

Serratoga Falls Metropolitan District No. 2
FINANCIAL STATEMENTS AND
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
December 31, 2016



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REPORT OF INDEPENDENT CERTIFIED
PUBLIC ACCOUNTANTS

Board of Directors
Serratoga Falls Metropolitan District No. 2

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the governmental funds of the Serratoga Falls Metropolitan District No. 2 (the "District"), as of and for the year ended December 31, 2016, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on conducting our audit in accordance with auditing standards generally accepted in the United States of America as established by the *American Institute of Certified Public Accountants* ("US GAAS").

We conducted our audit in accordance with US GAAS. Those standards require that we plan and perform our audit to obtain reasonable assurance about whether these financial statements are free of material misstatement.

An audit includes 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 District'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 District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions on the Financial Statements

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the governmental funds of the Serratoga Falls Metropolitan District No. 2, as of December 31, 2016, and the respective changes in financial position thereof, 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.

Required Supplementary Information

The Board of Directors has omitted the Management's Discussion and Analysis information 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 part of the basic financial statements, is required by the Government Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Supplementary Information

Our audit was conducted with the purpose of forming an opinion on the basic financial statements of the District taken as a whole. The supplementary information on page 18 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to our auditing procedures applied in the audit of the financial statements, and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Marc James & Associates PC

Highlands Ranch, CO
July 27, 2017

FINANCIAL STATEMENTS

Serratoga Falls Metropolitan District No. 2

GOVERNMENTAL FUNDS BALANCE SHEET/STATEMENT OF NET POSITION

December 31, 2016

	General Fund	Debt Service Fund	Total	Adjustments	Statement of Net Position
ASSETS					
Cash and cash equivalents	\$ 32,622	\$ -	\$ 32,622	\$ -	\$ 32,622
Accounts receivable	4,354	-	4,354	-	4,354
Property taxes receivable	59,397	59,397	118,794	-	118,794
Due from County Treasurer	763	-	763	-	763
Prepaid expenses	2,586	-	2,586	-	2,586
Total assets	\$ 99,722	\$ 59,397	\$ 159,119	-	159,119
LIABILITIES					
Accounts payable	\$ 87,552	\$ -	\$ 87,552	-	87,552
Long-term liabilities Due after one year	-	-	-	807,500	807,500
Total liabilities	87,552	-	87,552	807,500	895,052
DEFERRED INFLOWS OF RESOURCES					
Property taxes	59,397	59,397	118,794	-	118,794
FUND BALANCE/NET POSITION					
FUND BALANCE (DEFICIT)					
Non-spendable	2,586	-	2,586	(2,586)	-
Restricted	1,409	-	1,409	(1,409)	-
Unassigned	(54,222)	-	(54,222)	54,222	-
Total fund balance	(50,227)	-	(50,227)	50,227	-
Total liabilities, deferred inflows of resources and fund balance	\$ 96,722	\$ 59,397	\$ 156,119		
NET POSITION (DEFICIT)					
Restricted				1,409	1,409
Unrestricted (deficit)				(859,136)	(859,136)
Total net deficit				\$ (857,727)	\$ (857,727)

Serratoga Falls Metropolitan District No. 2

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

For the Year Ended December 31, 2016

	General Fund	Debt Service Fund	Total	Adjustments	Statement of Activities
Expenditures/Expenses					
Operating					
Accounting and audit	\$ 6,980	\$ -	\$ 6,980	\$ -	\$ 6,980
Dues	359	-	359	-	359
Insurance	2,454	-	2,454	-	2,454
Landscaping maintenance	48,480	-	48,480	-	48,480
Landscaping repairs	13,085	-	13,085	-	13,085
Legal	106,430	-	106,430	-	106,430
Management fees	6,000	-	6,000	-	6,000
Office	415	-	415	-	415
Treasurer's fee	2,316	-	2,316	-	2,316
Utilities	5,950	-	5,950	-	5,950
Total expenditures/expenses	192,469	-	192,469	-	192,469
Charges for Services					
Landscape fees and late charges	84,445	-	84,445	-	84,445
Net expenditures/expenses	(108,024)	-	(108,024)	-	(108,024)
General Revenue					
Property taxes	114,550	-	114,550	-	114,550
Specific ownership taxes	9,210	-	9,210	-	9,210
Development fees	30,000	-	30,000	-	30,000
Interest	83	-	83	-	83
Total general revenues	153,843	-	153,843	-	153,843
Excess of Expenditures/Expenditures Over Revenues	45,819	-	45,819	-	45,819
Other Sources					
Loss on assumption of debt	-	-	-	(807,500)	(807,500)
Total other sources and uses	-	-	-	(807,500)	(807,500)
Change in Fund Balance/Net Position	45,819	-	45,819	(807,500)	(761,681)
Fund balance/net position (deficit)					
Beginning of the year	(96,046)	-	(96,046)	-	(96,046)
End of the year	<u>\$ (50,227)</u>	<u>\$ -</u>	<u>\$ (50,227)</u>	<u>\$ (807,500)</u>	<u>\$ (857,727)</u>

