

Sierra Ridge Metropolitan District No. 2

Financial Statements

Year Ended December 31, 2016

with

Independent Auditors' Report



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Independent Auditor's Report

Board of Directors

Sierra Ridge 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 Sierra Ridge 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 Sierra Ridge 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 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.
August 28, 2017

Sierra Ridge Metropolitan District No. 2

BALANCE SHEET/STATEMENT OF NET POSITION GOVERNMENTAL FUNDS December 31, 2016

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
ASSETS						
Cash and investments	\$ 88,386	\$ -	\$ -	\$ 88,386	\$ -	\$ 88,386
Cash and investments - restricted	73	4,330,575	2,256,359	6,587,007	-	6,587,007
Receivable - County Treasurer	573	2,579	-	3,152	-	3,152
Property taxes receivable	<u>107,948</u>	<u>539,738</u>	<u>-</u>	<u>647,686</u>	<u>-</u>	<u>647,686</u>
 Total Assets	 <u>\$ 196,980</u>	 <u>\$ 4,872,892</u>	 <u>\$ 2,256,359</u>	 <u>\$ 7,326,231</u>	 <u>-</u>	 <u>7,326,231</u>
 LIABILITIES						
Payable to District No. 1	\$ 82,641	\$ -	\$ 105,293	\$ 187,934	-	187,934
Accrued interest	-	-	-	-	112,721	112,721
Long-term liabilities:						
Due in more than one year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>30,883,966</u>	<u>30,883,966</u>
 Total Liabilities	 <u>82,641</u>	 <u>-</u>	 <u>105,293</u>	 <u>187,934</u>	 <u>30,996,687</u>	 <u>31,184,621</u>
 DEFERRED INFLOWS OF RESOURCES						
Deferred property taxes	<u>107,948</u>	<u>539,738</u>	<u>-</u>	<u>647,686</u>	<u>-</u>	<u>647,686</u>
 Total Deferred Inflows of Resource	 <u>107,948</u>	 <u>539,738</u>	 <u>-</u>	 <u>647,686</u>	 <u>-</u>	 <u>647,686</u>
 FUND BALANCES/NET POSITION						
Fund Balances:						
Restricted:						
Emergencies	73	-	-	73	(73)	-
Debt service	-	4,333,154	-	4,333,154	(4,333,154)	-
Capital projects	-	-	2,151,066	2,151,066	(2,151,066)	-
Unassigned	<u>6,318</u>	<u>-</u>	<u>-</u>	<u>6,318</u>	<u>(6,318)</u>	<u>-</u>
 Total Fund Balances	 <u>6,391</u>	 <u>4,333,154</u>	 <u>2,151,066</u>	 <u>6,490,611</u>	 <u>(6,490,611)</u>	 <u>-</u>
 Total Liabilities, Deferred Inflows of Resources and Fund Balances	 <u>\$ 196,980</u>	 <u>\$ 4,872,892</u>	 <u>\$ 2,256,359</u>	 <u>\$ 7,326,231</u>		
 Net Position:						
Restricted for:						
Emergencies					73	73
Unrestricted					<u>4,226,751</u>	<u>4,226,751</u>
 Total Net Position					 <u>\$ (24,506,076)</u>	 <u>\$ (24,506,076)</u>

