

HEADWATERS METROPOLITAN DISTRICT

Town of Granby, Colorado

**FINANCIAL STATEMENTS AND REPORT OF
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

December 31, 2015

TABLE OF CONTENTS

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS 1

MANAGEMENT’S DISCUSSION AND ANALYSIS 3

BASIC FINANCIAL STATEMENTS

 Government-wide Financial Statements:

 Statement of Net Position 6

 Statement of Activities 7

 Fund Financial Statements:

 Balance Sheet – Governmental Funds 8

 Reconciliation of the Governmental Funds Balance Sheet to the Statement of
 Net Position 9

 Statement of Revenues, Expenditures and Changes in Fund Balances –
 Governmental Funds 10

 Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and
 Changes in Fund Balance to the Statement of Activities 11

 Statement of Revenues, Expenditures and Changes in Fund Balance –
 Budget and Actual – General Fund 12

 Statement of Revenues, Expenditures and Changes in Fund Balance –
 Budget and Actual – Special Revenue Fund 13

 Notes to the Financial Statements 14

SUPPLEMENTAL INFORMATION

 Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual –
 Capital Projects Fund 28



INDEPENDENT AUDITOR'S REPORT

May 18, 2016

To the Board of Directors
Headwaters Metropolitan District
Town of Granby, Colorado

We have audited the accompanying financial statements of the governmental activities, and each major fund of the Headwaters Metropolitan District (the "District") as of and for the year ended December 31, 2015, 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 from 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 Headwaters Metropolitan District, as of December 31, 2015, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.



Board of Directors
Headwaters Metropolitan District
Page Two

Other Matters*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-5 be presented to supplement the basic financial statements. Such 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

The schedule of revenues, expenditures and changes in fund balance – budget and actual – capital projects fund is the responsibility of management and was derived from and relates 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 schedule of revenues, expenditures and changes in fund balance – budget and actual – capital projects fund is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Chadwick, Steinkirchner, Davis & Co., P.C.

Headwaters Metropolitan District

Management's Discussion and Analysis
December 31, 2015

As management of Headwaters Metropolitan District (the "District"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended December 31, 2015.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to the financial statements. This report also includes additional supplementary information in addition to the basic financial statements.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, from both a short-term fund perspective and a long-term economic perspective.

The Statement of Net Position presents information on all of the District's assets, deferred outflows, liabilities, and deferred inflows, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The Statement of Activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The governmental activity of the District is primarily the construction, operation, and maintenance of the basic public infrastructure that is being performed on behalf of Granby Ranch Metropolitan District, Sol Vista Metropolitan District, and Granby Ranch Metropolitan Districts Nos. 2-8.

The District's government-wide financial statements can be found on pages 6 & 7 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District uses fund accounting to ensure and demonstrate compliance with legal requirements. The District currently has three governmental funds, the General Fund, the Capital Projects Fund, and a Lease Purchase Agreement Special Revenue Fund.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of expendable resources, as well as on balances of expendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. A reconciliation of the fund balance as reported in the governmental funds to the net position reported in the government-wide financial statements and a reconciliation of the net

change in fund balance to the change in net position has been provided to facilitate the comparison between governmental funds and governmental activities.

The basic governmental fund financial statements can be found on pages 8 through 11 of this report.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The Notes to the Financial Statements can be found on pages 14 through 27 of this report.

Government-wide Financial Analysis. A condensed comparative summary of the District's government-wide assets, liabilities, net position, revenues and expenses follows:

	Governmental Activities	
	2015	2014
Assets:		
Current assets	\$ 202,898	\$ 101,073
Non-current receivables	3,975,558	3,709,345
Capital assets	9,551,786	10,002,608
Total Assets	<u>13,730,242</u>	<u>13,813,026</u>
Liabilities and Deferred Inflows:		
Current liabilities & def inflows	1,230,358	1,022,650
Long-term debt	2,947,029	2,786,701
Total Liabilities	<u>4,177,387</u>	<u>3,809,351</u>
Net Position:		
Net Investment in capital assets	9,551,786	10,002,608
Restricted for emergencies	6,842	7,089
Unrestricted (deficit)	(5,773)	(6,022)
Total Net Position	<u>\$ 9,552,855</u>	<u>\$ 10,003,675</u>
Revenues:		
Program revenues:		
Charges for services	\$ 166,060	\$ 275,514
Grants and contributions	410,333	755,428
General revenues:		
Interest	139	96
Gain on Sale of Capital Assets	62,069	
Sales tax sharing- Town of Granby	-	2,116
Total Revenues	<u>638,601</u>	<u>1,033,154</u>
Expenses:		
General government	111,447	106,936
Public works	584,097	638,589
Transportation	22,536	32,322
Parks and recreation	150,000	260,000
Interest expense	221,341	205,533
Total Expenses	<u>1,089,421</u>	<u>1,243,380</u>
Change in Net Position	<u>(450,820)</u>	<u>(210,226)</u>
Net Position - Beginning	<u>10,003,675</u>	<u>10,213,901</u>
Net Position - Ending	<u>\$ 9,552,855</u>	<u>\$ 10,003,675</u>

