2017, the total amount advanced under the FFRA was \$8,584,203, which consists of the \$5,926,812 principal formerly due under the Note, and \$2,657,391 in Developer Advances.

Under the FFRA, the District and Developer agreed that the payments by the District to the Developer shall credit first against accrued and unpaid interest due on Developer Advances, and then to the principal amount due on Developer Advances, and then to accrued and unpaid interest on the Initial Construction Advances, and then to the principal amount due on the Initial Construction Advances.

In the event the District has not reimbursed the Developer for any Developer Advances or Initial Construction Advances, plus any accrued and unpaid interest, by December 31, 2056, any amount of principal and accrued interest outstanding on such date shall be deemed to be forever discharged and satisfied in full.

The FFRA provides that the obligations under the FFRA shall not constitute a debt or indebtedness of the District within the meaning of any constitutional or statutory provision, nor shall it constitute a multiple fiscal year obligation, and the making of any reimbursement thereunder shall be at all times subject to annual appropriation by the District.

**TWO BRIDGES METROPOLITAN DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2017**

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**Authorized Debt**

On November 8, 2016, a majority of the qualified electors of the District authorized the issuance of indebtedness in an amount not to exceed \$196,000,000 at an interest rate not to exceed 12% per annum. At December 31, 2017, the District had authorized but unissued indebtedness in the following amounts allocated for the following purposes:

	<b>Amount Authorized 11/8/2016</b>
Streets	\$ 14,000,000
Parks and Recreation	14,000,000
Water	14,000,000
Sanitation	14,000,000
Transportation	14,000,000
Mosquito Control	14,000,000
Traffic and Safety Controls	14,000,000
Fire Protection and EMR	14,000,000
Television Relay	14,000,000
Security Services	14,000,000
Operations and Maintenance	14,000,000
Debt Refundings	14,000,000
Intergovernmental Agreements	14,000,000
Regional Improvements	14,000,000
	<u>\$ 196,000,000</u>

Pursuant to the Service Plan, the District is permitted to issue bonded indebtedness up to \$8,000,000.

**Note 6 – Intergovernmental Agreements**

**Public Improvements Agreement**

The District entered into a Public Improvements Agreement (PIA) with Douglas County dated September 17, 2016 outlining terms associated with the construction of certain public street, drainage, water, and sewer improvements defined in the PIA (the Public Improvements). Upon final acceptance of the Public Improvements, the County will assume full responsibility for repairs and maintenance of the Public Improvements except the water and sewer improvements.

**TWO BRIDGES METROPOLITAN DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2017**

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**Rural Site Plan Improvements Agreement**

The District entered into a Rural Site Plan Improvements Agreement (RSPIA) with Douglas County dated September 17, 2016 outlining terms associated with the construction of certain road, drainage, grading and erosion control, and other improvements defined in the RSPIA (the Rural Site Plan Improvements, or RSP). Upon final acceptance of the RSP, the District will retain full responsibility for repairs and maintenance of the RSP. The District entered into an Open Space Agreement (OSA) with the Developer and the County dated October 24, 2017 outlining the terms for the use of the RSP, including the amount of the RSP that must be used as open space.

**Note 7 – Net Position**

The District has a net position consisting of three components – net investment in capital assets, restricted and unrestricted. Net investment in capital assets consists of capital assets, net of accumulated depreciation, and reduced by the outstanding balances of bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. As of December 31, 2017, the District had net investment in capital assets calculated as follows:

Capital Assets, Net	\$ 8,622,042
Less: Capital Related Debt	<u>(8,584,203)</u>
Net Investment in Capital Assets	<u>\$ 37,839</u>

Restricted net position is subject to restrictions by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provision or enabling legislation. Restricted assets include the net position that is restricted for use by constitutional provision. At December 31, 2017, the District has restricted \$2,120 for the TABOR emergency reserve (see Note 11).

Unrestricted net position represents assets that do not have any third-party limitations on their use. The District's unrestricted net position as of December 31, 2017 is (\$1,095,036). This deficit amount was a result of the District being responsible for the repayment of debt obligations issued for public improvements and for operating purposes.

**Note 8 – Related Party**

The members of the Board of Directors of the District may be or have been employees, owners of, or otherwise associated with the Developer and may have conflicts of interest in dealing with the District.



## TWO BRIDGES METROPOLITAN DISTRICT

### NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

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#### **Note 9 – Economic Dependency**

The District has not yet established a revenue base sufficient to pay the District's operational expenditures. Until an independent revenue base is established, continuation of operations in the District will be dependent upon actions by the Developer to advance funds for operations of the District.

#### **Note 10 – Risk Management**

The District is exposed to various risks of loss related to torts, thefts of, damage to, or destruction of assets, errors or omissions, injuries to employees, or natural disasters.

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

The District pays annual premiums to the Pool for general and automobile liability, public officials, auto physical damage and worker's compensation coverage. In the event aggregate losses incurred by the Pool exceed amounts recoverable from reinsurance contracts and funds accumulated by the Pool, the Pool may require additional contributions from the Pool members. Any excess funds, which the Pool determines are not needed for purposes of the Pool, may be returned to the members pursuant to a distribution formula.