Serratoga Falls 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

	Original and Final Budget	Actual	Variance
Revenues			
Property taxes	\$ 114,710	\$ 114,550	(160)
Specific ownership taxes	7,456	9,210	1,754
Landscape fees and late charges	83,000	84,445	1,445
Development fees	-	30,000	30,000
Interest	-	83	83
	<u>205,166</u>	<u>238,288</u>	<u>33,122</u>
Total revenues	205,166	238,288	33,122
Expenditures			
Operating			
Accounting and audit	6,000	6,980	980
Dues	500	359	(141)
Insurance	2,015	2,454	439
Landscape maintenance	58,000	48,480	(9,520)
Landscape irrigation repairs	15,000	13,085	(1,915)
Legal	30,000	106,430	76,430
Management fees	6,000	6,000	-
Office expense	2,000	415	(1,585)
Snow removal	10,000	-	(10,000)
Treasurer's fee	1,721	2,316	595
Utilities	30,000	5,950	(24,050)
Contingency	8,183	-	(8,183)
	<u>169,419</u>	<u>192,469</u>	<u>23,050</u>
Total expenditures	169,419	192,469	23,050
Excess of revenue over expenditures	35,747	45,819	10,072
Other sources and uses			
Transfer to Debt Service Fund	(57,355)	-	57,355
	<u>(57,355)</u>	<u>-</u>	<u>57,355</u>
Change in fund balance	<u>\$ (21,608)</u>	45,819	<u>\$ 67,427</u>
Fund Balance (Deficit)			
Beginning of the year		<u>(96,046)</u>	
End of the year		<u>\$ (50,227)</u>	

Serratoga Falls Metropolitan District No. 2

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Serratoga Falls Metropolitan District No. 2 (the "District") conform to the accounting principles generally accepted in the United States of America ("US GAAP") as applicable to governmental entities. The following is a summary of the more significant policies consistently applied in the preparation of the basic financial statements of the District.

1. Reporting Entity

The District was formed, concurrently with Serratoga Falls Metropolitan District No. 1 ("District 1") and Serratoga Falls Metropolitan No. 3, pursuant to the Colorado Special District Act, Article 1 of Title 32 of the Colorado Revised Statutes, on March 29, 2006 as a quasi-municipal corporation and a political subdivision of the State of Colorado. The District is governed by a five-member elected Board of Directors. The District is located in the Town of Timnath, in Larimer County, Colorado.

Pursuant to the Amended Service Plan, dated April 26, 2016, it is intended that the District will provide a part or all of the operations and maintenance services for the existing public improvements constructed for the use and benefit of the anticipated inhabitants and taxpayers of the District.

All operational and administrative functions of the District are performed by contract third parties.

As required by US GAAP, these financial statements present the activities of the District, which is legally separate and financially independent of other state and local government entities. The District has no component units as defined by Governmental Accounting Standards Board ("GASB"), Statement No. 14, *The Reporting Entity* and GASB No. 39, *Determining Whether Certain Organizations are Component Units*.

2. Measurement Focus and Financial Reporting Framework

Government-wide Financial Statements

The government-wide financial statements, the Statement of Net Position and the Statement of Activities, report information on the accrual basis of accounting related to the *governmental-type activities* of the District, which rely to a significant extent on property, specific ownership taxes and charges for services. The Statement of Activities demonstrates the degree to which expenses of the *governmental-type activities* are supported by property, specific ownership taxes and charges for services.

Governmental Fund Financial Statements

The governmental fund financial statements are prepared 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 if the revenues are collectible within the current period or soon thereafter to pay liabilities of the current period. For that purpose, the District considers revenues to be available if they are expected to be collected within 60 days of the end of the current fiscal period.

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *continued*

Governmental Funds

The District maintains two individual governmental funds. The governmental funds information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balance for the general fund and the debt service fund, both which are considered to be major funds.

The *general fund* is the District's primary operating fund. It accounts for all financial resources of the general government, except for 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 governmental funds.

3. *Cash and Cash Equivalents*

The District considers cash and cash equivalents to include cash on hand, demand deposits, savings accounts and money market accounts.