The District is the “Service District” in a multiple district structure whereby the District constructs, maintains, and operates infrastructure on behalf of Granby Ranch Metropolitan District and Granby Ranch Metropolitan District Nos. 2-8, the “Financing Districts.” The District entered into a District Facilities Construction and Service Agreement by which the District will receive a “capital obligation” from the financing districts in the future for the costs to construct infrastructure on behalf of the Districts. The District will also receive a “service obligation” from the financing districts for the costs incurred by the District to operate and maintain the facilities. A majority of the District’s assets consist of the infrastructure constructed to date as well as the capital and service obligations due from the financing districts. The District is also responsible for the leasing of Ski Granby Ranch and Golf Granby Ranch located within the Granby Ranch community. Additional information can be found in Note E on pages 23 through 26 related to such agreements.

Government-wide Financial Analysis. For the Governmental Activities, the District’s primary revenue sources were from cash received from developer contributions for general operations, increases in capital and service obligations due from the financing districts, and amenities fees. The primary expenses of the District were operating expenses and lease purchase payments for the amenities. Capital outlay during the year was largely funded through developer advances, which are reported as increases in long-term debt.

Financial Analysis of the District’s Funds

As mentioned earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the District’s governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the District’s financing requirements. In particular, assigned and unassigned fund balance may serve as a useful measure of a government’s net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the District’s governmental funds reported a combined ending fund balance of \$129,965 which reflects an increase of \$96,418. The increase is primarily due to the net proceeds from sale of vehicles and equipment.

The District adopts budgets for each fund on an annual basis. Budgetary comparisons have been provided on page 12 for the General Fund, Page 13 for the Special Revenue Fund and on page 28 for the Capital Projects Fund.

Capital assets. The District capital assets decreased by (\$450,822) due to depreciation expense exceeding constructed, purchased, or donated capital assets and the sale of vehicles and equipment. Additional information can be found in the Notes to the Financial Statements on page 21 of this report.

Long-term debts. The majority of the funding for infrastructure and other capital costs were funded by developer advances, which increases the long-term liability due to the developer. During the year, the governmental funds had a net increase in the amount of debt outstanding of \$141,288 which is primarily from a developer advance of \$211,292 for capital improvements. Additional information can be found in the Notes to the Financial Statement starting on page 22 of this report.

Request for Information This financial report is designed to provide a general overview of the District’s finances for all those with an interest in the government’s finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Marchetti & Weaver LLC, 28 Second Street, Suite 213, Edwards, CO 81632 or you may call (970) 926-6060.

Headwaters Metropolitan District
Town of Granby, Colorado

STATEMENT OF NET POSITION

For the year ended December 31, 2015

		Governmental Activities
Assets		
Cash and cash equivalents	\$	102,934
Investments		12,773
Accounts receivable:		
Due from Metropolitan Districts		25,921
Due from Silver Creek Master HOA		1,596
Due from Granby Ranch Conservancy, Inc.		4,258
Due from developer		29,634
Other receivables		5,473
Prepaid expense		20,309
Obligations from financing district		3,975,558
Capital assets, net		9,551,786
Total assets		13,730,242
Liabilities		
Accounts payable		72,933
Accrued interest payable		1,157,425
Due in more than one year:		
Note payable to developer		2,947,029
Total liabilities		4,177,387
Net Position		
Net investment in capital assets		9,551,786
Restricted for emergencies		6,842
Unrestricted		(5,773)
Total net position	\$	9,552,855

The accompanying notes are an integral part of this statement.

Headwaters Metropolitan District
Town of Granby, Colorado

STATEMENT OF ACTIVITIES

Year ended December 31, 2015

Function/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government Governmental Activities
Primary government:					
Governmental activities:					
General government	\$ 111,447	\$ -	\$ 410,333	\$ -	\$ 298,886
Public works	584,097	-	-	-	(584,097)
Transportation	22,536	-	-	-	(22,536)
Parks and recreation	150,000	166,060	-	-	16,060
Interest	221,341	-	-	-	(221,341)
Total primary government	<u>\$ 1,089,421</u>	<u>\$ 166,060</u>	<u>\$ 410,333</u>	<u>\$ -</u>	<u>(513,028)</u>
General revenues (expenses):					
Investment income					139
Gain on sale of capital assets					62,069
Total general revenues and transfers					<u>62,208</u>
Change in net position					(450,820)
Net position - beginning					<u>10,003,675</u>
Net position - ending					<u>\$ 9,552,855</u>

The accompanying notes are an integral part of this statement.

