

**SERENITY RIDGE METROPOLITAN DISTRICT NO. 2**  
**Arapahoe County, Colorado**  
—  
**FINANCIAL STATEMENTS**  
**December 31, 2016**

**L. PAUL GOECKE P.C.**  
CERTIFIED PUBLIC ACCOUNTANTS



**RECEIVED**

*By the Office of the State Auditor at 3:01 pm, Aug 01, 2017*

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## **Independent Auditor's Report**

Board of Directors

### **Serenity 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 Serenity 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.

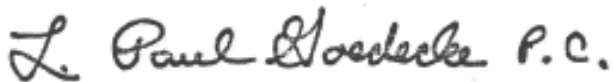
#### **Opinion**

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 Serenity 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 opinions on the basic financial statements are not affected by this missing information.

Our audit was conducted for the purpose of forming opinions 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.  
July 21, 2017

**SERENITY RIDGE METROPOLITAN DISTRICT NO. 2**

**Balance Sheet/Statement of Net Position  
Governmental Funds  
December 31, 2016**

	General	Debt Service	Total	Adjustments	Statement of Net Position
<b>ASSETS</b>					
Cash and investments	\$ 5,968	\$ -	\$ 5,968	\$ -	\$ 5,968
Cash and investments - restricted	1,500	749,295	750,795	-	750,795
Receivable - County Treasurer	226	3,847	4,073	-	4,073
Property taxes receivable	40,953	847,300	888,253	-	888,253
Accounts receivable	2,086	-	2,086	-	2,086
<b>Total Assets</b>	<b>50,733</b>	<b>1,600,442</b>	<b>1,651,175</b>	<b>-</b>	<b>1,651,175</b>
<b>LIABILITIES</b>					
Accrued interest	-	-	-	22,541	22,541
Long -term liabilities:					
Due in one year	-	-	-	265,000	265,000
Due in more than one year	-	-	-	9,430,000	9,430,000
<b>Total Liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>9,717,541</b>	<b>9,717,541</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Deferred property taxes	40,953	847,300	888,253	-	888,253
<b>Total Deferred Inflows of Resources</b>	<b>40,953</b>	<b>847,300</b>	<b>888,253</b>	<b>-</b>	<b>888,253</b>
<b>FUND BALANCES/NET POSITION</b>					
Fund Balances:					
Restricted:					
Emergencies	1,500	-	1,500	(1,500)	-
Debt service	-	753,142	753,142	(753,142)	-
Unassigned	8,280	-	8,280	(8,280)	-
<b>Total Fund Balances</b>	<b>9,780</b>	<b>753,142</b>	<b>762,922</b>	<b>(762,922)</b>	<b>-</b>
<b>Total Liabilities, Deffered Inflows of Resources and Fund Balances</b>	<b>\$ 50,733</b>	<b>\$ 1,600,442</b>	<b>\$ 1,651,175</b>		
Net Position:					
Net investment in capital assets				-	-
Restricted for:					
Emergencies				1,500	1,500
Debt service				753,142	753,142
Unrestricted				(9,709,261)	(9,709,261)
<b>Total Net Position</b>				<b>\$(8,954,619)</b>	<b>\$(8,954,619)</b>

*NOTE: The accompanying notes are an integral part of the financial statements.*

**SERENITY RIDGE METROPOLITAN DISTRICT NO. 2**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND  
BALANCES/STATEMENT OF ACTIVITIES  
GOVERNMENTAL FUND  
For the Year Ended December 31, 2016**

