

LORSON RANCH METROPOLITAN DISTRICT NO. 2  
El Paso County, Colorado

FINANCIAL STATEMENTS  
December 31, 2016



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## **Independent Auditor's Report**

Board of Directors  
**Lorson Ranch Metropolitan District No. 2**

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and each major fund of Lorson Ranch Metropolitan District No. 2 as of and for the year ended December 31, 2016, 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

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 Lorson Ranch Metropolitan District No. 2 as of December 31, 2016, and the respective changes in financial position and the respective budgetary comparison for the general fund and the special revenue fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## Other Matters

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 are not affected by this missing information.

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

*L. Paul Goedecke P.C.*

L. Paul Goedecke, P.C.  
September 19, 2017

## **BASIC FINANCIAL STATEMENTS**

**LORSON RANCH METROPOLITAN DISTRICT NO. 2**  
**STATEMENT OF NET POSITION**  
**December 31, 2016**

	<u><b>Governmental Activities</b></u>
<b>ASSETS</b>	
Cash and investments - Restricted	\$ 1,080,017
Receivable from County Treasurer	10,608
Property taxes receivable	<u>1,028,701</u>
Total assets	<u>2,119,326</u>
 <b>LIABILITIES</b>	
Accounts payable	1,575
Accrued interest payable	53,154
Due to District No. 1	10,608
Noncurrent liabilities:	
Due within one year	41,218
Due in more than one year	<u>16,740,125</u>
Total liabilities	<u>16,846,680</u>
 <b>DEFERRED INFLOWS OF RESOURCES</b>	
Property tax revenue	<u>1,028,701</u>
Total deferred inflows of resources	<u>1,028,701</u>
 <b>NET POSITION</b>	
Restricted for:	
Debt service	452,069
Unrestricted	<u>(16,208,124)</u>
Total net position	<u><u>\$ (15,756,055)</u></u>

These financial statements should be read only in connection with  
the accompanying notes to financial statements.

**LORSON RANCH METROPOLITAN DISTRICT NO. 2**  
**STATEMENT OF ACTIVITIES**  
**Year Ended December 31, 2016**

	Program Revenues			
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
<u>Functions/Programs</u>	<u>Expenses</u>	<u>Contributions</u>	<u>Contributions</u>	<u>Governmental Activities</u>
Primary government:				
Governmental activities:				
General government	\$ 4,552	\$ -	\$ -	\$ (4,552)
Intergovernmental transfer	16,393,857	-	-	(16,393,857)
Interest and related costs on long-term debt	542,594	-	-	(542,594)
	\$ 16,941,003	\$ -	\$ -	(16,941,003)
General revenues:				
Property taxes				1,061,743
Specific ownership taxes				122,158
Net investment income				1,047
Total general revenues				1,184,948
Change in net position				(15,756,055)
Net position - Beginning				-
Net position - Ending				\$ (15,756,055)

These financial statements should be read only in connection with the accompanying notes to financial statements.

**LORSON RANCH METROPOLITAN DISTRICT NO. 2**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**December 31, 2016**

	General	Debt Service	Total Governmental Funds
<b>ASSETS</b>			
Cash and investments - Restricted	\$ -	\$ 1,080,017	\$ 1,080,017
Receivable - County Treasurer	3,031	7,577	10,608
Property taxes receivable	236,173	792,528	1,028,701
<b>TOTAL ASSETS</b>	<b>\$ 239,204</b>	<b>\$ 1,880,122</b>	<b>\$ 2,119,326</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accounts payable	\$ -	\$ 1,575	\$ 1,575
Due to District No. 1	3,031	7,577	10,608
Total liabilities	3,031	9,152	12,183
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Property tax revenue	236,173	792,528	1,028,701
Total deferred inflows of resources	236,173	792,528	1,028,701
<b>FUND BALANCES</b>			
Restricted for:			
Debt service	-	1,078,442	1,078,442
Total fund balances	-	1,078,442	1,078,442
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>	<b>\$ 239,204</b>	<b>\$ 1,880,122</b>	

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

Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.

Bond principal payable	(15,790,000)
Bond premium, net	(991,343)
Accrued interest on bonds payable	(53,154)
Net position of governmental activities	<b>\$ (15,756,055)</b>

These financial statements should be read only in connection with the accompanying notes to financial statements.