Headwaters Metropolitan District
Town of Granby, Colorado

BALANCE SHEET - GOVERNMENTAL FUNDS

For the year ended December 31, 2015

	General Fund	Capital Projects Fund	Special Revenue Fund	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 100,922	\$ 1,001	\$ 1,011	\$ 102,934
Investments	12,715	-	58	12,773
Accounts receivable:				
Due from Silver Creek Master HOA	1,596	-	-	1,596
Due from Metropolitan Districts	25,921	-	-	25,921
Due from Granby Ranch Conservancy, Inc.	4,258	-	-	4,258
Other receivables	5,473	-	-	5,473
Due from developer	-	29,634	-	29,634
Prepaid expense	20,309	-	-	20,309
Total assets	<u>171,194</u>	<u>30,635</u>	<u>1,069</u>	<u>202,898</u>
Liabilities				
Accounts payable	43,298	29,635	-	72,933
Total liabilities	<u>43,298</u>	<u>29,635</u>	<u>-</u>	<u>72,933</u>
Fund balance				
Nonspendable, prepaid expense	20,309	-	-	20,309
Restricted for emergencies	6,842	-	-	6,842
Assigned for capital projects	-	1,000	-	1,000
Committed for leasing activity	-	-	1,069	1,069
Unassigned	100,745	-	-	100,745
Total fund balance	<u>\$ 127,896</u>	<u>\$ 1,000</u>	<u>\$ 1,069</u>	<u>\$ 129,965</u>

The accompanying notes are an integral part of this statement.

Headwaters Metropolitan District
Town of Granby, Colorado

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

Year ended December 31, 2015

Amounts reported as net position in the governmental activities in the statement of net position are different from fund balance in the governmental funds because:

Fund balance - governmental funds	\$	129,965
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Capital assets are recognized as expenditures at the time of their acquisition in the governmental funds but are capitalized as assets in the government-wide statements and depreciated over their estimated useful lives.

	Capital assets	12,538,934	
	Accumulated depreciation	<u>(2,987,148)</u>	9,551,786

Long term debt is recognized as revenue in the governmental funds at the time it is acquired and as expense when it is paid back over the life of the debt. In the government-wide funds long term debt is recognized as a liability in the balance sheet and is decreased as principal payments are made.

(2,947,029)

Interest expense is recognized as it comes due in the funds but is recognized as it accrues in the government-wide statements.

(1,157,425)

Long term receivables are not recognized in the funds because they are not available to provide resources to cover current obligations. In the government-wide statements these receivables are recognized in the statement of net position.

3,975,558

Net position of governmental activities.	\$	<u><u>9,552,855</u></u>
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The accompanying notes are an integral part of this statement.

Headwaters Metropolitan District
Town of Granby, Colorado

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

For the year ended December 31, 2015

	General Fund	Capital Projects Fund	Special Revenue Fund	Total Governmental Funds
Revenues				
Intergovernmental agreements				
Granby Ranch Metropolitan District No. 2	\$ 730	\$ -	\$ -	\$ 730
Amenities rental fees	16,060	-	-	16,060
Interest income	134	3	2	139
Amenity fees	-	-	150,000	150,000
Operations contracts	86,660	-	-	86,660
Total revenues	<u>103,584</u>	<u>3</u>	<u>150,002</u>	<u>253,589</u>
Expenditures/Expenses				
General government	111,447	-	150,000	261,447
Public works	185,949	-	-	185,949
Transportation	17,342	-	-	17,342
Capital outlay	-	213,411	-	213,411
Total expenditures	<u>314,738</u>	<u>213,411</u>	<u>150,000</u>	<u>678,149</u>
Other financing sources				
Proceeds from sale of assets	252,956	-	-	252,956
Developer advances	-	211,292	-	211,292
Developer contributions	56,730	-	-	56,730
Total of financing sources	<u>309,686</u>	<u>211,292</u>	<u>-</u>	<u>520,978</u>
Excess of revenues over (under) expenditures	98,532	(2,116)	2	96,418
Fund balance, beginning of year	29,364	3,116	1,067	33,547
Fund balance, end of year	<u>\$ 127,896</u>	<u>\$ 1,000</u>	<u>\$ 1,069</u>	<u>\$ 129,965</u>

The accompanying notes are an integral part of this statement.

Headwaters Metropolitan District
Town of Granby, Colorado

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

Year ended December 31, 2015

Amounts reported as governmental activities in the
Statement of Activities are different because:

Net change in fund balance - total governmental funds	\$	96,418
The change in capital and service obligations receivable from Granby Ranch Metropolitan District No.'s 2-8 do not represent currently available resources and thus are only reported in the government-wide statement of net position.		266,213
Governmental funds report capital outlay as expenditures in the year the costs are incurred but in the government-wide statements these costs are capitalized and depreciated over their estimated remaining lives.		
	Depreciation expense	(414,651)
	Capital outlay	154,716
		<u>(259,935)</u>
Sales of capital assets are recognized as other sources in the fund financial statements but as gains or losses on disposal of capital assets in the government-wide financial statements. This is the difference between the proceeds and the gain.		(190,887)
In the governmental funds, developer advances are recognized as other financing sources when they are received but in the government-wide funds they are recognized as long-term liabilities.		(211,292)
In the governmental funds, interest expense is recognized as it is paid, but in the government-wide funds it is recognized as it is accrued. This represents the change in accrued interest expense for the year.		(221,341)
In the governmental funds payments on long term debt are recognized as expenditures at the time of payment but in the government-wide statements they are recognized as reductions of long term liabilities in the statement of net position.		70,004
Change in net position of governmental activities	<u>\$</u>	<u>(450,820)</u>

The accompanying notes are an integral part of this statement.