4. *Fair Value of Financial Instruments*

The District's financial instruments may include cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities, deferred inflows of resources and a note payable. The District estimates that the fair value of these financial instruments as of December 31, 2016, do not differ materially from the aggregate carrying values used in the accompanying financial statements. The carrying amount of these financial instruments approximates the fair value due to the short maturity of these financial instruments.

5. *Use of Estimates*

The preparation of financial statements in conformity with US GAAP involves the use of management's estimates that affect the reported amounts of assets and liabilities as of the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. These estimates are based upon management's best judgment, after considering past events and assumptions about future events. Actual results could differ from those estimates.

6. *Property Taxes Receivable*

Property taxes are levied on December 15 of each year, and attach as an enforceable lien on subject property as of January 1 of the following year. The property taxes are payable in full on April 30 or if paid in two installments, on February 28 and June 15. Property taxes are considered to be delinquent as of August 1. Larimer County bills and collects the property taxes on behalf of the District and remits the collections, less the County Treasurer's fees, to the District on a monthly basis. As of December 31, the District has recorded the levied property taxes and the related deferred inflow of resources.

As the property taxes result in an enforceable lien on the subject property, in the event the property taxes are not paid, the tax lien can be purchased by a third party or the subject property can be sold at a public auction to collect the delinquent property taxes. Accordingly, no provision is deemed necessary for uncollected property taxes.

Serratoga Falls Metropolitan District No. 2

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *continued*

7. *Restricted Net Position*

The restriction of net position represents amounts that may not be appropriated or are legally segregated for a specific purpose.

NOTE B – BUDGET INFORMATION

The District's annual budget is prepared on a Non-GAAP basis for the District's General Fund and Debt Service Fund. An annual appropriated budget is adopted at the total fund expenditure level and the annual appropriations lapse at the end of the District's fiscal year.

The District conforms to the following procedures, in accordance with the State of Colorado Revised Statutes, in the establishment of the budgetary information reflected in the accompanying financial statements.

On or before October 15, the District's Manager submits a proposed budget for the subsequent fiscal year to the District's Board of Directors. The budget sets forth all proposed expenditures for administration, operations, maintenance, debt service, and capital projects for the budget year; all anticipated revenues for the budget year; estimated beginning and ending fund balances; actual figures for the prior fiscal year and projected figures through the end of the current year; and a written budget message describing the important features of the budget.

Following receipt of the proposed budget, the District publishes notice of the hearing at which the adoption of the proposed budget will be considered, a statement that the proposed budget is available for inspection, and that any interested elector may file objections to the proposed budget prior its adoption. The budget hearing is held at a regular or special Board of Directors' meeting.

Following the budget hearing, the Board of Directors adopts the budget and makes appropriations for the budget year. The District also certifies a mill levy for collection in the budget year. Because the District certifies a mill levy, the adoption of the budget, appropriations and certification of the mill levy must occur on or before December 15. Expenditures in excess of the amounts appropriated for a Fund or transfer of moneys between Funds must be approved by the Board of Directors in the same manner as the adoption of the budget

NOTE C – CASH AND INVESTMENTS

The Colorado Public Deposit Protection Act ("PDPA") requires that all units of local government deposit cash in eligible public depositories. State regulators determine the eligibility. Amounts on deposit in excess of the Federal Deposit Insurance Corporation ("FDIC") insurance levels must be collateralized. The eligible collateral is determined by the PDPA. The PDPA allows institutions 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 uninsured public deposits. The market value of the collateral must be equal to 102% of the aggregate uninsured public deposits.

As of December 31, 2016, all of the District's deposits were either insured by the FDIC or held in eligible depositories.

Serratoga Falls Metropolitan District No. 2

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE D – LONG-TERM DEBT

General Obligation Limited Tax Note, Series 2016A ("2016A Note")

In August 2016, the District assumed debt through the issuance of its 2016A Note in the principal amount of \$807,500 at an annual interest rate of 4.5%. The assumption of the debt was based upon a prorated and discounted allocation to the District of a portion of a loan made to the original Developer of Serratoga Falls for costs related to the construction of public infrastructure and other improvements, which were previously conveyed to the Town of Timnath or other local government entities. The original Developer filed for bankruptcy. Cost of issuance of the 2016 A Note were paid from the District's General Fund

The 2016A Note has a final maturity date of August 1, 2041 and requires annual principal and interest payments beginning on August 1, 2017. In exchange for the deferment of the initial payment date to August, 1, 2017, by the note holder, the District agreed to the capitalization of \$20,000 of interest, which is included in the total note amount of \$807,500. The 2016A Note may be prepaid in whole or in part at any time without penalty.

