

STETSON RIDGE METROPOLITAN DISTRICT #2

FINANCIAL STATEMENTS

DECEMBER 31, 2016

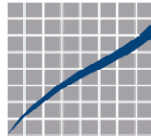


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BiggsKofford
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Stetson Ridge Metropolitan District #2
Colorado Springs, Colorado

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Stetson Ridge Metropolitan District #2 ("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.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of December 31, 2016, the respective changes in financial position and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted 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 which 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.

Other Information

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

BiggsKofford, P.C.

Colorado Springs, Colorado
July 28, 2017

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BASIC FINANCIAL STATEMENTS

STETSON RIDGE METROPOLITAN DISTRICT #2
STATEMENT OF NET POSITION
DECEMBER 31, 2016

	Governmental Activities
<u>ASSETS</u>	
Cash and investments	\$ 229,929
Cash and investments - restricted	247,600
Accounts receivable - County Treasurer	7,973
Property taxes receivable	808,344
Total assets	1,293,846
<u>DEFERRED OUTFLOWS OF RESOURCES</u>	
Deferred bond costs refunding, net	213,620
Total deferred outflows of resources	213,620
<u>LIABILITIES</u>	
Accrued interest payable	5,350
Noncurrent liabilities:	
Due within one year	140,000
Due in more than one year	1,433,051
Total liabilities	1,578,401
<u>DEFERRED INFLOWS OF RESOURCES</u>	
Deferred property tax revenues	808,344
Total deferred inflows of resources	808,344
<u>NET POSITION</u>	
Restricted for:	
Debt service	472,179
Emergency reserve	9,875
Unrestricted	(1,361,333)
Total net position	\$ (879,279)

The accompanying notes and independent auditor's report
should be read with this financial statement.

STETSON RIDGE METROPOLITAN DISTRICT #2
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2016

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expenses)</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Revenue and Changes in Net Position</u>
					<u>Governmental Activities</u>
FUNCTIONS/PROGRAMS					
PRIMARY GOVERNMENT:					
General government	\$ 43,514	\$ -	\$ -	\$ -	\$ (43,514)
Intergovernmental	724,963	-	10,323	-	(714,640)
Interest and related costs on long-term debt	75,532	-	-	-	(75,532)
Total primary government	\$ 844,009	\$ -	\$ 10,323	\$ -	(833,686)
GENERAL REVENUES:					
Property taxes					797,747
Specific ownership taxes					91,809
Investment earnings					440
Total general revenues					889,996
Changes in net position					56,310
Net position, beginning of year					(935,589)
Net position, end of year					\$ (879,279)

The accompanying notes and independent auditor's report should be read with this financial statement.

STETSON RIDGE METROPOLITAN DISTRICT #2
BALANCE SHEETS
GOVERNMENTAL FUNDS
DECEMBER 31, 2016

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>			
Cash and investments	\$ -	\$ 229,929	\$ 229,929
Cash and investments - restricted	-	247,600	247,600
Accounts receivables - County Treasurer	7,973	-	7,973
Property taxes receivable	253,417	554,927	808,344
Total assets	<u>\$ 261,390</u>	<u>\$ 1,032,456</u>	<u>\$ 1,293,846</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Deferred property tax revenues	253,417	554,927	808,344
Total deferred inflows of resources	<u>253,417</u>	<u>554,927</u>	<u>808,344</u>
<u>FUND BALANCES</u>			
Restricted for:			
Debt service	-	477,529	477,529
Emergency reserve	9,875	-	9,875
Unassigned:			
General government	(1,902)	-	(1,902)
Total fund balances	<u>7,973</u>	<u>477,529</u>	<u>485,502</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 261,390</u>	<u>\$ 1,032,456</u>	
Amounts reported in governmental activities in the statement of net position are different because:			
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.			
Bonds payable			(1,573,051)
Accrued interest payable			(5,350)
Other long-term assets are not available to pay for current period expenditures and, therefore, are not reported in the funds.			
Deferred bond costs refunding, net			213,620
Net position of governmental activities			<u>\$ (879,279)</u>

The accompanying notes and independent auditor's report should be read with this financial statement.