**LORSON RANCH METROPOLITAN DISTRICT NO. 2  
STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
Year Ended December 31, 2016**

	<u>General Fund</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>			
Property taxes	\$ 303,412	\$ 758,331	\$ 1,061,743
Specific ownership taxes	34,902	87,256	122,158
Net investment income	-	1,047	1,047
Total revenues	<u>338,314</u>	<u>846,634</u>	<u>1,184,948</u>
<b>EXPENDITURES</b>			
Current			
County Treasurer's fees	4,552	11,378	15,930
Debt Service			
Bond issue costs	-	204,592	204,592
Miscellaneous	-	17	17
Bond interest	-	292,345	292,345
Intergovernmental transfer to District No. 1	333,762	16,060,095	16,393,857
Total expenditures	<u>338,314</u>	<u>16,568,427</u>	<u>16,906,741</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>-</u>	<u>(15,721,793)</u>	<u>(15,721,793)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Bond issuance	-	15,790,000	15,790,000
Bond premium	-	1,010,235	1,010,235
Total other financing sources (uses)	<u>-</u>	<u>16,800,235</u>	<u>16,800,235</u>
<b>NET CHANGE IN FUND BALANCES</b>	-	1,078,442	1,078,442
<b>FUND BALANCES - BEGINNING OF YEAR</b>	<u>-</u>	<u>-</u>	<u>-</u>
<b>FUND BALANCES - END OF YEAR</b>	<u>\$ -</u>	<u>\$ 1,078,442</u>	<u>\$ 1,078,442</u>

These financial statements should be read only in connection with  
the accompanying notes to financial statements.

**LORSON RANCH METROPOLITAN DISTRICT NO. 2  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL  
FUNDS TO THE STATEMENT OF ACTIVITIES  
Year Ended December 31, 2016**

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

Net change in fund balances - Total governmental funds	\$ 1,078,442
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The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds.

Bond principal payable	(15,790,000)
Bond premium, net	(991,343)

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Accrued interest on bonds - Change in liability	<u>(53,154)</u>
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Changes in net position of governmental activities	<u><u>\$ (15,756,055)</u></u>
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These financial statements should be read only in connection with  
the accompanying notes to financial statements.

**LORSON RANCH METROPOLITAN DISTRICT NO. 2  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES - BUDGET AND ACTUAL  
Year Ended December 31, 2016**

	<u>Budget Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Property taxes	\$ 303,320	\$ 303,320	\$ 303,412	\$ 92
Specific ownership taxes	31,849	35,000	34,902	(98)
Contingency income	3,000	1,680	-	(1,680)
Total revenues	<u>338,169</u>	<u>340,000</u>	<u>338,314</u>	<u>(1,686)</u>
<b>EXPENDITURES</b>				
County Treasurer's fees	4,550	4,550	4,552	(2)
Contingency	3,000	-	-	-
Intergovernmental transfer to District No. 1	330,619	335,450	333,762	1,688
Total expenditures	<u>338,169</u>	<u>340,000</u>	<u>338,314</u>	<u>1,686</u>
<b>NET CHANGE IN FUND BALANCES</b>	-	-	-	-
<b>FUND BALANCES - BEGINNING OF YEAR</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>FUND BALANCES - END OF YEAR</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

These financial statements should be read only in connection with  
the accompanying notes to financial statements.

**LORSON RANCH METROPOLITAN DISTRICT NO. 2**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**

**NOTE 1 - DEFINITION OF REPORTING ENTITY**

Lorson Ranch Metropolitan District No. 2 (District), a quasi-municipal corporation and political subdivision of the State of Colorado, was formed on December 2, 2004, and is governed pursuant to provisions of the Colorado Special District Act (Title 32, Article 1, Colorado Revised Statutes). The District's service area is located in El Paso County, Colorado. The District was established to provide financing for the acquisition, construction, and installation of streets, traffic and safety controls, parks and recreational facilities, water, storm drainage, sanitation, fire protection, and mosquito control.

The District was formed under the Consolidated Service Plan in conjunction with Lorson Ranch Metropolitan Districts Nos. 1, 3 – 7. District No. 1 will serve as the "Service District" with the responsibility of managing the construction and operation of facilities and improvements needed for the public improvements. District Nos. 2 – 7 will serve as the "Financing Districts" with the responsibility of providing the funding and tax base needed to support the capital improvements and operations to serve the community known as Lorson Ranch.

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 for any other organization (including District Nos. 1, 3 – 7), nor is the District a component unit of any other primary governmental entity.