#### **Note 11 – Tax, Spending and Debt Limitations**

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

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.

**TWO BRIDGES METROPOLITAN DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2017**

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On November 8, 2016, the voters approved the District to increase property taxes annually \$14,000,000 each for the purpose of 1) paying the District's operations, maintenance and capital expenses, 2) paying amounts due under one or more intergovernmental agreements or other contracts, and 3) paying amounts due for regional improvements for which the District is obligated pursuant to its Service Plan, one or more intergovernmental agreements or other contracts, without regard to any spending, revenue raising or other limitation contained within Article X, Section 20 of the Colorado Constitution or any other property tax limitation or law.

Additionally, the voters authorized the District to collect, retain and spend all revenues received by the District during 2016 and all subsequent years as voter-approved revenue changes without regard to any spending, revenue raising or other limitation.

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 and qualification as an Enterprise will require judicial interpretation.

**SUPPLEMENTARY INFORMATION**

**TWO BRIDGES METROPOLITAN DISTRICT**

**CAPITAL PROJECTS FUND**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL**

**For the Year Ended December 31, 2017**

**(With Comparative Totals for the Year Ended December 31, 2016)**

	<b>Original and Final Budget</b>	<b>Actual Amounts</b>	<b>Variance with Final Budget - Positive (Negative)</b>	<b>2016 Actual</b>
<b>Expenditures</b>				
<b>Capital Outlay</b>				
Planning	\$ -	\$ 39,921	\$ (39,921)	\$ 14,786
Environmental Consultant	57,334	6,713	50,621	-
Civil Engineering	-	45,876	(45,876)	25,015
Survey	15,000	33,971	(18,971)	22,255
Soil Engineering	10,437	9,606	831	14,105
Construction Mgt	64,337	20,895	43,442	41,152
Legal	90,000	55,303	34,697	16,259
Bonds	10,000	-	10,000	-
Over Ex Grading	-	12,579	(12,579)	-
Grading	63,080	-	63,080	-
Erosion Control	15,000	43,497	(28,497)	18,402
Storm Sewer	50,000	117,947	(67,947)	447,946
Domestic Water	75,844	759	75,085	-
Irrigation Mains	-	22,208	(22,208)	-
Utility Crossings	-	15,395	(15,395)	-
Electrical Distribution	-	6,156	(6,156)	-
Paving	21,085	38,879	(17,794)	394,799
Signage	-	33,151	(33,151)	-
Fencing and Monumentation	-	2,700	(2,700)	-
Landscaping	486,177	491,860	(5,683)	-
Mailboxes	-	7,250	(7,250)	-
Clean up	11,772	5,125	6,647	-
Permitting and Inspections	5,000	8,540	(3,540)	-
Special Construction	815,616	343,313	472,303	-
Capital Expenditures	-	-	-	6,238,691
Professional Services	-	-	-	26,988
<b>Total Expenditures</b>	<b>1,790,682</b>	<b>1,361,644</b>	<b>429,038</b>	<b>7,260,398</b>
<b>Excess Expenditures over Revenues</b>	<b>(1,790,682)</b>	<b>(1,361,644)</b>	<b>429,038</b>	<b>(7,260,398)</b>
<b>Other Financing Sources</b>				
Developer Advances	1,790,682	1,323,805	(466,877)	7,260,398
Transfers In	-	37,839	37,839	-
<b>Total Other Financing Sources</b>	<b>1,790,682</b>	<b>1,361,644</b>	<b>(429,038)</b>	<b>7,260,398</b>
<b>Net Change in Fund Balance</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Fund Balance - Beginning</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Fund Balance - Ending</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

See the Accompanying Independent Auditor's Report

## **OTHER INFORMATION**

**TWO BRIDGES METROPOLITAN DISTRICT**

**SCHEDULE OF ASSESSED VALUATION, MILL LEVY AND  
PROPERTY TAXES COLLECTED**

Levy Year	Collection Year	Assessed Valuation	Mill Levy			Total Levy	Current Collection	Collection Rate
			General	Debt	Total			
2012	2013	\$ 1,316,770	0.000	0.000	0.000	\$ -	\$ -	N/A
2013	2014	1,152,970	0.000	0.000	0.000	-	-	N/A
2014	2015	1,152,970	0.000	0.000	0.000	-	-	N/A
2015	2016	976,320	0.000	0.000	0.000	-	-	N/A
2016	2017	976,320	65.000	0.000	65.000	63,461	63,461	100.00%

Estimated for  
year ending  
December 31,  
2018

\$ 1,213,100	65.000	0.000	65.000	\$ 78,852
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**Note:**  
Property taxes collected in any one year include collection of delinquent property taxes levied in prior years. Information received from the County Treasurer does not permit identification of specific year of levy.

**Source:** Douglas County Assessor and Treasurer.