Headwaters Metropolitan District
Town of Granby, Colorado

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

For the year ended December 31, 2015

	Original and Final Budget	Actual	Favorable/ (Unfavorable) Budget Variance
Revenues			
Intergovernmental agreements			
Granby Ranch Metropolitan District No. 2	\$ 384	\$ 730	\$ 346
Amenities rental fees	15,514	16,060	546
Interest income	130	134	4
Operations contracts	97,212	86,660	(10,552)
Total revenues	<u>113,240</u>	<u>103,584</u>	<u>(9,656)</u>
Expenditures			
General government			
Accounting and administration	45,000	46,308	(1,308)
Audit	10,500	11,000	(500)
Insurance	15,112	13,399	1,713
Legal	30,000	33,142	(3,142)
Intergovernmental	5,494	4,121	1,373
Other expense	1,250	3,477	(2,227)
Public works			
Facilities management fee	7,445	7,445	-
Mosquito control	9,900	9,900	-
Road maintenance and plowing	112,864	94,290	18,574
Equipment leases	36,041	71,545	(35,504)
Electricity	2,750	2,769	(19)
Transportation			
Facilities management fee	1,309	-	1,309
Operations	26,188	17,342	8,846
Capital outlay	54,000	-	54,000
Total expenditures	<u>357,853</u>	<u>314,738</u>	<u>43,115</u>
Other financing sources			
Proceeds from sale of asset	-	252,956	252,956
Capital lease proceeds	54,000	-	(54,000)
Developer contributions	210,144	56,730	(153,414)
Total of financing sources	<u>264,144</u>	<u>309,686</u>	<u>45,542</u>
Excess of revenues over (under) expenditures	19,531	98,532	79,001
Fund balance, beginning of year	25,823	29,364	3,541
Fund balance, end of year	<u>\$ 45,354</u>	<u>\$ 127,896</u>	<u>\$ 82,542</u>

The accompanying notes are an integral part of this statement.

Headwaters Metropolitan District
Town of Granby, Colorado

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

For the year ended December 31, 2015

	Original and Final Budget	Actual	Favorable/ (Unfavorable) Budget Variance
Revenues			
Amenity fee	\$ 500,000	\$ 150,000	\$ (350,000)
Interest income	10	2	(8)
Total revenues	<u>500,010</u>	<u>150,002</u>	<u>(350,008)</u>
Expenditures			
Lease purchase	500,000	150,000	350,000
Total expenditures	<u>500,000</u>	<u>150,000</u>	<u>350,000</u>
Excess of revenues over (under) expenditures	10	2	(8)
Fund balance, beginning of year	1,074	1,067	(7)
Fund balance, end of year	<u>\$ 1,084</u>	<u>\$ 1,069</u>	<u>\$ (15)</u>

The accompanying notes are an integral part of this statement.

Headwaters Metropolitan District
Town of Granby, Colorado

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

1. Reporting entity

The Headwaters Metropolitan District (the District) was organized November 25, 2003 as a quasi-municipal corporation and a political subdivision of the State of Colorado and is governed by an elected Board of Directors. The District was originally named SolVista Metropolitan District No. 1 and was renamed Headwaters Metropolitan District effective October 23, 2004. The District was formed contemporaneously with SolVista Metropolitan District No. 2, which on October 23, 2004, became Granby Ranch Metropolitan District (GRMD). The Districts were organized to provide services, programs and facilities, including the financing of construction, completion, maintenance and operation of public infrastructure within and around the Districts’ boundaries. Pursuant to the Service Plan, which was approved on July 22, 2003, the District serves as the “Service District” while GRMD serves as the “Taxing District”. Granby Ranch Metropolitan District Nos. 2 through 8 were established on September 25, 2007 as additional taxing districts. See Note E for a detailed description of the Service Plan and other significant agreements.

The District has no component units as defined by generally accepted accounting principles as applied to governments.

2. Basis of Presentation

The government-wide financial statements include the Statement of Net Position and the Statement of Activities. These statements summarize information on the governmental and business-type activities of the primary government. These statements do not include fiduciary activities.

Both of the government-wide financial statements are designed to distinguish functions of the District that are principally supported by intergovernmental revenues and operating grants (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through their users fees and charges (business-type activities).