The 2016A Note requires annual interest payments on August 1 ("Interest Payment Date"), until the principal amount is paid to maturity or upon prior redemption. Interest is to be calculated on the basis of a 360-day year and the actual number of days elapsed in the applicable period.

The 2016A Note principal and interest payments are to be paid solely from a 25 mill property tax levy ("Pledged Revenue"), less audit expenses, as defined in the Loan Agreement and the 2016A Note constitutes an irrevocable first lien upon the Pledged Revenue. As the amount of the actual Pledged Revenue cannot be determined, the amount due in one year cannot be determined as of December 31, 2016.

To the extent interest is not paid, interest continues to accrue annually on each Interest Payment Date; however, notwithstanding anything to the contrary, the District is not obligated to pay more than the amount permitted by law and its electoral authorization. The 2016A Note will be deemed defeased and no longer outstanding upon the payment by the District of such amount, but in no event this 2016A Note be payable later than 40 years after the date of issuance.

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

	Balance December 31, 2015	Borrowings	Payments	Balance December 31, 2016
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Series 2016A Note	\$ -	\$ 807,500	\$ -	\$ 807,500

Debt Authorization

At an election held in May 2006, the majority of the qualified electors of the District authorized the issuance of general obligation indebtedness in the amount not to exceed \$200,000,000 for providing public improvements. As of December 31, 2016, the District has \$199,192,250 of authorization remaining. In the future, the District may 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, the amount and timing of any debt issuances, if any, are not determinable.

Serratoga Falls Metropolitan District No. 2

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE E – FUND BALANCE

The District utilizes the fund balance presentation as required under GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Fund balances are categorized as non-spendable, restricted, committed, assigned or unassigned.

Non-spendable – represents amounts that cannot be spent because they are either in non-spendable form or legally required to remain intact,

Restricted – represents amounts with external constraints placed on the use of these resources or imposed by enabling legislation,

Committed – represents amounts that can only be used for specific purposes imposed by a formal action of the District's highest level of decision-making authority, the District's Board of Directors. Committed resources cannot be used for any other purpose unless the District's Board of Directors removes or changes the specific use by the same type of action used to commit those amounts, either by resolution or by ordinance,

Assigned – represents amounts that the District intends to use for specific purposes as expressed by the District's Board of Directors or a District official delegated the authority to assign amounts,

Unassigned – represents the residual classification for the general fund or deficit balances in other funds, as applicable.

Amounts are considered to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) amounts are available. Unrestricted amounts are considered to have been spent when an expenditure is incurred for purposes for which amounts in any of these unrestricted fund balances classifications could be used.

As of December 31, 2016, the District's fund balance consisted of the following:

	<u>General</u>	<u>Debt Service</u>	<u>Total</u>
Fund balances:			
Non-spendable			
Prepaid expenses	\$ 2,586	\$ -	\$ 2,586
Restricted			
TABOR reserve	1,409	-	1,409
Unassigned	<u>(54,222)</u>	<u>-</u>	<u>(54,222)</u>
Total fund balances	\$ <u>(50,222)</u>	\$ <u>-</u>	\$ <u>(50,222)</u>

NOTE F- RELATED PARTY AGREEMENTS

Intergovernmental Agreement with District 1

In April 2016, the District entered into Intergovernmental Agreement ("IGA") with District 1 which terminated and superseded any prior intergovernmental agreements. Under the terms of the IGA:

- District 1 transferred to the District for a nominal fee and other valuable consideration the ownership of Tracts A and C, Serratoga Falls First Filing with any associated personal property located thereon,

Serratoga Falls Metropolitan District No. 2

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE F- RELATED PARTY AGREEMENTS - *continued*

Intergovernmental Agreement with District 1 - continued

- District 1 transferred to the District the entire non-potable irrigation system used to service Serratoga Falls First Filing,
- District 1 transferred to the District the ownership of the perimeter split rail fence adjacent to Serratoga Falls First Filing,
- District 1 granted the District a perpetual easement for the operation and maintenance of the transferred amenities.

As the amount of the consideration is immaterial the ownership transferred is not reflected on the Statement of Net of Position of the District.

In addition, the District agreed to pay a percentage of the Pump House Costs, consisting of, but not limited to the costs of the operation, maintenance, repair and replacement of the Pump House that provides non-potable water to the property located within the Serratoga Falls Subdivision. The allocation of the costs to be paid is to be based upon the volume of non-potable water used by the District as a percentage of the total non-potable water used by the Serratoga Falls Subdivision. Under the sharing arrangement, District 1 is to invoice the District quarterly, with payment due no later than 60 days from the date of the invoice. The District has not been invoiced for its percentage of the Pump House Costs.