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

Sierra Ridge Metropolitan District No. 2

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

For the Year Ended December 31, 2016

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
EXPENDITURES						
Treasurer's fees	\$ 1,102	\$ 4,961	\$ -	\$ 6,063	\$ -	\$ 6,063
Issuance costs	-	-	848,360	848,360	-	848,360
Bond interest expense	-	672,568	-	672,568	293,843	966,411
Transfer to District No. 1	<u>85,898</u>	<u>-</u>	<u>25,248,478</u>	<u>25,334,376</u>	<u>-</u>	<u>25,334,376</u>
Total Expenditures	<u>87,000</u>	<u>677,529</u>	<u>26,096,838</u>	<u>26,861,367</u>	<u>293,843</u>	<u>27,155,210</u>
Net Program Income (Expenses)	(87,000)	(677,529)	(26,096,838)	(26,861,367)	(293,843)	(27,155,210)
GENERAL REVENUES						
Property taxes	73,370	330,164	-	403,534	-	403,534
Specific ownership taxes	6,776	30,494	-	37,270	-	37,270
System Development fees	-	-	771,386	771,386	-	771,386
Interest income	<u>12,057</u>	<u>19,188</u>	<u>-</u>	<u>31,245</u>	<u>-</u>	<u>31,245</u>
Total General Revenues	<u>92,203</u>	<u>379,846</u>	<u>771,386</u>	<u>1,243,435</u>	<u>-</u>	<u>1,243,435</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES						
	5,203	(297,683)	(25,325,452)	(25,617,932)	(293,843)	(25,911,775)
OTHER FINANCING SOURCES (USES)						
Bond proceeds	-	-	30,000,000	30,000,000	(30,000,000)	-
Bond premium	-	-	702,844	702,844	(702,844)	-
Transfers to/from other funds	<u>-</u>	<u>4,429,948</u>	<u>(4,429,948)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>-</u>	<u>4,429,948</u>	<u>26,272,896</u>	<u>30,702,844</u>	<u>(30,702,844)</u>	<u>-</u>
NET CHANGES IN FUND BALANCES	5,203	4,132,265	947,444	5,084,912	(5,084,912)	
CHANGE IN NET POSITION					(25,911,775)	(25,911,775)
FUND BALANCES/NET POSITION:						
BEGINNING OF YEAR	<u>1,188</u>	<u>200,889</u>	<u>1,203,622</u>	<u>1,405,699</u>	<u>-</u>	<u>1,405,699</u>
END OF YEAR	<u>\$ 6,391</u>	<u>\$ 4,333,154</u>	<u>\$ 2,151,066</u>	<u>\$ 6,490,611</u>	<u>\$ (30,996,687)</u>	<u>\$ (24,506,076)</u>

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

Sierra Ridge Metropolitan District No. 2

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

For the Year Ended December 31, 2016

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
REVENUES				
Property taxes	\$ 73,655	\$ 73,500	\$ 73,370	\$ (130)
Specific ownership taxes	6,782	6,675	6,776	101
Interest income	<u>-</u>	<u>5,637</u>	<u>12,057</u>	<u>6,420</u>
Total Revenues	<u>80,437</u>	<u>85,812</u>	<u>92,203</u>	<u>6,391</u>
EXPENDITURES				
Treasurer's fees	1,105	1,103	1,102	1
Transfer to District No. 1	80,515	85,897	85,898	(1)
Emergency reserve	<u>57</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Expenditures	<u>81,677</u>	<u>87,000</u>	<u>87,000</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES				
	(1,240)	(1,188)	5,203	6,391
NET CHANGE IN FUND BALANCE				
	(1,240)	(1,188)	5,203	6,391
FUND BALANCE:				
BEGINNING OF YEAR	<u>1,240</u>	<u>1,188</u>	<u>1,188</u>	<u>-</u>
END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,391</u>	<u>\$ 6,391</u>

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

Sierra Ridge Metropolitan District No. 2

Notes to Financial Statements December 31, 2016

Note 1: Summary of Significant Accounting Policies

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

Definition of Reporting Entity

The District was organized in November 2005 as a quasi-municipal organization established under the State of Colorado Special District Act. The District was established to issue debt and collect tax revenues to pay off debt and to fund the construction, operations and maintenance of the public services and facilities of the District in coordination with Sierra Ridge Metropolitan District No. 1 pursuant to an intergovernmental agreement between the Districts. The District was organized concurrently with District No. 1 and is governed by an elected Board of Directors.

As required by GAAP, these financial statements present the activities of the District, which is legally separate and financially independent of other state and local governments. The District follows the GASB, Statement No. 61, *The Financial Reporting Entity: Omnibus*, which amended GASB Statement No. 14, *The Financial Reporting Entity* and GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, which provides guidance for determining which governmental activities, organizations and functions should be included within the financial reporting entity. GASB sets forth the financial accountability of a governmental organization’s elected governing body as the basic criterion for including a possible component governmental organization in a primary government’s legal entity. Financial accountability includes, but is not limited to, appointment of a voting majority of the organization’s governing body, ability to impose its will on the organization, a potential for the organization to provide specific financial benefits or burdens and fiscal dependency. The pronouncements also require including a possible component unit if it would be misleading to exclude it.

The District is not financially accountable for any other organization. The District has no component units as defined by the GASB.

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

Basis of Presentation

The accompanying financial statements are presented per GASB Statement No. 34 - Special Purpose Governments.