	<b>General</b>	<b>Debt Service</b>	<b>Total</b>	<b>Adjustments</b>	<b>Statement of Activities</b>
<b>EXPENDITURES</b>					
Transfer to District No. 1	\$ 68,205	\$ 271,435	\$ 339,640	\$ -	\$ 339,640
Treasurer's fees	601	10,248	10,849	-	10,849
Loan principal	-	100,000	100,000	(100,000)	-
2014 Loan interest	-	260,155	260,155	420	260,575
Paying and loan fees	-	1,168	1,168	-	1,168
<b>Total Expenditures</b>	<b>68,806</b>	<b>643,006</b>	<b>711,812</b>	<b>(99,580)</b>	<b>612,232</b>
<b>GENERAL REVENUES</b>					
Property taxes	40,069	682,912	722,981	-	722,981
Specific ownership taxes	3,092	52,693	55,785	-	55,785
Interest income	509	3,883	4,392	-	4,392
Facility fees	2,085	-	2,085	-	2,085
<b>Total General Revenues</b>	<b>45,755</b>	<b>739,488</b>	<b>785,243</b>	<b>-</b>	<b>785,243</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>(23,051)</b>	<b>96,482</b>	<b>73,431</b>	<b>99,580</b>	<b>173,011</b>
<b>OTHER FINANCING SOURCES (USES)</b>					
Proceeds from Loan	-	280,408	280,408	(280,408)	
<b>Total Other Financing Sources (Uses)</b>	<b>-</b>	<b>280,408</b>	<b>280,408</b>	<b>(280,408)</b>	<b>-</b>
<b>NET CHANGES IN FUND BALANCES</b>	<b>(23,051)</b>	<b>376,890</b>	<b>353,839</b>	<b>(353,839)</b>	
<b>CHANGE IN NET POSITION</b>				173,011	173,011
<b>FUND BALANCES/NET POSITION:</b>					
<b>BEGINNING OF YEAR-RESTATED</b>	32,831	376,252	409,083	(9,536,713)	(9,127,630)
<b>END OF YEAR</b>	<b>\$ 9,780</b>	<b>\$ 753,142</b>	<b>\$ 762,922</b>	<b>\$ (9,717,541)</b>	<b>\$ (8,954,619)</b>

*NOTE: The accompanying notes are an integral part of the financial statements.*

**SERENITY RIDGE METROPOLITAN DISTRICT NO. 2**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND  
BALANCES – BUDGET AND ACTUAL  
GENERAL FUND  
Year Ended December 31, 2016**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance Favorable (Unfavorable)</b>
<b>REVENUES</b>				
Property taxes	\$ 40,330	\$ 40,069	\$ 40,069	-
Specific ownership taxes	2,800.00	3,092.00	3,092	-
Interest income	100.00	509.00	509	-
Facility fees	-	2,085	2,085	-
<b>Total Revenues</b>	<b>43,230</b>	<b>45,755</b>	<b>45,755</b>	<b>-</b>
<b>EXPENDITURES</b>				
Transfer to District No. 1	63,934	68,205	68,205	-
Treasurer's fees	605	601	601	-
Contingency	637	-	-	-
Emergency reserve	1,297	-	-	-
<b>Total Expenditures</b>	<b>66,473</b>	<b>68,806</b>	<b>68,806</b>	<b>-</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>(23,243)</b>	<b>(23,051)</b>	<b>(23,051)</b>	<b>-</b>
<b>FUND BALANCE:</b>				
<b>BEGINNING OF YEAR</b>	-	32,831	32,831	
<b>END OF YEAR</b>	<b>\$ (23,243)</b>	<b>\$ 9,780</b>	<b>\$ 9,780</b>	<b>\$ -</b>

*NOTE: The accompanying notes are an integral part of the financial statements.*

## **SERENITY RIDGE METROPOLITAN DISTRICT NO. 2**

### **NOTES TO FINANCIAL STATEMENTS**

**December 31, 2016**

#### **NOTE 1 – DEFINITION OF REPORTING ENTITY**

##### **Definition of Reporting Entity**

Serenity Ridge Metropolitan District No. 2 (the “District” or “District No. 2”), a quasi-municipal corporation, was organized on February 2, 2004 and is governed pursuant to provisions of the Colorado Special District Act. The District’s service area is located in Arapahoe County, Colorado. The District was created in conjunction with Serenity Ridge Metropolitan District No. 1 (“District No. 1” and, together with District No. 2, the “Districts”) as part of a common plan to serve the needs of the Serenity Ridge development.