STETSON RIDGE METROPOLITAN DISTRICT #2
STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2016

	General Fund	Debt Service Fund	Total Governmental Funds
REVENUES			
Property taxes	\$ 250,095	\$ 547,652	\$ 797,747
Specific ownership taxes	91,809	-	91,809
Intergovernmental revenues	7,523	2,800	10,323
Net investment income	76	364	440
Total revenues	349,503	550,816	900,319
EXPENDITURES			
Current:			
Intergovernmental expenses	317,878	407,085	724,963
County Treasurer's fees	3,753	8,218	11,971
Accounting	5,250	-	5,250
Bank service fees	-	2,800	2,800
Insurance	2,013	-	2,013
Membership	260	-	260
Debt service:			
Bond principal	-	135,000	135,000
Interest expense	-	69,600	69,600
Total expenditures	329,154	622,703	951,857
Excess (deficit) of revenues over expenditures	20,349	(71,887)	(51,538)
OTHER FINANCING SOURCES (USES)			
Transfers in (out)	(14,626)	14,626	-
Total other financing sources (uses)	(14,626)	14,626	-
Net change in fund balances	5,723	(57,261)	(51,538)
Fund balances, beginning of year	2,250	534,790	537,040
Fund balances, end of year	\$ 7,973	\$ 477,529	\$ 485,502

The accompanying notes and independent auditor's report
should be read with this financial statement.

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STETSON RIDGE METROPOLITAN DISTRICT #2
RECONCILIATION OF THE STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2016

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

Net change in fund balances - total governmental funds	\$	(51,538)
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The issuance of debt provides current financial resources to government funds, while the repayment of principal of debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. The net effect of these differences in the treatment of debt is as follows:

<u>Bonds payable principal payment</u>		135,000
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

<u>Change in accrued interest on bonds</u>		450
<u>Amortization of deferred bond costs refunding</u>		(24,020)
<u>Accretion of bond discount</u>		<u>(3,582)</u>

Changes in net position of governmental activities	\$	<u><u>56,310</u></u>
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STETSON RIDGE METROPOLITAN DISTRICT #2
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
YEAR ENDED DECEMBER 31, 2016

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
<u>REVENUES</u>				
Property taxes	\$ 250,130	\$ 250,094	\$ 250,095	\$ 1
Specific ownership taxes	78,000	88,734	91,809	3,075
Intergovernmental revenues	8,063	7,523	7,523	-
Net investment income	50	100	76	(24)
Total revenues	336,243	346,451	349,503	3,052
<u>EXPENDITURES</u>				
Intergovernmental expenses	317,878	317,878	317,878	-
Accounting	5,300	5,250	5,250	-
County Treasurer's fees	3,752	3,753	3,753	-
Insurance	2,013	2,013	2,013	-
Membership	750	260	260	-
Total expenditures	329,693	329,154	329,154	-
Excess of revenues over expenditures	6,550	17,297	20,349	3,052
<u>OTHER FINANCING SOURCES (USES)</u>				
Transfers in (out)	-	-	(14,626)	(14,626)
Net change in fund balance	\$ 6,550	\$ 17,297	5,723	\$ (11,574)
Fund balance, beginning of year			2,250	
Fund balance, end of year			\$ 7,973	

The accompanying notes and independent auditor's report
should be read with this financial statement.

STETSON RIDGE METROPOLITAN DISTRICT #2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

1. DEFINITION OF REPORTING ENTITY

Stetson Ridge Metropolitan District #2 ("District #2"), a quasi-municipal corporation and a political subdivision of the State of Colorado created pursuant to the Colorado Special District Act, was formed in 2000 for the purpose of providing the funding for streets, safety protection, water, sanitary sewer, drainage and park and recreation improvements, facilities, and services in connection with a development project in the City of Colorado Springs.

District #2 entered into an intergovernmental agreement with Stetson Ridge Metropolitan District #1 ("District #1") and Stetson Ridge Metropolitan District #3 ("District #3"). District #2 was formed in conjunction with District #1 and District #3 to serve the needs of the Indigo Ranch development for the purpose of financing, construction and operation of improvements and infrastructure serving the districts. District #1 is responsible for managing the construction, operation and maintenance of all improvements not transferred to the City of Colorado Springs. District #2 and District #3 are responsible for providing the funding and tax base needed to support the financing plan for capital improvements and to fund ongoing operations. District #1 and District #3 are not component units of District #2.

District #2 follows the Governmental Accounting Standards Board ("GASB") accounting pronouncements which provide guidance for determining which governmental activities, organizations and functions should be included within the financial reporting entity. GASB pronouncements set forth the financial accountability of a governmental organization's elected governing body as the basic criterion for including a possible component governmental organization in a primary government's legal entity. Financial accountability includes, but is not limited to, appointment of a voting majority of the organization's governing body, ability to impose its will on the organization, a potential for the organization to provide specific financial benefits or burdens and fiscal dependency.

District #2 is not financially accountable for any other organization nor is District #2 a component unit of any other primary governmental entity.