Sierra Ridge Metropolitan District No. 2

Notes to Financial Statements December 31, 2016

The government-wide financial statements (i.e. the governmental funds balance sheet/statement of net position and the governmental funds statement of revenues, expenditures, and changes in fund balances/statement of activities) report information on all of the governmental activities of the District. The statement of net position reports all financial and capital resources of the District. The difference between the (a) assets and deferred outflows of resources and the (b) liabilities and deferred inflows of resources of the District is reported as net position. The statement of activities demonstrates the degree to which expenditures/expenses of the governmental funds are supported by general revenues. For the most part, the effect of interfund activity has been removed from these statements.

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

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are collected.

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

The District reports the following major governmental funds:

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

Sierra Ridge Metropolitan District No. 2

Notes to Financial Statements December 31, 2016

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

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

Budgetary Accounting

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

During 2016, the District amended its total appropriations in the General Fund from \$81,677 to \$87,000 primarily due to increased transfers to District No. 1, in the Capital Projects Fund from \$20,000,000 to \$30,500,000 due to the 2016 bond issue, and in the Debt Service Fund from \$197,710 to \$700,000 primarily due to interest on the 2016 bonds.

Assets, Liabilities and Net Position

Fair Value of Financial Instruments

The District's financial instruments include cash and cash equivalents, accounts receivable and accounts payable. The District estimates that the fair value of all financial instruments at December 31, 2016, does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying balance sheet. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

Deposits and Investments

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

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

Sierra Ridge Metropolitan District No. 2

Notes to Financial Statements December 31, 2016

Estimates

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

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District does not have any items that qualify for reporting in this category.

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

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items), are reported in the applicable governmental activities columns in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the life of the asset are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable using the straight-line method. Depreciation on property that will remain assets of the District is reported on the Statement of Activities as a current charge. Improvements that will be conveyed to other governmental entities are classified as construction in progress and are not depreciated. Land and certain landscaping improvements are not depreciated. No depreciation expense was recognized during 2016.

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.

Sierra Ridge Metropolitan District No. 2

Notes to Financial Statements
December 31, 2016

Original Issue Premium

The original issue premium from the Series 2016 Bonds is being amortized over the life of the bonds using the effective interest method. Accumulated amortization of the original issue premium amounted to \$17,712 at December 31, 2016.

Fund Equity

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

Nonspendable Fund Balance

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

Restricted Fund Balance

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

The restricted fund balance in the General Fund represents Emergency Reserves that have been provided as required by Article X, Section 20 of the Constitution of the State of Colorado. A total of \$73 of the General Fund balance has been restricted in compliance with this requirement.

The restricted fund balance in the Debt Service Fund in the amount of \$4,333,154 is restricted for the payment of future debt service costs.

The restricted fund balance in the Capital Projects Fund in the amount of \$2,151,066 is restricted for the payment of costs in accordance with the Facilities Funding and Acquisition Agreement (see Note 5).

Committed Fund Balance

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

Assigned Fund Balance

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

Sierra Ridge Metropolitan District No. 2

Notes to Financial Statements
December 31, 2016

Unassigned Fund Balance

Unassigned fund balance includes amounts that are available for any purpose. Positive amounts are reported only in the General Fund, all other funds can report negative amounts.

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

Net Position

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

Net investment in capital assets – consists of net capital assets, reduced by outstanding balances of any related debt obligations and deferred inflows of resources attributable to the acquisition, construction, or improvement of those assets and increased by balances of deferred outflows or resources related to those assets.

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

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

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

Note 2: Cash and Investments

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

Statement of Net Position:	
Investments	\$ 88,386
Investments – Restricted	<u>6,587,007</u>
Total	\$ <u>6,675,393</u>

Investments as of December 31, 2016 consist of the following:

Investments – COLOTRUST	\$ <u>6,675,393</u>
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Sierra Ridge Metropolitan District No. 2

Notes to Financial Statements
December 31, 2016

Investments

Investment Valuation

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; 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 has the following recurring fair value measurements as of December 31, 2016:

An external investment pool that records its investments at fair value. The investment in COLOTRUST is categorized as a Level 2 Investment.

Credit Risk

The District's investment policy requires that the District follow state statutes for investments. Colorado statutes specify the types of investments meeting defined rating and risk criteria in which local governments may invest. These investments include obligations of the United States and certain U.S. Government agency entities, certain money market funds, guaranteed investment contracts, and local government investment pools.