**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. The effect of interfund activity has been removed from these statements. 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 sum of assets and deferred outflows and the sum of liabilities and deferred inflows is reported as net position.

**LORSON RANCH METROPOLITAN DISTRICT NO. 2**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

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

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of 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 recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The major sources of revenue susceptible to accrual are property taxes and specific ownership taxes. 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 is due.

The District reports the following major governmental funds:

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

The Debt Service Fund accounts for the resources accumulated and payments made for principal and interest on long-term debt of the governmental funds.

The effect of interfund activity has been eliminated from the government-wide financial statements.

**LORSON RANCH METROPOLITAN DISTRICT NO. 2**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Amounts reported as program revenues include: 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including specials assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

**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 and other financing uses level and lapses at year end. The District's Board of Directors can modify the budget by line item within the total appropriation without notification. The appropriation can only be modified upon completion of notification and publication requirements. The budget includes each fund on its basis of accounting unless otherwise indicated.

The District has amended its annual budget for the year ended December 31, 2016.

**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 bank 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.

Investments are carried at fair value.

**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.

**LORSON RANCH METROPOLITAN DISTRICT NO. 2**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Amortization**

**Original Issue Premium**

In the government-wide financial statements, bond premiums are deferred and amortized over the life of the bonds using the effective interest method.

In the fund financial statements, governmental fund types recognize bond premiums, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

**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 type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, *deferred property tax revenue*, is reported in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

**Equity**

**Net Position**

For government-wide presentation purposes when both restricted and unrestricted resources are available for use, it is the District's practice to use restricted resources first, then unrestricted resources as they are needed.

**Fund Balance**

Fund balance for governmental funds should be reported in classifications that comprise a hierarchy based on the extent to which the government is bound to honor constraints on the specific purposes for which spending can occur. Governmental funds report up to five classifications of fund balance: nonspendable, restricted, committed, assigned, and unassigned.

**LORSON RANCH METROPOLITAN DISTRICT NO. 2**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Because circumstances differ among 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 inventory) or legally or contractually required to be maintained intact.
- *Restricted fund balance* – The portion of fund balance that is constrained to being used for a specific purpose by external parties (such as bondholders), constitutional provisions, or enabling legislation.
- *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.
- *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**

Cash and investments as of December 31, 2016 are classified in the accompanying financial statements as follows:

Statement of net assets:

Cash and investments - Restricted	\$ 1,080,017
Total cash and investments	<u>\$ 1,080,017</u>

Cash and investments as of December 31, 2016 consist of the following:

Deposits with financial institutions	\$ 5,753
Investments	<u>1,074,264</u>
Total cash and investments	<u>\$ 1,080,017</u>

**LORSON RANCH METROPOLITAN DISTRICT NO. 2**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**

**NOTE 3 - CASH AND INVESTMENTS (CONTINUED)**

**Deposits with Financial Institutions**

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 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.

At December 31, 2016, the District's cash deposits had a bank and carrying balance of \$5,753.

**Investments**

The District has adopted a formal investment policy wherein the District follows state statutes regarding investments.

The District generally limits its concentration of investments to those noted with an asterisk (\*) below, 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 or investment custodial risk disclosure requirements 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 U.S. 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

**LORSON RANCH METROPOLITAN DISTRICT NO. 2**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**

**NOTE 3 - CASH AND INVESTMENTS (CONTINUED)**

**Fair Value Measurement and Application**

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. Investments not measured at fair value and not categorized include governmental money market funds (PFM Funds Governmental Select series); money market funds (generally held by Bank Trust Departments in their role as paying agent or trustee); and CSAFE which record their investments at amortized cost.

The District had invested in COLOTRUST, an external investment pool that records its investments at fair value and measures fair value using Level 2 inputs.

As of December 31, 2016, the District had the following investments:

<b>Investment</b>	<b>Maturity</b>	<b>Fair Value</b>
Colorado Local Government Liquid Asset Trust (COLOTRUST)	Weighted average under 60 days	<u>\$ 1,074,264</u>

**COLOTRUST**

The District invested in the Colorado Local Government Liquid Asset Trust (COLOTRUST) (the Trust), an investment vehicle established for local government entities in Colorado to pool surplus funds. The State Securities Commissioner administers and enforces all State statutes governing the Trust. The Trust operates similarly to a money market fund and each share is equal in value to \$1.00. The Trust offers shares in two portfolios, COLOTRUST PRIME and COLOTRUST PLUS+. Both portfolios may invest in U.S. Treasury securities and repurchase agreements collateralized by U.S. Treasury securities. COLOTRUST PLUS+ may also invest in certain obligations of U.S. government agencies, highest rated commercial paper and any security allowed under CRS 24-75-601. A designated custodial bank serves as custodian for the Trust's portfolios pursuant to a custodian agreement. The custodian acts as safekeeping agent for the Trust's investment portfolios and provides services as the depository in connection with direct investments and withdrawals. The custodian's internal records segregate investments owned by the Trust. COLOTRUST is rated AAAM by Standard & Poor's.