District #2 has no employees and all operational and administrative functions are contracted.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Government-wide and fund financial statements

The government-wide financial statements include the statement of net position and the statement of activities. These financial statements include all of the activities of District #2. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are normally supported by taxes and intergovernmental revenues.

See independent auditor's report

STETSON RIDGE METROPOLITAN DISTRICT #2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government-wide and fund financial statements (continued)

The statement of net position reports all financial and capital resources of District #2. The difference between the assets and deferred outflows of resources, and liabilities and deferred inflows of resources of District #2 is reported as net position.

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

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

Measurement focus, basis of accounting and financial statement position

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, District #2 considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The major sources of revenue susceptible to accrual are property taxes and intergovernmental revenues. All other revenue items are considered to be measurable and available only when cash is received by District #2. Expenditures, other than interest on long-term obligations, are recorded when the liability is incurred or the long-term obligation due.

See independent auditor's report

STETSON RIDGE METROPOLITAN DISTRICT #2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement focus, basis of accounting and financial statement position (continued)

District #2 reports the following major governmental funds:

General fund - The general fund is used to account for all financial resources of District #2 except those required to be accounted for in another fund.

Debt service fund - The debt service fund accounts for the servicing of general long-term debt and revenues generated and received by District #2 that are required to be used in payment of long-term debt.

When both restricted and unrestricted resources are available for use, it is District #2's policy to use restricted resources first, then unrestricted resources as they are needed.

Budgets

In accordance with state budget law, District #2's board of directors holds public hearings in the fall each year to approve the budget and appropriate the funds for the ensuing year. The appropriation is at the total fund expenditures and other financing uses level and lapses at year-end. District #2'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.

Pooled cash and investments

District #2 follows the practice of pooling cash and investments of all funds to maximize investment earnings. Except when required by trust or other agreements, all cash is deposited to and disbursed from a single bank account. Cash in excess of immediate operating requirements is pooled for deposit and investment flexibility. Investment earnings are allocated periodically to the participating funds based upon each fund's average equity balance in the total cash.

See independent auditor's report

STETSON RIDGE METROPOLITAN DISTRICT #2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property taxes

Property taxes are levied by District #2's board of directors. The levy is based on assessed valuations determined by the County Assessor generally as of January 1 of each year. The levy is normally set by December 15 and attaches as an enforceable lien 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 February and June in equal installments. Delinquent taxpayers are notified in August and sales of the tax liens on delinquent properties are generally held in November or December. The County Treasurer remits the taxes collected to District #2 monthly.

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

Deferred outflows and inflows of resources

In addition to assets, the statement of net position reports 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. Accordingly, the item deferred bond cost refunding, is deferred and recognized as outflows of resources in the period that the amounts become available.

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Accordingly, the item incremental property tax revenue is deferred and recognized as an inflow of resources in the period that the amounts become available.

Fund equity

Fund balance for governmental funds should be reported in classifications that comprise a hierarchy based on the extent to which the government is bound to honor constraints on the specific purposes for which spending can occur. Governmental funds report up to five classifications of fund balance: nonspendable, restricted, committed, assigned, and unassigned. Because circumstances differ among governments, not every government or every governmental fund will present all of these components. The following classifications describe the relative strength of the spending constraints:

See independent auditor's report

STETSON RIDGE METROPOLITAN DISTRICT #2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund equity (continued)

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

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

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

Assigned fund balance - The portion of fund balance that is constrained by the government's intent to be used for specific purposes, but is neither restricted nor committed. Intent is expressed by the board of directors to be used for a specific purpose. Constraints imposed on the use of assigned amounts are more easily removed or modified than those imposed on amounts that are classified as committed.

Unassigned fund balance - The residual portion of fund balance that does not meet any of the criteria described above.

If more than one classification of fund balance is available for use when an expenditure is incurred, it is District #2's policy to use the most restrictive classification first.

3. CASH AND INVESTMENTS

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

Statement of net position:

Cash and investments	\$ 229,929
Cash and investments - restricted	<u>247,600</u>
	<u><u>\$ 477,529</u></u>

See independent auditor's report

STETSON RIDGE METROPOLITAN DISTRICT #2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

3. CASH AND INVESTMENTS (CONTINUED)

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

Investments	<u>\$ 477,529</u>
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Deposits with financial institutions

The Colorado Public Deposit Protection Act ("PDPA") requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulators. Amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is determined by the PDPA. The PDPA allows the institution to create a single collateral pool for all public funds. The pool for all the uninsured public deposits as a group is to be maintained by another institution or held in trust. The market value of the collateral must be 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.

Investments

District #2 has not adopted a formal investment policy; however, District #2 follows state statutes regarding investments.