Custodial and Concentration of Credit Risk

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

Interest Rate Risk

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

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

Sierra Ridge Metropolitan District No. 2

Notes to Financial Statements
December 31, 2016

COLOTRUST

The local government investment pool, Colorado Local Government Liquid Asset Trust (“COLOTRUST”) is rated AAAM by Standard & Poor’s and the maturity is weighted average under 60 days, a Level 2 investment under the fair value hierarchy. COLOTRUST is an investment trust/joint ventures 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 trusts operate similarly to a money market fund with each share maintaining a value of \$1.00. The Trust offers shares in two portfolios, COLOTRUST PRIME and COLOTRUST PLUS+. Both investments consist of U.S. Treasury bills and notes and repurchase agreements collateralized by U.S. Treasury securities. COLOTRUST PLUS+ may also invest in certain obligations of U.S. government agencies, highest rated commercial paper and repurchase agreements collateralized by certain obligations of U.S. government agencies. Designated custodian banks provide safekeeping and depository services to the trusts. Substantially all securities owned by the trusts are held by the Federal Reserve Bank in the accounts maintained for the custodian banks. The custodians’ internal records identify the investments owned by COLOTRUST. At December 31, 2016, the District had \$6,675,393 invested in COLOTRUST.

Note 3: Long Term Debt

\$25,500,000 Limited Tax General Obligation Bonds, Series 2016A and \$4,500,000 Subordinate Limited Tax General Obligation Bonds, Series 2016B

On June 2, 2016, the District issued \$25,500,000 of Limited Tax General Obligation Bonds, Series 2016A (“Series 2016A Bonds”), and \$4,500,000 of Subordinate Limited Tax General Obligation Bonds, Series 2016B (“Series 2016B Bonds”). The Series 2016A Bonds were issued for the purpose of financing public improvements, paying the Capitalized Interest on the 2016A Bonds, funding the Senior Reserve Fund, and paying the costs of issuance of the Bonds. The Series 2016B Bonds were issued to finance additional public improvements and to pay costs of issuance of the Bonds. The Series 2016A Bonds bear interest at rates ranging from 4.5% to 5.5% and mature on December 1, 2046. The Series 2016A Bonds will be secured by a required maximum mill levy of 50.00 mills, the portion of specific ownership taxes attributable to the property taxes used for debt service, and a Reserve Fund.

The Series 2016B Bonds bear interest at 7.625% and mature on December 15, 2046. The Subordinate Series 2016B Bonds are cash flow bonds with annual payments anticipated to be made on December 15. Unpaid interest compounds annually on December 15 at the rate of 7.625%. Payments toward interest and principal can be made provided the Series 2016A Bonds are current and the Reserve Fund and Surplus Funds for the Series 2016A Bonds are full. The District is required to impose the minimum required mill levy of 50.00 mills until the Subordinate Series 2016B Bonds are fully paid or discharged on December 15, 2056; however, only revenues resulting from the number of mills equal to 50 mills less the Senior Required Mill Levy are pledged to payment of the Subordinate Series 2016B Bonds.

Sierra Ridge Metropolitan District No. 2

Notes to Financial Statements
December 31, 2016

The following is an analysis of changes in long-term debt for the period ending December 31, 2016:

	Balance 1/1/2016	Additions	Deletions	Balance 12/31/2016	Current Portion
Series 2016A GO Bonds	\$ -	\$ 25,500,000	\$ -	\$ 25,500,000	\$ -
Series 2016B Subordinate Bonds	-	4,500,000	-	4,500,000	-
Accrued Interest on Subordinate Bonds	-	198,834	-	198,834	-
	-	30,198,834	-	30,198,834	-
Bond Premium - Series 2016A Bonds	-	702,844	17,712	685,132	-
Total	\$ -	\$ 30,901,678	\$ 17,712	\$ 30,883,966	\$ -

The following is a summary of the annual long-term debt principal and interest requirements on the 2016A Bonds.

	Principal	Interest	Total
2017	\$ -	\$ 1,352,650	\$ 1,352,650
2018	-	1,352,650	1,352,650
2019	-	1,352,650	1,352,650
2020	10,000	1,352,650	1,362,650
2021	190,000	1,352,200	1,542,200
2022-2026	1,920,000	6,561,425	8,481,425
2027-2031	2,865,000	6,047,075	8,912,075
2032-2036	4,155,000	5,218,400	9,373,400
2037-2041	5,940,000	3,890,975	9,830,975
2042-2046	10,420,000	2,007,775	12,427,775
	<u>\$ 25,500,000</u>	<u>\$ 30,488,450</u>	<u>\$ 55,988,450</u>

Because of the uncertainty of the timing of payments under the 2016B Bonds, a schedule of principal and interest payments is not presented.