Pursuant to the Districts’ Consolidated Service Plan approved by the City Council of the City of Aurora, Colorado on August 4, 2003 (“Service Plan”), the Districts intend to provide in a cooperative manner, certain essential public-purpose services and facilities for the use and benefit of their property owners, inhabitants and taxpayers, all in accordance with the laws of the State of Colorado. The types of services and facilities that the Districts have the power to provide include water, streets, traffic and safety controls, parks, open space and recreation, sanitary sewer, and drainage and storm water improvements. (See Note 6, Acquisition Agreement).

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

The District follows the Governmental Accounting Standards Boards (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 is not financially accountable for any other organization, 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:

##### **Basis of Presentation**

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

**SERENITY RIDGE METROPOLITAN DISTRICT NO. 2**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2016**

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

**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. Property taxes are recognized as revenues in the year for which they are levied.

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 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 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 government 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.

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

**Fund Balances**

Beginning with fiscal year 2011 the District implemented GASB Statement No. 54, “Fund Balance Reporting and Governmental Fund Type Definitions.” This statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government’s fund balances more transparent. In the fund financial statements the following classifications describe the relative strength of the spending constraints.

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

Restricted fund balance – The portion of fund balance constrained to being used for a specific purpose by external parties (such as grantors or bondholders), constitutional provisions or enabling legislation.

**SERENITY RIDGE METROPOLITAN DISTRICT NO. 2**

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**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2016**

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

Committed fund balance – The portion of fund balance constrained for specific purposes according to limitations imposed by the District’s highest level of decision making authority, the Board of Directors prior to the end of the current fiscal year. 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 above criteria.

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

**Budgets**

In accordance with the State Budget Law, 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 appropriation is at the total fund expenditures 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 amended its Debt Service Fund budget from \$ 348,561 to \$ 643,006 and its General fund from \$66,473 to \$68,806.

**Cash**

The District follows the practice of pooling cash 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.

**SERENITY RIDGE METROPOLITAN DISTRICT NO. 2**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2016**

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

**Fixed Assets**

The District transfers all capital funds as needed to District No. 1 pursuant to a Reimbursement Agreement described in Note 6. Construction in progress is reflected on District No. 1's financial statements.

**Property Taxes**

Property taxes are levied by the District 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 assess the property tax obligation of 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 at the taxpayer's election, in equal installments in February and June. Delinquent taxpayers are notified in August and the sales of the resultant tax liens on delinquent properties are generally held in November or December. The County Treasurer remits the taxes collected monthly to the District.

Property taxes, net of estimated uncollectible taxes, are recorded initially as deferred inflows in the year they are levied and measurable. The deferred property tax revenues are recorded as revenue in the year they are available or collected.

**Restricted Fund Balance**

Emergency Reserves have been provided for as required by Article X, Section 20 of the Constitution of the State of Colorado. \$1,500 of the General Fund balance has been restricted in compliance with this requirement.

**NOTE 3 - CASH AND INVESTMENTS**

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

Statement of net position:

Cash and investments – unrestricted	\$ 5,968
– restricted	750,795
	<u>\$ 756,763</u>

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

Investments	<u>\$ 756,763</u>
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**SERENITY RIDGE METROPOLITAN DISTRICT NO. 2**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2016**

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

Deposits

**Deposits with Financial Institutions**

The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. State regulators determine eligibility. Amounts on deposit in excess of federal insurance levels 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 is to be maintained by another institution, or held in trust for all the uninsured public deposits as a group. 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.

While the District does not have a formal policy for deposits, as of December 31, 2016, none of the District's deposits were exposed to custodial credit risk.

**Investments**

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

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) and 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.

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

The District has invested in COLOTRUST, an external investment pool that records its investments at fair value and is categorized as a level 2 investment.