District #2 generally limits its concentration of investments to those with an asterisk below which are believed to have minimal credit risk, minimal interest rate risk and no foreign currency risk. Additionally, District #2 is not subject to concentration risk disclosure requirements or subject to investment custodial credit risk for investments that are in the possession of another party.

Colorado revised statutes limit investment maturities to five years or less unless otherwise formally approved by the board of directors. Such actions are generally associated with a debt service reserve or sinking fund requirements.

See independent auditor's report

STETSON RIDGE METROPOLITAN DISTRICT #2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

3. CASH AND INVESTMENTS (CONTINUED)

Investments (continued)

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

- * Obligations of the United States and certain United States government agency securities
 - Certain international agency securities
 - General obligation and revenue bonds of United States local government entities
 - Bankers' acceptances of certain banks
 - Commercial paper
 - Written repurchase agreements collateralized by certain authorized securities
 - Certificates of deposit in Colorado PDPA approved banks or savings banks
 - Certain money market funds
 - Guaranteed investment contracts
- * Local government investment pools

Fair value measurement and application

District #2 categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. Investments not measured at fair value and not categorized include governmental money market funds which record their investments at amortized cost.

As of December 31, 2016, District #2 had the following investments:

<u>Investment</u>	<u>Maturity</u>	<u>Fair Value</u>
Federated Treasury Obligation Fund	Less than 1 year	\$ 434,484
Colorado Local Government Liquid Asset Trust (COLOTRUST)	Weighted average under 60 days	<u>43,045</u>
		<u><u>\$ 477,529</u></u>

See independent auditor's report

STETSON RIDGE METROPOLITAN DISTRICT #2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

3. CASH AND INVESTMENTS (CONTINUED)

Investments (continued)

COLOTRUST

District #2 invested in the Colorado Local Government Liquid Asset Trust ("COLOTRUST") (the "Trust"), an external investment pool that records its investments at fair value and measures fair value using Level 2 inputs. The Trust is an investment vehicle established for local government entities in Colorado to pool surplus funds. The State Securities Commissioner administers and enforces all State statutes governing the Trust. The Trust operates similarly to a money market fund and each share is equal in value to \$1.00. The Trust offers shares in two portfolios, COLOTRUST PRIME and COLOTRUST PLUS+. Both portfolios may invest in U.S. Treasury securities and repurchase agreements collateralized by U.S. Treasury securities. COLOTRUST PLUS+ may also invest in certain obligations of U.S. government agencies, highest rated commercial paper and any security allowed under CRS 24-75-601. A designated custodial bank serves as custodian for the Trust's portfolios pursuant to a custodian agreement. The custodian acts as safekeeping agent for the Trust's investment portfolios and provides services as the depository in connection with direct investments and withdrawals. The custodian's internal records segregate investments owned by the Trust. COLOTRUST is rated AAAM by Standard & Poor's.

4. LONG-TERM OBLIGATIONS

Refunding

On December 4, 2007, District #2 advance refunded and defeased (legally satisfied) \$2,070,000 of General Obligation Unlimited Tax Refunding Bonds, Series 2003 with an interest rate of 6.875% per annum by issuance of \$2,675,000 General Obligation Unlimited Tax Refunding Bonds dated December 7, 2007 with an interest rate of 4% per annum. The defeased bonds are not considered a liability of District #2 since sufficient funds (\$2,418,664) were deposited with a trustee and invested in United States government securities for the purpose of paying the principal and interest of the deposited bonds when due.

On December 4, 2007, District #2 advance refunded 2003 Series Bonds which resulted in an economic loss (difference between the present values of the debt service payments of the old and new debt) of \$414,165.

See independent auditor's report

STETSON RIDGE METROPOLITAN DISTRICT #2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

4. LONG-TERM OBLIGATIONS (CONTINUED)

2007 Series Bonds

In 2007, District #2 issued general obligation bonds with a face value of \$2,070,000 and supplemental interest coupons of \$605,000. The bonds bear interest at an annual rate of 4% to be paid to the bondholders semi-annually on each June 1 and December 1, beginning June 1, 2008. The bonds mature on December 1, 2025 and are subject to redemption prior to maturity at the discretion of District #2, as a whole or in integral multiples of \$5,000 on December 1, 2018 or on any date thereafter. The bonds are subject to mandatory sinking fund redemption requirements.

The bond debt will be repaid from the proceeds of an ad valorem property tax on the taxable property within District #2.

The proceeds were also used to pay \$148,866 of bond issuance costs and fund \$43,000 to the bond reserve account.