Debt Authorization

First Amendment to Service Plan for Sierra Ridge Metropolitan District No. 1 and Sierra Ridge Metropolitan District No. 2

On March 22, 2016, the District approved the First Amendment to Service Plan for Sierra Ridge Metropolitan District No. 1 and Sierra Ridge Metropolitan District No. 2 for the purpose of increasing the debt limit issuance in an amount not to exceed \$33,000,000.

Sierra Ridge Metropolitan District No. 2

Notes to Financial Statements
December 31, 2016

As of December 31, 2016, the District had remaining voted debt authorization of approximately \$317,000,000. The District has not budgeted to issue new debt during 2017. Per the District's Service Plan, the District can not issue debt in excess of \$33,000,000 (See Note 5).

Note 4: Related Party

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

Note 5: Other Agreements

Facilities Funding and Acquisition Agreement

On October 31, 2013, Sierra Ridge Metropolitan District No. 1 and Sierra Ridge Metropolitan District No. 2 ("the Districts") entered into a Facilities Funding and Acquisition Agreement with Lennar Colorado, LLC. ("Lennar"), where by Lennar has agreed to either construct improvements or to fund the construction of improvements, and the Districts have agreed to either acquire the improvements or to construct the improvements with funding from Lennar. The Districts will make payment to Lennar for the acquisition or the repayment of funds advanced by using either System Development Fees or by using proceeds of bonds issued by the Districts if Lennar agrees. The Districts will reimburse Lennar the advances or the cost of construction plus interest at 6.5%.

If System Development fees are used as repayment the Districts will make monthly payments to Lennar of all System Development Fees collected in the previous month. No payments are due until the improvements constructed by Lennar are accepted by the District pursuant to the Agreement. In the event the Districts are unable to reimburse Lennar in full within 30 years of the date of the Districts' acceptance of the improvements or costs, any amount outstanding shall be deemed discharged and satisfied in full. In no event shall this Agreement be construed as or constitute a "debt" of the Districts in such a manner as would violate the Constitution or other laws of the State of Colorado, but shall in all other events constitute a valid and legally binding obligation of the Districts.

Facilities Development Agreement

On October 31, 2013, Sierra Ridge Metropolitan District No. 1 and Sierra Ridge Metropolitan District No. 2 ("the Districts") entered into a Facilities Development Agreement with Lennar, to outline the process for the implementation and construction of the improvements to be either constructed by Lennar and acquired by the Districts or constructed by the Districts and funded by Lennar.

Sierra Ridge Metropolitan District No. 2

Notes to Financial Statements
December 31, 2016

Master IGA

On April 7, 2016, the District and Sierra Ridge Metropolitan District No. 1 entered into an Intergovernmental Agreement Concerning District Operations and Outstanding Reimbursement Obligations (the “Master IGA”) concerning the manner in which the Districts will coordinate and implement the financing, construction, operation and maintenance of the public improvements within the Development. The Master IGA replaced an agreement dated June 1, 2006, and effective as of December 9, 2009. Pursuant to the Master IGA, and in accordance with the Service Plan, District No. 1 is obligated to own, operate and maintain public improvements authorized by the Service Plan (except for public improvements which have been dedicated to the County or other governmental entities), subject to the District providing moneys sufficient to fund the same. In addition, the District engages District No. 1 as the District administrator.

Note 6: Tax, Spending and Debt Limitations

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

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

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

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

In November 2005 a majority of the District’s electors authorized the District to collect and spend or retain in a reserve all currently levied taxes and fees of the District without regard to any limitations under Article X, Section 20 of the Colorado Constitution

Sierra Ridge Metropolitan District No. 2

Notes to Financial Statements
December 31, 2016

Note 7: Risk Management

Except as provided in the Colorado Governmental Immunity Act, 24-10-101, et seq., CRS, the District may be exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets; errors or omissions; injuries to agents; and natural disasters. The District has elected to participate in the Colorado Special Districts Property and Liability Pool (“Pool”) which is an organization created by intergovernmental agreement to provide common liability and casualty insurance coverage to its members at a cost that is considered economically appropriate. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

The District pays annual premiums to the Pool for auto, public officials’ liability, and property and general liability coverage. In the event aggregated losses incurred by the Pool exceed its amounts recoverable from reinsurance contracts and its accumulated reserves, the District may be called upon to make additional contributions to the Pool on the basis proportionate to other members. Any excess funds which the Pool determines are not needed for purposes of the Pool may be returned to the members pursuant to a distribution formula.

