

KENT PLACE METROPOLITAN DISTRICT NO. 2
Arapahoe County, Colorado

FINANCIAL STATEMENTS
December 31, 2016



RECEIVED

By the Office of the State Auditor at 3:28 pm, Aug 16, 2017

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR'S REPORT	1
BASIC FINANCIAL STATEMENTS	
Government-wide Financial Statements	
Statement of Net Position	1
Statement of Activities	2
Fund Financial Statements	
Balance Sheet - Governmental Funds	3
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.....	4
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	5
General Fund - Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual.....	6
Notes to Financial Statements.....	7
SUPPLEMENTARY INFORMATION	19
Debt Service Fund - Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual	20
Capital Projects Fund - Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual	21
Schedule of Debt Service Cash Requirements to Maturity.....	22
Schedule of Assessed Valuation, Mill Levy and Property Taxes Collected	23

Independent Auditor's Report

Board of Directors

Kent Place Metropolitan District No. 2

Arapahoe County, Colorado

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Kent Place 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 audits. We conducted our audits 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 Kent Place 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.

L. Paul Goedecke, P.C.
July 26, 2017

BASIC FINANCIAL STATEMENTS

KENT PLACE METROPOLITAN DISTRICT NO. 2
STATEMENT OF NET POSITION
December 31, 2016

	<u>Governmental Activities</u>
ASSETS	
Cash and investments	\$ 507
Cash and investments - Restricted	149,408
Receivable - County Treasurer	1,026
Property taxes receivable	180,836
Total assets	<u>331,777</u>
LIABILITIES	
Accrued interest payable - senior note	7,942
Noncurrent liabilities:	
Due within one year	15,000
Due in more than one year	2,848,107
Total liabilities	<u>2,871,049</u>
DEFERRED INFLOWS OF RESOURCES	
Property tax revenue	180,836
Total deferred inflows of resources	<u>180,836</u>
NET POSITION	
Restricted for:	
Debt service	149,408
Unrestricted	(2,869,516)
Total net position	<u>\$ (2,720,108)</u>

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

KENT PLACE METROPOLITAN DISTRICT NO. 2
STATEMENT OF ACTIVITIES
Year Ended December 31, 2016

<u>Functions/Programs</u>	<u>Program Revenues</u>			<u>Net (Expense)</u>	
	<u>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>
Primary government:					
Government activities:	\$ 42,014	\$ -	\$ -	\$ -	\$ (42,014)
Forgiveness of debt	-	-	-	147,900	147,900
Interest and related costs on long-term debt	275,301	-	-	-	(275,301)
	<u>\$ 317,315</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 147,900</u>	<u>(169,415)</u>
General revenues:					
Property taxes					182,752
Specific ownership taxes					14,052
Net investment income					474
Other income					400
Total general revenues					<u>197,678</u>
Change in net position					28,263
Net position - Beginning					(2,748,371)
Net position - Ending					<u>\$ (2,720,108)</u>

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

**KENT PLACE METROPOLITAN DISTRICT NO. 2
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2016**

	General	Debt Service	Capital Projects	Total Governmental Funds
ASSETS				
Cash and investments	\$ 507	\$ -	\$ -	\$ 507
Cash and investments - Restricted	-	149,408	-	149,408
Receivable - County Treasurer	223	803	-	1,026
Property taxes receivable	39,229	141,607	-	180,836
TOTAL ASSETS	\$ 39,959	\$ 291,818	\$ -	\$ 331,777
DEFERRED INFLOWS OF RESOURCES				
Property tax revenue	39,229	141,607	-	180,836
Total deferred inflows of resources	39,229	141,607	-	180,836
FUND BALANCES				
Restricted for:				
Debt service	-	150,211	-	150,211
Unassigned:	730	-	-	730
Total fund balances	730	150,211	-	150,941
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 39,959	\$ 291,818	\$ -	

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

Long-term liabilities are not due and payable in the current period and, therefore, are not in the funds:

Bonds Payable - Series 2016	(1,906,000)
Notes payable	(900,000)
Accrued interest on senior note	(7,942)
Accrued interest on subordinate note	(57,107)
Net position of governmental activities	\$ (2,720,108)