District #2 is required, pursuant to the bond agreements, to maintain bond and reserve cash accounts. The purpose of the reserve cash accounts is to provide adequate reserves to meet principal and interest requirements if the bond account does not have enough funding. The reserve account is required to be maintained as long as the bonds are outstanding.

The following is a summary of changes in 2007 Series Bonds of District #2 during the year ended December 31, 2016:

	<u>Balance 01/01/16</u>	<u>Additions</u>	<u>Repayments/ Defeasance</u>	<u>Balance 12/31/16</u>	<u>Due within one year</u>
2007 Series Bonds	\$ 1,740,000	\$ -	\$ 135,000	\$ 1,605,000	\$ 140,000
2007 Series Bond discount	<u>(35,531)</u>	<u>-</u>	<u>(3,582)</u>	<u>(31,949)</u>	<u>-</u>
	<u>\$ 1,704,469</u>	<u>\$ -</u>	<u>\$ 131,418</u>	<u>\$ 1,573,051</u>	<u>\$ 140,000</u>

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STETSON RIDGE METROPOLITAN DISTRICT #2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

4. LONG-TERM OBLIGATIONS (CONTINUED)

2007 Series Bonds (continued)

Annual requirements to amortize 2007 Series Bonds are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 140,000	\$ 64,200	\$ 204,200
2018	150,000	58,600	208,600
2019	155,000	52,600	207,600
2020	165,000	46,400	211,400
2021	170,000	39,800	209,800
2022-2025	<u>825,000</u>	<u>86,600</u>	<u>911,600</u>
Total	<u>\$ 1,605,000</u>	<u>\$ 348,200</u>	<u>\$ 1,953,200</u>

5. NET POSITION

District #2 has net position consisting of two components - restricted and unrestricted.

Restricted positions include net positions that are subject to restrictions for use either by external restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

District #2 had restricted net positions of as of December 31, 2016 as follows:

Restricted net position:

Debt service (see Note 4)	\$ 472,179
Emergencies (see Note 8)	<u>9,875</u>
	<u>\$ 482,054</u>

District #2's unrestricted net position as of December 31, 2016 totaled a deficit of \$1,361,333. This deficit amount was a result of District #2 being responsible for the repayment of general obligation bonds, the proceeds of which were transferred primarily to District #1.

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STETSON RIDGE METROPOLITAN DISTRICT #2
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DECEMBER 31, 2016

6. RELATED PARTIES

Some members of the board of directors are officers, employees or associated with the developers of the property within District #1, District #2 and District #3 and may have conflicts of interest in dealing with District #2.

7. RISK MANAGEMENT

District #2 is exposed to various risks of loss related to torts, thefts of, damage to, or destruction of assets; errors or omissions; injuries to contractors; or acts of God.

District #2 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.

District #2 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.

8. 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 within the State of Colorado.

Spending and revenue limits are determined based on the prior 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. District #2's voters approved a ballot issue allowing District #2 to retain all revenues.

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.

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STETSON RIDGE METROPOLITAN DISTRICT #2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

8. TAX, SPENDING AND DEBT LIMITATIONS (CONTINUED)

District #2'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 likely require judicial interpretation.

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SUPPLEMENTARY INFORMATION

STETSON RIDGE METROPOLITAN DISTRICT #2
DEBT SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
YEAR ENDED DECEMBER 31, 2016

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
<u>REVENUES</u>				
Property taxes	\$ 547,731	\$ 547,652	\$ 547,652	\$ -
Intergovernmental revenues	2,800	2,800	2,800	-
Net investment income	32	340	364	24
<u>Total revenues</u>	<u>550,563</u>	<u>550,792</u>	<u>550,816</u>	<u>24</u>
<u>EXPENDITURES</u>				
Intergovernmental expenses	418,366	407,085	407,085	-
Bond principal	135,000	135,000	135,000	-
Interest expense	69,600	69,600	69,600	-
County Treasurer's fees	8,216	8,218	8,218	-
Agent fees	2,800	2,800	2,800	-
<u>Total expenditures</u>	<u>633,982</u>	<u>622,703</u>	<u>622,703</u>	<u>-</u>
Revenues in excess (deficit) of expenditures	(83,419)	(71,911)	(71,887)	24
<u>OTHER FINANCING SOURCES</u>				
Transfers in	-	-	14,626	14,626
<u>Total other financing sources</u>	<u>-</u>	<u>-</u>	<u>14,626</u>	<u>14,626</u>
Net change in fund balance	<u>\$ (83,419)</u>	<u>\$ (71,911)</u>	\$ (57,261)	<u>\$ 14,650</u>
Fund balance, beginning of year			534,790	
Fund balance, end of year			<u>\$ 477,529</u>	

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