District 1 has entered into a Recreational Lease Agreement with the Kitchell Reservoir Company under which District 1 is permitted to construct and maintain certain recreational amenities at the Kitchell Reservoir for the benefit of the homeowners within the Serratoga Falls Subdivision. Under the IGA, the District may access the recreational amenities at the Kitchell Reservoir upon payment to District 1 of 14.44% of the annual lease price. For 2016, the District did not exercise its option.

Under the IGA, the Serratoga Falls, LLC paid the District \$15,000 in 2016. The amount is reflected in the development fees for 2016.

Water Lease Agreement

In April 2016, the District and Serratoga Falls, LLC entered into a Water Lease Agreement ("Water Lease") under which the District leased 50 acre-feet of non-potable and water from Serratoga Falls, LLC from its non-potable water rights portfolio. The term of the Water Lease is initially for 30 years and the District has the option to extend the term for up to six 10 year renewal terms, with such extension being automatic unless the District provides written notice to Serratoga Falls, LLC that the District does not wish to extend. Under the Water Lease, there are no payments required. The consideration for the Water Lease was the resolution of prior disagreements related to the ownership and maintenance of public improvements, district boundaries, water use and covenant control.

Serratoga Falls Metropolitan District No. 2

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE G – TAX, SPENDING AND DEBT LIMITATIONS

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

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 calculation of the fiscal year spending limits will require judicial interpretation.

NOTE H – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft, damage to, or destruction of assets; errors or omissions; injuries to volunteers; or acts of God for which the District carries commercial insurance. The District’s claims, if any, have not exceeded its coverage during the preceding three years.

NOTE I – COMMITMENTS

District Management

The District outsources the management of the District which includes overall management, accounting and administrative services. The service contract renews annually each year on January 1, unless notice of non-renewal is provided by either party as described in the service contract. Under the service contract, the District is required to make monthly payments of \$1,000 for a total annual compensation of \$12,000.

Landscape Maintenance

The District has a service contract for landscape maintenance subject to annual appropriation by District. Under the service contract, the District is required to make monthly payments of \$3,565 for a total annual compensation of \$42,780 for the landscape maintenance in the “Primary Area” and nine monthly payments of \$1,111 for a total annual compensation of \$10,000 for the landscape maintenance in the “Secondary Area” as defined in the service contract. The service contract may be terminated by either party upon provision of written notice.

NOTE J – MANAGEMENT’S EVALUATION OF SUBSEQUENT EVENTS

The preparation of the District’s financial statements and accompanying footnotes in conformity with US GAAP requires management of the District to evaluate transactions and events subsequent to the balance sheet date involving the District. Management has evaluated the subsequent transactions and events of the District through July 27, 2017, which is the date the financial statements and accompanying footnotes were available for issuance.

Serratoga Falls Metropolitan District No. 2

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE K – RECONCILIATION OF GOVERNMENT-WIDE AND GOVERNMENTAL FUND FINANCIAL STATEMENTS

The Governmental Funds Balance Sheet/Statement of Net Position includes an adjustments column which reconciles the differences between the government-wide and fund financial statements as follows:

Long-term liabilities such as the 2016A Note, is not due and payable in the current period and, therefore, are not reflected in the governmental funds.	\$	807,500
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The Statements of Governmental Funds Revenues, Expenditures and Changes in Fund Balance/Statement of Net Activities includes an adjustment column which reconciles the differences between the government-wide and fund financial statements as follows:

The loss on the assumption of debt by the District does not consume current funds and, therefore are not reflected in the governmental funds.	\$	807,500
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SUPPLEMENTARY INFORMATION

Serratoga Falls Metropolitan District No. 2

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

Year Ended December 31, 2016

	Original Budget	Amended and Final Budget	Actual	Variance
Expenditures				
Operating				
Audit	1,000	-	-	-
Debt service				
Principal payments	18,208	-	-	-
Paying agent	2,500	-	-	-
Legal	7,875	-	-	-
Total expenditures	<u>29,583</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other sources and uses				
Proceeds from debt	795,375	807,500	-	807,500
Satisfaction of outstanding claim	(787,500)	(807,500)	-	(807,500)
Total other sources and uses	<u>7,875</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in fund balance	<u>\$ (21,708)</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
Fund Balance				
Beginning of the year			<u>-</u>	
End of the year			<u>\$ -</u>	