**Custodial And Concentration Of Credit Risk**

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

**SERENITY RIDGE METROPOLITAN DISTRICT NO. 2**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2016**

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

**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:

<u>Investment</u>	<u>Maturity</u>	<u>Fair Value</u>
U.S. Bank Fidelity Governmental Fund	Weighted average Under 60 days	\$ 290,663
COLOTRUST PLUS+	Weighted average Under 60 days	466,100
		<u>\$ 756,763</u>

**FIDELITY GOVERNMENTAL FUND MONEY MARKET FUND**

As of December 31, 2016, the District had \$290,663 invested in the Fidelity Governmental Fund Money Market Fund. The money market fund may invest in U.S. government treasury securities, U.S. government agency securities, commercial paper and repurchase agreements collateralized with securities valued in excess of the repurchase agreement amount. The maximum maturity allowed for any investment is 365 days. A designated custodial bank provides safekeeping depository services, and substantially all securities owned by the Fidelity Governmental Fund Money Market Fund are held by the Federal Reserve Bank in the account maintained for the custodial bank.

**COLOTRUST**

As of December 31, 2016 the District had invested in the Colorado Local Government Liquid Asset Trust (ColoTrust), an investment vehicle established for local government entities in Colorado to pool surplus funds. The State Securities Commission 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 repurchase agreements collateralized by certain obligations of U.S. government agencies. 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. As of December 31, 2016, the District has \$466,100 invested in COLOTRUST PLUS+.

**SERENITY RIDGE METROPOLITAN DISTRICT NO. 2**

**Notes to Financial Statements  
December 31, 2016**

**NOTE 4 – LONG TERM DEBT**

**2014 Loan Agreement**

On September 10, 2014, the District entered into a Loan Agreement with U.S. Bank National Association (the “Bank”) in an amount not to exceed \$9,850,000 for the purpose of refunding the District’s Series 2004 General Obligation Bonds and for the purpose of pay or reimbursing certain capital improvements costs (“2014 Loan”). During 2016, the Bank advanced \$280,408 of funds of which District No. 2 transferred \$271,435 to District No. 1. The 2014 Loan bears interest at 2.79% and matures September 10, 2019.

The 2014 Loan is a limited tax obligation of the District secured by Pledged Revenue, consisting of the moneys derived by the District from the following sources, net of any costs of collection: (i) the Required Mill Levy, (ii) the portion of the Specific Ownership Taxes allocable to the amount of the District’s debt service mill levy (i.e. not including its operations mill levy); and (iii) any other legally available funds of the District, which the Board determines in its sole discretion to apply as Pledged Revenue. The District has covenanted to levy an ad valorem mill levy upon all taxable property of the District, in addition to all other taxes, direct annual taxes in the amount of the Required Mill Levy to be imposed in each of the years 2014 to 2018, inclusive (for collection in 2015 to 2019, inclusive), and to the extent necessary to pay the unpaid principal or interest due on the 2014 Loan, in each year thereafter until the principal of and interest on the 2014 Loan is fully paid, satisfied and discharged. Nothing in the 2014 Loan Agreement shall be construed to require the District to levy an ad valorem tax in excess of the Required Mill Levy.

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

	<b>Balance at 1/1/2016</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance at 12/31/2016</b>	<b>Due Within One Year</b>
2014 Tax Free Refunding Loan	9,514,592	280,408	100,000	9,695,000	265,000
	\$ 9,514,592	\$ 280,408	\$ 100,000	\$ 9,695,000	\$ 265,000

The following schedule sets forth the debt service for the District’s outstanding limited tax general obligation debt:

<b>Year</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2017	\$ 265,000	\$ 270,491	\$ 535,491
2018	270,000	263,097	533,097
2019	9,160,000	255,564	9,415,564
	\$ 9,695,000	\$ 789,152	\$ 10,484,152