**LORSON RANCH METROPOLITAN DISTRICT NO. 2**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**

**NOTE 4 - LONG-TERM OBLIGATIONS**

The following is an analysis of the changes in the District's long-term obligations for the year ended December 31, 2016.

	<b>Balance at December 31, 2015</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance at December 31, 2016</b>	<b>Due Within One Year</b>
<b>Governmental Activities:</b>					
General Obligation Bonds,					
Series 2016	\$ -	\$ 15,790,000	\$ -	\$ 15,790,000	\$ -
Bond premium	-	1,010,235	18,892	991,343	41,218
	<u>\$ -</u>	<u>\$ 16,800,235</u>	<u>\$ 18,892</u>	<u>\$ 16,781,343</u>	<u>\$ 41,218</u>

The detail of the District's long-term obligation is as follows:

**Series 2016 Limited Tax General Obligation Bonds**

On June 16, 2016, the District authorized the issuance of Limited Tax Obligation Bonds, Series 2016 (the Bonds) in the aggregate principal amount of up to \$15,790,000 with interest rates ranging from 3.00% to 5.00%. The bonds are payable on December 1 and June 1, commencing on December 1, 2016. The principal and interest on the bonds are payable solely from and to the extent of Pledged Revenues, which may or may not be sufficient to pay the principal and interest on the bonds. The Bonds are subject to redemption prior to maturity without premium. The proceeds were used to refund the Service Districts Series 2011 and Series 2012 Limited Tax General Obligation Bonds and 2014 Reimbursement Agreement.

The Bonds are secured by and payable from the Pledged Revenue consisting of monies derived by the District from the following sources, net of any collection costs: (1) the Required Mill Levy, (2) the portion of the Specific Ownership Tax which is collected as a result of the imposition of the Required Mill Levy, and (3) any other legally available monies which the District determines to be treated as Pledged Revenue. The Bonds are also secured by amounts held by the Trustee in the Reserve Fund(s). Required Mill Levy means an ad valorem mill levy imposed upon all taxable property of the District each year in an amount sufficient to pay the principal, premium if any, and interest on the Bonds as the same become due and payable and to make up any deficiencies in the Reserve Fund. The maximum Required Mill Levy is 50.000 mills, adjusted for changes in the ratio of actual value to assessed value of property within the District. As of December 31, 2016, the adjusted maximum mill levy is 50.000 mills. For collection year 2016, the District levied 50.000 mills.

The Bonds are secured by the funds in the Reserve Fund in the required amount of \$570,399 and in the Surplus Fund in the amount of \$503,865.

**LORSON RANCH METROPOLITAN DISTRICT NO. 2**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**

**NOTE 4 - LONG-TERM OBLIGATIONS (CONTINUED)**

The Limited Tax General Obligation Bonds Series 2016 principal and interest will mature as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ -	\$ 637,844	\$ 637,844
2018	-	637,844	637,844
2019	-	637,844	637,844
2020	-	637,844	637,844
2021	100,000	637,844	737,844
2022-2026	720,000	3,133,020	3,853,020
2027-2031	1,285,000	2,918,720	4,203,720
2032-2036	2,025,000	2,528,720	4,553,720
2037-2041	2,955,000	1,933,720	4,888,720
2042-2046	4,070,000	1,208,589	5,278,589
2047-2050	4,635,000	428,794	5,063,794
	<u>\$ 15,790,000</u>	<u>\$ 15,340,783</u>	<u>\$ 31,130,783</u>

**Authorized Debt**

On November 2, 2004, a majority of the qualified electors of the District authorized the issuance of indebtedness in an amount not to exceed \$640,000,000 at an interest rate to be determined by the District's Board of Directors. At December 31, 2016, the District had authorized but unissued indebtedness in the following amounts allocated for the following purposes:

	<u>Amount Authorized on November 2, 2004</u>	<u>Authorization Used Series 2016</u>	<u>Authorized But Unissued</u>
Streets	\$ 80,000,000	\$ 5,798,055	\$ 74,201,945
Water	80,000,000	2,853,587	77,146,413
Sanitary Sewer	80,000,000	4,463,488	75,536,512
Parks and Recreation	80,000,000	717,646	79,282,354
Traffic & Safety	80,000,000	-	80,000,000
Mosquito Control	80,000,000	-	80,000,000
Operations and Maintenance	80,000,000	248,157	79,751,843
Debt Refunding	80,000,000	1,709,067	78,290,933
Total	<u>\$ 640,000,000</u>	<u>\$ 15,790,000</u>	<u>\$ 624,210,000</u>

**LORSON RANCH METROPOLITAN DISTRICT NO. 2**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**

**NOTE 5 - NET POSITION**

The District has net position consisting of two components – restricted and unrestricted.

Restricted net position includes assets that are restricted for use either externally imposed by creditors, grantors, contributors, or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The District had restricted net position as of December 31, 2016 as follows:

Restricted net position:

Debt service	<u>\$ 452,069</u>
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The District has a deficit in unrestricted net position. This deficit amount was a result of the District being responsible for the financing and repayment of debt obligations and advances for the construction of public improvements.

**NOTE 6 - RELATED PARTIES**

The members of the Board of Directors of the District are employees of, owners of, or otherwise associated with Lorson North Development Corporation (Developer), the Landhuis Company, Saint Aubyn Homes, LLC and Lorson Investment, LLC, holders of the District's outstanding bonds, and may have conflicts of interest in dealing with the District.

**NOTE 7 - INTERGOVERNMENTAL AGREEMENT**

**District Facilities Construction and Service Agreement**

On January 27, 2005, the District entered into a District Facilities Construction and Service Agreement (Master IGA) with Lorson Ranch Metropolitan District No. 1 (Service District) and Nos. 3 – 7 (Financing Districts). Under the terms of the agreement, the Financing Districts will, over a period of years, levy sufficient taxes to pay to the District the costs of construction, acquisition, and equipping of certain public facilities and services and the related operations and maintenance costs.

In return, the Service District has agreed to acquire, construct, and equip the facilities, provide for their operations and maintenance, and provide service to the property within District Nos. 1 – 7 or convey facilities to other entities that will provide the service.

**NOTE 8 - 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.

**LORSON RANCH METROPOLITAN DISTRICT NO. 2**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**

**NOTE 8 - RISK MANAGEMENT (CONTINUED)**

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 Service District pays the annual premiums on behalf of the District to the Pool for liability, property, workers compensation and public officials' liability coverage. In the event aggregated 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 9 - 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 that apply to the State of Colorado and all local governments.

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

TABOR requires local governments to establish Emergency Reserves. These reserves must be at least 3% of Fiscal Year Spending (excluding bonded debt service). Local governments are not allowed to use the Emergency Reserves to compensate for economic conditions, revenue shortfalls, or salary or benefit increases. The District transfers its net operating revenue to the Service District. Therefore, the Emergency Reserves related to the District's revenues are reported in the Service District.

On November 20, 2004, the District voters passed an election question allowing the District to increase property taxes up to \$1,000,000 annually, without limitation of rate, and without regard to any spending, revenue raising or other limitations contained within Article X, Section 20 of the Colorado Constitution (TABOR) or Sections 29-2-301, C. R. S., to pay the District's operations, maintenance and other expenses. Additionally, the District's electors authorized the District to collect, spend or retain all revenue without regard to any limitations under TABOR.

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

This information is an integral part of the accompanying financial statements.

**SUPPLEMENTARY INFORMATION**

**LORSON RANCH METROPOLITAN DISTRICT NO. 2**  
**DEBT SERVICE FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN**  
**FUND BALANCES - BUDGET AND ACTUAL**  
**Year Ended December 31, 2016**