Headwaters Metropolitan District
Town of Granby, Colorado

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES- CONTINUED

2. Basis of Presentation- Continued

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segments are offset by general and program revenues. Direct expenses are those that are clearly identifiable within a specific function or program. Program revenues include 1) fees or charges to citizens and other governmental entities that receive or directly benefit from services provided by a given function or program, and 2) grants, contributions and other revenues that are restricted to use in the operational or capital requirements of a specific function or program. Other revenues not directly related to a particular function or program, if any, are reported separately as general revenues.

3. 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 flow.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. The exception to this general rule is that principal and interest on general long-term debt is recognized when due.

The District reports the following governmental funds:

The General Fund is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

The Capital Projects Fund accounts for the acquisition and construction of major capital facilities.

The Special Revenue Fund accounts for the activity related to the leasing of and subsequent subletting of the land and facilities used for the operations of Golf Granby Ranch, Ski Granby Ranch, and other related recreational amenities.

Headwaters Metropolitan District
Town of Granby, Colorado

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES- CONTINUED

4. Deposits and investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments are reported at fair value.

5. Receivables

The District considers all receivables collectible as of December 31, 2015.

6. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the District as assets with an estimated useful life in excess of one year. Such assets are recorded at historical cost. Donated capital assets are recorded at estimated fair value at the date of donation.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Infrastructure- road, storm sewer, traffic and safety control	30
Improvements	15
Vehicles	10
Equipment	2-15

7. Capital and Service Obligations from Financing Districts

Granby Ranch Metropolitan District and Granby Ranch Metropolitan District No. 2 through No. 8 (the “Financing Districts”) are obligated (see Note E) to reimburse the District over time for the cost of the infrastructure constructed (capital obligation) as well as the operations and maintenance of such infrastructure (service obligation) by the District. These items represent the portions of the obligations that have not yet been paid by the Financing Districts to the District as of December 31, 2015.

Headwaters Metropolitan District
Town of Granby, Colorado

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES- CONTINUED

8. 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 or business-type activities statement of net position. In the fund financial statements, governmental funds recognize the face amount of the debt as other financing sources at the time that it is issued and as expense when the obligation is paid.

9. Intergovernmental revenues

In the governmental funds, intergovernmental revenues, such as contributions awarded on a non-reimbursement basis, are recorded as receivables and revenues when measurable and available.

10. Fund equity

In the fund financial statements, governmental funds report nonspendable, restricted, committed, assigned or unassigned fund balances. When funds from more than one classification are available, the order of spending of resources will be restricted, committed, assigned and unassigned.

Fund balance is classified as nonspendable when the assets are in nonspendable form such as prepaid expenses or inventories. The nonspendable fund balance in the District's general fund represents \$20,309 in prepaid expense.

Fund balance is classified as restricted when constraints placed on the use of resources are externally imposed by creditors, grantors, contributors, laws and regulations of other governments, or by law through constitutional provisions or enabling legislation. The restricted fund balance in the amount of \$6,842 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.

Fund balance is classified as assigned when the District places constraints on its fund balance and represents the District's intent for future use of financial resources that are subject to change. Committed fund balance in the special revenue funds will include any remaining fund balance that is not restricted or committed. This classification is necessary to indicate that those funds are, at a minimum, intended to be used for the purpose of that particular fund.

The assigned fund balance in the Capital Projects Fund is assigned for capital outlay purposes.

The committed fund balance in the Special Revenue Fund is committed for leasing activities.

Headwaters Metropolitan District
Town of Granby, Colorado

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES- CONTINUED

11. Net position

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

The 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.

The restricted net position is considered restricted if its 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.

The unrestricted net position 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.

12. Internal balances

Transactions between funds that are representative of lending/ borrowing arrangements outstanding at the end of the fiscal year are reported in the funds as “internal balances.”

13. Fair value of financial instruments

The carrying amount of cash and short-term investments, accounts receivable, accounts payable and accrued liabilities approximate fair values due to the short term maturity of these instruments.

14. Use of estimates

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

Headwaters Metropolitan District
Town of Granby, Colorado

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE B – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary information

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

In the fall of each year, the District Board of Directors prepares a proposed budget for the fiscal year commencing the following January 1. The budget for the funds includes proposed expenditures and the means of financing them.

A public hearing is held at a Board of Directors meeting to obtain taxpayer input. Prior to December 15, the budget is legally enacted through passage of a budget resolution. The 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.

NOTE C – CASH AND INVESTMENTS

Deposits and investments

The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulators. Amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is determined by the PDPA. PDPA allows the institution to create a single collateral pool for all public funds. The pool 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 State Commissioners 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.

As of December 31, 2015, all of the District's deposits were either insured by the Federal Deposit Insurance Corporation or held in eligible public depositories as required by PDPA.