## SERENITY RIDGE METROPOLITAN DISTRICT NO. 2

### Notes to Financial Statements December 31, 2016

#### NOTE 4 – LONG TERM DEBT (CONTINUED)

**Authorization** – At an election of the qualified electors of the District held on November 4, 2003 the District’s electorate authorized the issuance of \$27,000,000 of debt for providing improvements, \$500,000 of debt for operation and maintenance and \$27,000,000 of debt for refunding outstanding debt. As of December 31, 2016, the District has \$37,900,000 authorized but unissued debt. Pursuant to the Service Plan, District No. 1 and District No. 2 have a cumulative debt limit of \$18,200,000. As of December 31, 2016, \$9,921,502 of the Service Plan debt authorization remains. In the future, the District intends to issue a portion or all of the remaining authorized, but unissued general obligation debt for purposes of providing public improvements to support development as it occurs within the District’s service area, however, as of the date of this Audit, the amount and timing of any issuances is not determinable.

#### NOTE 5 – AGREEMENTS

##### Acquisition Agreement

District No. 1 and Neumann Homes of Colorado, LLC (the “Developer”) entered into an Improvement Acquisition Agreement dated March 24, 2004 (the “Acquisition Agreement”) whereby the Developer agreed to design and construct certain improvements (the “Improvements”) for the benefit of District No. 1 and the development in anticipation of District No. 1 later acquiring such Improvements from the Developer. In exchange, District No. 1 agreed to pay the Developer for those costs associated with the design and construction of the Improvements, pursuant to the terms of the Acquisition Agreement. As of December 31, 2016, District No. 1 had not acquired any Improvements from the Developer under the Acquisition Agreement.

##### Reimbursement Agreement

On March 24, 2004, District No. 1 and the Developer entered into a Reimbursement Agreement (the “Reimbursement Agreement”) whereby the Developer agreed to advance up to \$20,500,000 to District No. 1 for capital and operations expenditures of District No. 1 during the years 2004 through 2007. The Reimbursement Agreement was subsequently assigned to Serenity Ridge Investors, LLC (“SRI, LLC”), which became the beneficiary of the Reimbursement Agreement and entitled SRI, LLC to reimbursement for advances made pursuant to the Reimbursement Agreement.

On September 10, 2014, the District, District No. 1 and SRI, LLC entered into a Release, Satisfaction and Termination Agreement (the “Release and Termination”).

## SERENITY RIDGE METROPOLITAN DISTRICT NO. 2

### Notes to Financial Statements December 31, 2016

#### **NOTE 5 – AGREEMENTS (CONTINUED)**

Pursuant to the Release and Termination the parties agreed to terminate the Reimbursement Agreement in exchange for the District allocating \$1,472,371.78 of the proceeds of the 2014 Loan (as defined in the Release and Termination) to be available to reimburse SRI, LLC for satisfaction of a like amount outstanding under the Reimbursement Agreement, which amount shall be the total amount deposited in the Project Fund less the Traffic Signal Payment Amount, as defined in the Release and Termination (“SRI Reimbursement Amount”). During 2015, District No. 1 made payment to SRI, LLC of the final outstanding portion of the SRI Reimbursement Amount.

In consideration of the District’s incurrence of the 2014 Loan, and full payment of the SRI Reimbursement Amount, the Districts and SRI, LLC mutually agreed that the Final Reimbursement Obligation of \$2,359,974.28 remaining outstanding under the Reimbursement Agreement, was released, forgiven and discharged by SRI, LLC as of the date of the Release and Termination. No further amounts are due and owed to SRI, LLC from the Districts under the Reimbursement Agreement.

#### **District Facilities Construction and Service Agreement**

On April 21, 2004, the District and District No. 1 entered into a District Facilities Construction and Service Agreement (“District Facilities Agreement”). The District Facilities Agreement designates District No. 1 as the “Operating District”, and the District as the “Taxing District.” The District Facilities Agreement, as well as the Service Plan provides that the Operating District will own, (subject to transfers to other governmental entities) operate, maintain and construct the facilities benefiting both Districts and that the Taxing District will pay all costs related to the construction, operation and maintenance of such facilities through the imposition of taxes and facility fees which will be transferred to the Operating District on an ongoing basis.