	<u>Budget Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Property taxes	\$ 758,298	\$ 758,300	\$ 758,331	\$ 31
Specific ownership taxes	79,621	80,000	87,256	7,256
Net investment income	-	-	1,047	1,047
Other income	7,000	-	-	-
Total revenues	<u>844,919</u>	<u>838,300</u>	<u>846,634</u>	<u>8,334</u>
<b>EXPENDITURES</b>				
County Treasurer's fees	11,374	11,374	11,378	(4)
Bond issue costs	172,590	206,000	204,592	1,408
Miscellaneous	7,000	-	17	(17)
Bond principal	20,000	-	-	-
Bond interest	625,000	292,345	292,345	-
Intergovernmental transfer to District No. 1	15,177,283	16,060,281	16,060,095	186
Total expenditures	<u>16,013,247</u>	<u>16,570,000</u>	<u>16,568,427</u>	<u>1,573</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(15,168,328)</u>	<u>(15,731,700)</u>	<u>(15,721,793)</u>	<u>9,907</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Bond issuance	15,212,352	15,790,000	15,790,000	-
Bond premium	-	1,010,235	1,010,235	-
Total other financing sources (uses)	<u>15,212,352</u>	<u>16,800,235</u>	<u>16,800,235</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCES</b>	44,024	1,068,535	1,078,442	9,907
<b>FUND BALANCES - BEGINNING OF YEAR</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>FUND BALANCES - END OF YEAR</b>	<u>\$ 44,024</u>	<u>\$ 1,068,535</u>	<u>\$ 1,078,442</u>	<u>\$ 9,907</u>

**LORSON RANCH METROPOLITAN DISTRICT NO. 2**  
**SCHEDULE OF DEBT SERVICE REQUIREMENTS TO MATURITY**  
**December 31, 2016**

**\$15,790,000 General Obligation Limited Tax Bonds**

**Series 2016**

**Dated: June 16, 2016**

**Interest Rate: 3.00% - 5.00%**

**Principal Due December 1**

<b>Year Ended December 31,</b>	<b>Interest Payable June 1 and December 1</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2017	\$ -	\$ 637,844	\$ 637,844
2018	-	637,844	637,844
2019	-	637,844	637,844
2020	-	637,844	637,844
2021	100,000	637,844	737,844
2022	100,000	634,844	734,844
2023	75,000	631,844	706,844
2024	165,000	628,844	793,844
2025	175,000	622,244	797,244
2026	205,000	615,244	820,244
2027	205,000	607,044	812,044
2028	240,000	596,794	836,794
2029	250,000	584,794	834,794
2030	290,000	572,294	862,294
2031	300,000	557,794	857,794
2032	340,000	542,794	882,794
2033	365,000	525,794	890,794
2034	410,000	507,544	917,544
2035	430,000	487,044	917,044
2036	480,000	465,544	945,544
2037	500,000	441,544	941,544
2038	560,000	416,544	976,544
2039	580,000	388,544	968,544
2040	640,000	359,544	999,544
2041	675,000	327,544	1,002,544
2042	735,000	293,794	1,028,794
2043	765,000	268,988	1,033,988
2044	815,000	243,169	1,058,169
2045	850,000	215,663	1,065,663
2046	905,000	186,975	1,091,975
2047	935,000	156,431	1,091,431
2048	1,000,000	124,875	1,124,875
2049	1,030,000	91,125	1,121,125
2050	1,670,000	56,363	1,726,363
	<u>\$ 15,790,000</u>	<u>\$ 15,340,783</u>	<u>\$ 31,130,783</u>

**LORSON RANCH METROPOLITAN DISTRICT NO. 2  
SUMMARY OF ASSESSED VALUATION,  
MILL LEVY AND PROPERTY TAXES COLLECTED  
December 31, 2016**

<u>Levy Year/ Collection Year</u>	<u>Prior Year Assessed Valuation for Current Year Property Tax Levy</u>	<u>Percentage Change</u>	<u>Mills Levied</u>			<u>Property Taxes Collected</u>		<u>Percentage Collected to Levied</u>
			<u>General</u>	<u>Debt Service</u>	<u>Special Service</u>	<u>Levied</u>	<u>Collected</u>	
2011/2012	\$ 5,578,770	47.08%	10.000	35.000	23.000	\$ 379,356	\$ 379,482	100.03%
2012/2013	\$ 7,389,760	32.46%	10.000	50.000	23.000	\$ 613,350	\$ 613,313	99.99%
2013/2014	\$ 9,567,060	29.46%	10.000	50.000	13.000	\$ 698,395	\$ 697,893	99.93%
2014/2015	\$ 13,319,210	39.22%	10.000	50.000	10.000	\$ 932,345	\$ 932,256	99.99%
2015/2016	\$ 15,165,960	13.87%	10.000	50.000	10.000	\$ 1,061,617	\$ 1,061,743	100.01%
Estimated 2016/2017	\$ 15,850,560	4.51%	10.000	50.000	4.900	\$ 1,028,701		

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.