Headwaters Metropolitan District
Town of Granby, Colorado

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE C – CASH AND INVESTMENTS – CONTINUED

Investments

Colorado Revised Statutes specify investment instruments meeting defined rating and risk criteria in which local government entities may invest. The allowed investments may include:

- Obligations of the U.S., certain U.S. government agency securities and the World Bank
- General obligation and revenue bonds of U.S. local government entities
- Bankers acceptances of certain banks
- Commercial paper
- Written repurchase agreements and certain reverse repurchase agreements collateralized by certain authorized securities
- Guaranteed investment contracts
- Local government investment pools

During 2015, the District invested in the Colorado Surplus Asset Fund Trust (CSAFE), which is an investment vehicle established by State statutes for local government entities to pool surplus funds. The State Securities Commission administers and enforces all State statutes governing the Trust. The Trust is similar to a money market fund with each share valued at \$1.00. CSAFE may invest in U.S. Treasury securities and repurchase agreements collateralized by U.S. Treasury securities. A designated custodial bank serves as custodian for CSAFE's investment portfolio and serves as the depository in connection with direct investments and withdrawals. The custodian's internal records segregate investments owned by CSAFE. As of December 31, 2015, the District had \$12,773 invested in CSAFE.

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. CSAFE had a credit rating of AAAM from Standards & Poor's at December 31, 2015.

The following is a summary of deposits and investments held by the District at December 31, 2015.

Investment	Maturity	Fair Value
Colorado Surplus Asset Trust Fund (CSAFE)	Weighted average under 60 days	<u>\$ 12,773</u>
Deposits		
Checking		<u>\$ 102,934</u>
Total cash and investments		<u>\$ 115,707</u>

Headwaters Metropolitan District
Town of Granby, Colorado

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE C – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2015 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital assets not being depreciated:				
Construction in progress	\$ 63,727	\$ 124,282	\$ –	\$ 188,009
Total capital assets not being depreciated	63,727	124,282	–	188,009
Capital assets being depreciated:				
Infrastructure	12,268,553	30,434	–	12,298,987
Vehicles and equipment	452,343	–	(400,405)	51,938
Total capital assets being depreciated	12,720,896	30,434	(400,405)	12,350,925
Less accumulated depreciation for:				
Infrastructure	(2,543,931)	(409,457)	–	(2,953,388)
Vehicles and equipment	(238,084)	(5,194)	209,518	(33,760)
Total accumulated depreciation	(2,782,015)	(414,651)	209,518	(2,987,148)
Total capital assets being depreciated, net	9,938,881	(384,217)	(190,887)	9,363,777
Total Governmental activities capital assets, net	\$ 10,002,608	\$ (259,935)	\$ (190,887)	\$ 9,551,786

Depreciation expense was charged to functions of the District as follows:

Governmental activities:	
Public works, including infrastructure	\$ 409,457
Transportation	5,194
Total Governmental activities	\$ 414,651

Headwaters Metropolitan District
Town of Granby, Colorado

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE D – LONG-TERM OBLIGATIONS

Changes in long-term obligations for the year ended December 31, 2015 are as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities:					
Due to developer	\$ 2,735,737	\$ 211,292	\$ –	\$ 2,947,029	\$ –
Capital leases	<u>70,004</u>	<u>–</u>	<u>(70,004)</u>	<u>–</u>	<u>–</u>
Governmental activities					
Long-term obligations	<u>\$ 2,805,741</u>	<u>\$ 211,292</u>	<u>\$ (70,004)</u>	<u>\$ 2,947,029</u>	<u>\$ –</u>

Due to Developer

The District has an obligation to the District’s developer, Granby Realty Holdings LLC (“GRH”), for developer advances made to the District. In 2006, the District entered into a Funding and Reimbursement Agreement whereby the developer agreed to loan the District one or more sums of money for operating and maintenance expenses of the District. In 2006, the District entered into a Construction Funding and Reimbursement Agreement whereby the developer agreed to loan the District one or more sums of money not to exceed \$2,700,000 for capital costs. In January 2008, a new Construction Funding and Reimbursement Agreement was entered into which eliminated the maximum loan amount for capital costs. For both the operating and capital agreements, the funds shall be loaned to the District in one or a series of installments. The loan advances shall bear simple interest at a rate of 8% per annum from the date any advance is made to the date of repayment of such amount. In 2010, the District was able to convert \$11,119,000 of the outstanding principal and accrued interest balance to become General Obligation Bonds of Granby Ranch Metropolitan District, which were also issued to the Developer. As of December 31, 2015, accrued interest on the advances amounted to \$1,157,425 and the principal balance totaled \$2,947,029, all of which is from capital advances as operational funds received from GRH have been in the form of contributions.

Capital leases

The District has entered into various lease agreements to finance the acquisition of vehicles and equipment. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date. These leases were paid off in full during the year ended December 31, 2015.

Headwaters Metropolitan District
Town of Granby, Colorado

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE D – LONG-TERM OBLIGATIONS – CONTINUED

Debt authorization

In 2003 and 2004, a majority of the qualified electors of the District authorized the issuance of up to \$104,000,000 in general obligation bonds to finance the improvements. As of December 31, 2015, the amount of debt authorized by the District's electorate but unissued was \$104,000,000 for improvements.