Note 8: Reconciliation of Government-Wide Financial Statements and Fund Financial Statements

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

- 1) Capital improvements used in government activities are not financial resources and, therefore, are not reported in the funds; and
- 2) long-term liabilities such as bonds payable and accrued bond interest payable are not due and payable in the current period and, therefore, are not in the funds.

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

- 1) Governmental funds report capital outlays as expenditures, however, in the statement of activities, the costs of those assets are held as construction in process pending transfer to other governmental entities or depreciated over their useful lives;
- 2) governmental funds report interest expense on the modified accrual basis; however, interest expense is reported on the full accrual method on the Statement of Activities;
- 3) governmental funds report developer advances and/or bond proceeds as revenue; and,
- 4) governmental funds report long-term debt payments as expenditures, however, in the statement of activities, the payment of long-term debt is recorded as a decrease of long-term liabilities.

SUPPLEMENTAL INFORMATION

Sierra Ridge Metropolitan District No. 2

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

For the Year Ended December 31, 2016

	Original <u>Budget</u>	Final <u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
REVENUES				
Property taxes	\$ 331,448	\$ 330,000	\$ 330,164	\$ 164
Specific ownership taxes	30,526	30,000	30,494	494
Interest income	<u>-</u>	<u>5,000</u>	<u>19,188</u>	<u>14,188</u>
Total Revenues	<u>361,974</u>	<u>365,000</u>	<u>379,846</u>	<u>14,846</u>
EXPENDITURES				
Treasurer's fees	4,972	4,950	4,961	(11)
Trustee/paying agent fees	2,102	5,000	-	5,000
Bond interest expense	<u>190,636</u>	<u>690,050</u>	<u>672,568</u>	<u>17,482</u>
Total Expenditures	<u>197,710</u>	<u>700,000</u>	<u>677,529</u>	<u>22,471</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES				
	164,264	(335,000)	(297,683)	37,317
OTHER FINANCING SOURCES (USES)				
Transfers to/from other funds	<u>-</u>	<u>4,429,948</u>	<u>4,429,948</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>-</u>	<u>4,429,948</u>	<u>4,429,948</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	164,264	4,094,948	4,132,265	37,317
FUND BALANCE:				
BEGINNING OF YEAR	<u>199,671</u>	<u>200,889</u>	<u>200,889</u>	<u>-</u>
END OF YEAR	<u>\$ 363,935</u>	<u>\$ 4,295,837</u>	<u>\$ 4,333,154</u>	<u>\$ 37,317</u>

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

Sierra Ridge Metropolitan District No. 2

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - CAPITAL PROJECTS FUND For the Year Ended December 31, 2016

	Original <u>Budget</u>	Final <u>Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
REVENUES				
System Development fees	\$ 75,000	\$ 475,000	\$ 771,386	\$ 296,386
Total Revenues	<u>75,000</u>	<u>475,000</u>	<u>771,386</u>	<u>296,386</u>
EXPENDITURES				
Issuance costs	-	803,281	848,360	(45,079)
Transfer to District No. 1	<u>20,000,000</u>	<u>25,266,771</u>	<u>25,248,478</u>	<u>18,293</u>
Total Expenditures	<u>20,000,000</u>	<u>26,070,052</u>	<u>26,096,838</u>	<u>(26,786)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES				
	(19,925,000)	(25,595,052)	(25,325,452)	269,600
OTHER FINANCING SOURCES (USES)				
Bond proceeds	20,000,000	30,000,000	30,000,000	-
Bond premium	-	702,844	702,844	-
Transfer to Debt Service Fund	<u>-</u>	<u>(4,429,948)</u>	<u>(4,429,948)</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>20,000,000</u>	<u>26,272,896</u>	<u>26,272,896</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	75,000	677,844	947,444	269,600
FUND BALANCE:				
BEGINNING OF YEAR	<u>395,640</u>	<u>1,203,622</u>	<u>1,203,622</u>	<u>-</u>
END OF YEAR	<u>\$ 470,640</u>	<u>\$ 1,881,466</u>	<u>\$ 2,151,066</u>	<u>\$ 269,600</u>