#### **NOTE 6 – RELATED PARTY**

During 2016, a majority of the District’s board members were officers, employees or consultants of landowners within the District.

#### **NOTE 7 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

##### **Explanation of differences between the governmental fund Balance Sheet and the government-wide Statement of Net Position**

The governmental fund Balance Sheet and the government-wide Statement of Net Position includes a reconciling column. Explanation of the adjustments included in the reconciling column is as follows:

**SERENITY RIDGE METROPOLITAN DISTRICT NO. 2**

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**Notes to Financial Statements**  
**December 31, 2016**

**NOTE 7 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (CONTINUED)**

Loan and interest payable	\$ 9,717,541
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Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.

**Explanation of differences between the governmental fund Statement of Revenue, Expenditures and Changes in Fund Balance and the government-wide Statement of Activities**

The governmental fund Statement of Revenue, Expenditures and Changes in Fund Balance and the government-wide Statement of Activities include a reconciling column. Explanation of the adjustments included in the reconciling column is as follows:

Interest expense	\$ 240
Proceeds from loan	\$ (280,408)
Principal repayment	\$ (100,000)

**NOTE 8 – RISK MANAGEMENT**

The District is exposed to various risks of loss related to thefts of, damage to, or destruction of assets; errors or omissions; injuries to employees, or acts of God.

The District is a member of the Colorado Special Districts Property and Liability Pool (Pool) as of December 31, 2016. The Pool is an organization created by intergovernmental agreement to provide property, liability, public officials liability, boiler and machinery and workers compensation coverage to its members. Settled claims have not exceeded this coverage in any of the past three fiscal years.

The District pays annual premiums to the Pool for liability, property 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.

## SERENITY RIDGE METROPOLITAN DISTRICT NO. 2

### Notes to Financial Statements December 31, 2016

#### 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 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 votes 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 management believes that 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.

At the November 4, 2003 election, voters of the District approved an election question allowing the District to exceed the revenue and spending limitations of TABOR.

**SUPPLEMENTAL INFORMATION**

**SERENITY RIDGE METROPOLITAN DISTRICT NO. 2**

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND  
BALANCES – BUDGET AND ACTUAL  
DEBT SERVICE FUND  
Year Ended December 31, 2016**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance Favorable (Unfavorable)</b>
<b>REVENUES</b>				
Property taxes	\$ 687,356	\$ 682,912	\$ 682,912	\$ -
Specific ownership taxes	35,000	52,693	52,693	-
Interest income	500	3,883	3,883	-
<b>Total Revenues</b>	<b>722,856</b>	<b>739,488</b>	<b>739,488</b>	<b>-</b>
<b>EXPENDITURES</b>				
Accounting and audit	3,000	-	-	-
Transfer to District 1	-	271,435	271,435	-
Loan Principal	100,000	100,000	100,000	-
Loan Interest	231,849	260,155	260,155	-
Paying and loan fees	3,402	1,168	1,168	-
Treasurer's fees	10,310	10,248	10,248	-
<b>Total Expenditures</b>	<b>348,561</b>	<b>643,006</b>	<b>643,006</b>	<b>-</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>374,295</b>	<b>96,482</b>	<b>96,482</b>	<b>-</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from Loan	-	280,408	280,408	-
<b>Total Other Financing Sources (Uses)</b>	<b>-</b>	<b>280,408</b>	<b>280,408</b>	<b>-</b>
<b>NET CHANGES IN FUND BALANCES</b>	<b>374,295</b>	<b>376,890</b>	<b>376,890</b>	<b>-</b>
<b>CHANGE IN NET POSITION</b>				
<b>FUND BALANCES/NET POSITION:</b>				
<b>BEGINNING OF YEAR</b>	386,943	376,252	376,252	-
<b>END OF YEAR</b>	<b>\$ 761,238</b>	<b>\$ 753,142</b>	<b>\$ 753,142</b>	<b>\$ -</b>

*NOTE: The accompanying notes are an integral part of the financial statements.*