NOTE E – SIGNIFICANT AGREEMENTS

Service Plan

The service plan dated May 2003 was approved by the Town of Granby on July 22, 2003. The service plan contemplated the creation of two separate districts designating Granby Ranch Metropolitan District (GRMD) as the "taxing" district and Headwaters Metropolitan District (HMD) as the "service" district. Under the plan, HMD is to construct, manage and operate public facilities and services throughout the development.

GRMD is to produce property taxes and other revenue sufficient to pay the costs of operations and debt service expenditures incurred for the improvement of public infrastructure. The use of a dual district structure provides for the issuance of bonds in a timely manner that is consistent with the construction of development improvements when needed. The service plan also outlined a financial plan for the districts entitling HMD to all taxing district revenues in order to pay all costs associated with the operations and management of the development. On September 25, 2007, a consolidated service plan to create additional financing districts (Granby Ranch Metropolitan Districts Nos. 2 through 8) was also approved by the Town of Granby in an effort to distribute the Financing Obligation over more area-specific districts.

Intergovernmental Agreement with the Town of Granby

On December 9, 2003, Granby Ranch and Headwaters Metropolitan Districts (acting jointly) entered into an agreement with the Town of Granby in an effort to promote the coordinated development of the Districts. The agreement was amended May 20, 2005 to increase the aggregate bonded debt limit to \$64,000,000. The agreement was further amended April 11, 2006 to outline the street maintenance and transportation mill levy. On February 26, 2008, the Intergovernmental Agreement (IGA) between the Town of Granby and GRMD, HMD, and Granby Ranch Nos. 2-8 was executed. This IGA superseded and replaced the prior IGA and amendments in their entirety. The agreement states that all infrastructure and improvements will be designed and constructed in accordance with Town standards. As defined by the service plan, HMD has the primary responsibility for meeting the Town's standards. All streets, roadways, traffic and safety protection, transportation, parks and recreation, storm-water drainage, mosquito control and non-potable water facilities are to be owned, maintained, and operated by HMD.

Headwaters Metropolitan District
Town of Granby, Colorado

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE E – SIGNIFICANT AGREEMENTS – CONTINUED

Intergovernmental Agreement with the Town of Granby – continued

The sanitary sewer and potable water systems will be conveyed to the Town of Granby or Granby Sanitation District, upon acceptance.

If the Town determines the Districts are not operating or maintaining any street improvement in conformity with this agreement, the Town may cure the nonconforming condition and receive reimbursement for related costs from the District.

The agreement limits the aggregate bonded debt amount to \$94,250,000 for the Districts. It also limits the maximum mill levy to 50.000 mills, adjusted for the change in the ratio of actual valuation to assessed valuation from 2003 to the current year.

Master Intergovernmental Agreements with the Granby Ranch Metropolitan District

On June 1, 2006, the District entered into the District Facilities Construction and Service Agreement with HMD as the “Operating” district and GRMD as the “Taxing” district. This agreement terminated and replaced the Master Intergovernmental Agreement entered into by GRMD and HMD on December 10, 2003. The agreement is to coordinate the financing, processing of construction, and operation and maintenance of the development of public infrastructure in Granby Ranch. The districts are empowered to enter into contracts and agreements with one another to provide intergovernmental services and facilities and the agreement basically provides that HMD will construct the public infrastructure in the Districts and that GRMD and the other taxing districts will ultimately pay the cost of constructing those improvements.

Certain improvements such as water and sanitary sewer improvements will be conveyed to the Town of Granby and other improvements such as roads, roadway landscaping and drainage improvements will be operated and maintained by HMD. The cost of operation and maintenance of the improvements owned by HMD will ultimately be paid by the taxing districts in Granby Ranch. As the taxing districts have the financial ability to issue bonds, they have an obligation to issue bonds, the proceeds of which will be used to pay the cost of constructing the infrastructure.

The consolidated service plan for the additional taxing districts (Granby Ranch Metropolitan Districts Nos. 2 through 8) was approved by the Town of Granby on September 25, 2007. On September 17, 2008, the First Amended and Restated District Facilities Construction and Service Agreement was entered into. It superseded and replaced the prior agreement in its entirety. This new agreement included the additional taxing districts (Granby Ranch Metropolitan Districts Nos. 2 through 8).

Headwaters Metropolitan District
Town of Granby, Colorado

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE E – SIGNIFICANT AGREEMENTS – CONTINUED

Master Intergovernmental Agreements with the Granby Ranch Metropolitan District- continued

The District entered into an Exclusion Agreement with GRMD as of April 21, 2010 to document how GRMD would exclude property from its boundaries and provide for future maintenance and operations of the community. The agreement sets forth a number of items including the understanding that upon the issuance of the Series 2010 Bonds, GRMD will have fulfilled all current reimbursement obligations to Headwaters Metropolitan Districts (HMD).