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

Sierra Ridge Metropolitan District No. 2

SUMMARY OF ASSESSED VALUATION, MILL LEVY AND PROPERTY TAXES COLLECTED

December 31, 2016

<u>Year Ended December 31,</u>	Prior Year Assessed Valuation for Current Year Property Tax Levy	<u>Mills Levied</u>		<u>Total Property Tax</u>		<u>Percent Collected to Levied</u>
		<u>General Fund</u>	<u>Debt Service</u>	<u>Levied</u>	<u>Collected</u>	
2007	\$ 64,750	10.000	50.000	\$ 3,886	\$ 3,885	99.97%
2008	\$ 86,660	10.000	45.000	\$ 4,766	\$ 4,767	100.02%
2009	\$ 86,650	10.000	45.000	\$ 4,766	\$ 4,767	100.02%
2010	\$ 84,282	10.000	45.000	\$ 4,636	\$ 4,636	100.00%
2011	\$ 77,310	10.000	45.000	\$ 4,252	\$ 4,252	100.00%
2012	\$ 41,320	10.000	45.000	\$ 2,273	\$ 2,273	100.00%
2013	\$ 41,320	10.000	45.000	\$ 2,273	\$ 2,270	99.87%
2014	\$ 34,290	10.000	45.000	\$ 1,886	\$ 1,886	100.00%
2015	\$ 3,612,970	10.000	45.000	\$ 198,713	\$ 198,721	100.00%
2016	\$ 7,365,500	10.000	45.000	\$ 405,103	\$ 403,534	99.61%
Estimated for year ending December 31, 2017	\$ 10,794,770	10.000	50.000	\$ 647,686		

NOTE

Property taxes collected in any one year include collection of delinquent property taxes levied and/or abatements or valuations in prior years. Information received from the County Treasurer does not permit identification of specific year assessment.

CONTINUING DISCLOSURE ANNUAL FINANCIAL INFORMATION - UNAUDITED

Sierra Ridge Metropolitan District No. 2

TEN LARGEST OWNERS OF TAXABLE PROPERTY WITHIN THE DISTRICT

December 31, 2016

UNAUDITED

<u>Taxpayer Name</u>	<u>2016 Assessed Valuation</u>	<u>Percentage of Total Assessed Valuation</u>
Meritage Homes of Colorado Inc.	\$ 1,778,350	16.47%
Lennar Colorado LLC	1,759,480	16.30%
Private Homeowner #1	40,310	0.37%
Private Homeowner #2	39,250	0.36%
Private Homeowner #3	37,430	0.35%
Private Homeowner #4	37,310	0.35%
Private Homeowner #5	37,210	0.34%
Private Homeowner #6	37,190	0.34%
Private Homeowner #7	36,970	0.34%
Private Homeowner #8	36,860	0.34%
Total	<u>\$ 3,840,360</u>	<u>35.56%</u>

NOTE

Assessed Valuations were obtained from the Douglas County Assessor's Office.

Sierra Ridge Metropolitan District No. 2

ASSESSED VALUATION OF CLASSES OF PROPERTY IN THE DISTRICT

December 31, 2016

UNAUDITED

<u>Class</u>	<u>2016 Assessed Valuation</u>	<u>Percent of Assessed Valuation</u>
Vacant land	\$ 6,484,670	60.07%
Residential	4,188,700	38.80%
Commercial	117,900	1.09%
State assessed	3,200	0.03%
Natural Resources	300	0.01%
Total	<u>\$10,794,770</u>	<u>100.00%</u>

NOTE

Percentage is based on a 2016 certified assessed valuation of \$10,794,770.

Sierra Ridge Metropolitan District No. 2

SELECTED DEBT RATIOS OF THE DISTRICT

December 31, 2016

UNAUDITED

12/31/16

Amount of Direct Debt

\$ 30,000,000

Direct debt

\$ 30,000,000

2016 Certified Assessed Valuation

\$ 10,794,770

Ratio of Direct Debt to

2016 District Certified Assessed Valuation

278%

2016 Statutory Actual Value

\$ 74,980,184

Direct Debt to 2016 Statutory Actual Value

40%