The Exclusion Agreement required GRMD to impose an Operations Fee in the event of a deficiency in the Improvement Operations Budget and Cure Amounts, in accordance with the operations fee resolution. The agreement also states the 2008 Master IGA will be repudiated and therefore HMD and GRMD will revert to the terms of the 2006 Master IGA with HMD, except the 2006 Master IGA will become subject to annual budgeting and appropriation and can be terminated for the ensuing year. HMD will continue to provide all general administrative services, operation and maintenance services, and facilities for GRMD.

GRMD will impose property taxes or fees, rates, tolls, or charges to fund the O&M costs which will allow HMD to provide, operate, and maintain the facilities.

The combined amounts due to HMD by the Granby Ranch Metropolitan Districts Nos. 2 through 8 (GRMD Nos. 2 through 8) are \$3,975,558 for capital and service costs. The amount owed to the District by the taxing districts has been recorded in the Statement of Net Position. During the year ended December 31, 2015, the District received service obligation payments from GRMD No. 2 totaling \$730.

Amenities Lease Purchase Agreement

On December 31, 2012, the District and District developer entered into the Second Amended and Restated Lease Purchase Agreement to amend, restate, and supersede the prior lease in its entirety. The District, as the Tenant, will continue to rent the premises from the District developer. The lease term shall be for the one year and shall automatically renew for 49 additional one-year terms. The rental payments shall equal the proceeds of all Amenity Fees collected by the District. The District has the option to purchase the premise for the fee stated in the agreement. The fees received in 2015 totaled \$150,000.

Headwaters Metropolitan District
Town of Granby, Colorado

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE E – SIGNIFICANT AGREEMENTS – CONTINUED

Leased Premises Management Agreement

On December 31, 2012, the District entered into an agreement with the Granby Ranch Amenities, LLC (“Manager”) to have management services performed as specified in the agreement, including operating the amenities. The Manager shall receive the revenues generated by the amenities and shall pay the expenses of operating the amenities, including any shortfalls. The Manager shall be entitled to the profits generated by the excess of the revenues over expenses for operations of the amenities. The Manager shall pay the District annual rent of \$9,796 for the ski amenities and \$5,060 for the golf amenities on or before March 31 of each year. In 2015 the District received \$16,060. The rent is adjusted annually as set forth in the agreement.

The District conveyed to the Manager all of the equipment, fixtures, and furnishing for the day-to-day operations of the amenities and the Manager assumed all of the District’s liabilities related to the amenities. Additionally, all of the amounts owed to Granby Realty by the District under the prior Management Agreement were cancelled and discharged.

NOTE F – RELATED PARTIES

All the members of the Board of Directors of the District are employees or have substantial business interest with Granby Ranch Amenities, LLC, Granby Ranch Holdings, LLC or related entities.

NOTE G – COMMITMENTS AND CONTINGENCIES

During the normal course of business, the District may incur claims and other assertions against it from various agencies and individuals. Management of the District and its legal representatives have disclosed that there are not material outstanding claims against the District at December 31, 2015.

NOTE H – 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 acts of God.

The District has elected to participate in the Colorado Special Districts Property and Liability Pool (the Pool) which is sponsored by the Special District Association of Colorado. The Pool is an organization created by intergovernmental agreement to provide property, liability, public official liability, and 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.

Headwaters Metropolitan District
Town of Granby, Colorado

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE H – RISK MANAGEMENT – CONTINUED

The District pays annual premiums to the Pool for property, general liability and public official's liability, coverage. Members of the Pool may be required to make additional surplus contributions in the event aggregated losses incurred by the Pool exceed amounts recoverable from reinsurance contracts and funds accumulated by the Pool. 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. No distributions were made during the year ended December 31, 2015.

In addition, the District is named as insured along with the Developer as additionally insured on several of the Developer's policies including general liability, excess liability, crime and employment. The general liability coverage is in excess of \$20,000,000.

NOTE I – TAX, SPENDING AND DEBT LIMITATIONS

Article X, Section 20, of the Colorado Constitution, commonly known as the Taxpayer's Bill of Rights (TABOR) contains, tax, spending, and 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 increase 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 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 requirements of the amendment. However, the District has made certain interpretations of the amendment's language in order to determine its compliance.

Headwaters Metropolitan District
Town of Granby, Colorado

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

For the year ended December 31, 2015

	Original and Final Budget	Actual	Favorable/ (Unfavorable) Budget Variance
Revenues			
Interest income	\$ -	\$ 3	\$ 3
Total revenues	-	3	3
Expenditures			
Capital outlay			
Construction management fee	13,413	3,154	10,259
Construction projects	894,207	210,257	683,950
Total expenditures	907,620	213,411	694,209
Other financing sources			
Developer advances	907,620	211,292	(696,328)
Total of financing sources	907,620	211,292	(696,328)
Excess of revenues over (under) expenditures	-	(2,116)	(2,116)
Fund balance, beginning of year	1,000	3,116	2,116
Fund balance, end of year	\$ 1,000	\$ 1,000	\$ -