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

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

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
REVENUES				
Property taxes	\$ 39,644	\$ 143,108	\$ -	\$ 182,752
Specific ownership taxes	3,048	11,004	-	14,052
Net investment income	52	422	-	474
Other income	-	400	-	400
Total revenues	<u>42,744</u>	<u>154,934</u>	<u>-</u>	<u>197,678</u>
EXPENDITURES				
County Treasurer's fees	595	2,147	-	2,742
Transfer to Kent Place #1	41,419	3,822	-	45,241
Cost of Issuance	-	83,928	-	83,928
Prepayment Penalty	-	11,327	-	11,327
Note principal	-	1,142,827	-	1,142,827
Note interest	-	91,181	-	91,181
Note interest - subordinate	-	97,000	-	97,000
Bank Fees	-	90	-	90
Total expenditures	<u>42,014</u>	<u>1,432,322</u>	<u>-</u>	<u>1,474,336</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	730	(1,277,388)	-	(1,276,658)
OTHER FINANCING SOURCES (USES)				
Bond Issuance	-	1,916,000	-	1,916,000
Repayment Developer Advance	-	-	(600,000)	(600,000)
Transfers to other funds	-	(600,000)	600,000	-
Total other financing sources (uses)	<u>-</u>	<u>1,316,000</u>	<u>-</u>	<u>1,316,000</u>
NET CHANGE IN FUND BALANCES	730	38,612	-	39,342
FUND BALANCES - BEGINNING OF YEAR	<u>-</u>	<u>111,599</u>	<u>-</u>	<u>111,599</u>
FUND BALANCES - END OF YEAR	<u>\$ 730</u>	<u>\$ 150,211</u>	<u>\$ -</u>	<u>\$ 150,941</u>

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

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

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

Net change in fund balances - Total governmental funds	\$	39,342
--	----	--------

Governmental funds report capital outlays as expenditures. In the statement of activities capital outlay is not reported as an expenditure. However, the statement of activities will report as depreciation expense the allocation of the cost of any depreciable asset over the estimated useful lives of the asset. During the current period there were no depreciable assets. Therefore, this is the amount of capital outlay in the current period.

Bond issuance		(1,916,000)
Payment to Developer		600,000

Long-term debt (e.g., loans, Developer advances) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position.

Repayment of note principal		1,142,827
-----------------------------	--	-----------

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

Accrued interest on notes payable - Change in liability		14,194
Forgiveness of debt		147,900

Changes in net position of governmental activities	\$	<u>28,263</u>
--	----	---------------

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

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

	Original and Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Property taxes	\$ 39,763	\$ 39,644	\$ (119)
Specific ownership taxes	3,180	3,048	(132)
Net investment income	30	52	22
Other income	1,000	-	(1,000)
Total revenues	<u>43,973</u>	<u>42,744</u>	<u>(1,229)</u>
EXPENDITURES			
County Treasurer's fee	600	595	5
Transfer to Kent Place Metro District No. 1	42,373	41,419	954
Contingency	1,000	-	1,000
Total expenditures	<u>43,973</u>	<u>42,014</u>	<u>1,959</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>-</u>	<u>730</u>	<u>730</u>
NET CHANGE IN FUND BALANCES	-	730	730
FUND BALANCES - BEGINNING OF YEAR	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES - END OF YEAR	<u>\$ -</u>	<u>\$ 730</u>	<u>\$ 730</u>

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

KENT PLACE METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 1 - DEFINITION OF REPORTING ENTITY

Kent Place Metropolitan District No. 2 (District) was organized by Court Order on January 14, 2008, to provide for the planning, design, acquisition, construction, installation, relocation and/or redevelopment of public improvements, including street improvements, park and recreation facilities, sewer and drainage improvements, traffic and safety controls, water, television relay and translators, public transportation, fire protection, security services, mosquito and pest control, and other improvements needed for the Development. The District was organized in conjunction with Kent Place Metropolitan District No. 1 (District No. 1). District No. 1 is anticipated to be the Operating District and District No. 2 is anticipated to be the Financing District. The Operating District will construct all (and may own and operate some) of the public facilities. The Financing District will generate the majority of tax revenues sufficient to pay the costs of the capital improvements. The functions of the Districts will be clarified in an intergovernmental agreement between the Districts. The District's service area is located entirely within the City of Englewood, Arapahoe County, Colorado.

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

The District is not financially accountable for any other organization, nor is the District a component unit of any other primary governmental entity.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The more significant accounting policies of the District are described as follows:

Government-wide and Fund Financial Statements

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

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

KENT PLACE METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The major sources of revenue susceptible to accrual are property taxes and specific ownership taxes. All other revenue items are considered to be measurable and available only when cash is received by the District. The District determined that Developer advances are not considered as revenue susceptible to accrual. Expenditures, other than interest on long-term obligations are recorded when the liability is incurred or the long-term obligation is due.

The District reports the following major governmental funds:

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

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

The Capital Projects Fund is used to account for financial resources to be used for the acquisition and construction of capital equipment and facilities.

KENT PLACE METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budgets

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

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

Pooled Cash and Investments

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

Investments are carried at fair value.

Deferred Inflows of Resources

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category, *deferred property tax revenue*. The governmental funds report unavailable revenues from property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Equity

Net Position

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

KENT PLACE METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Balance

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

- *Nonspendable fund balance* – The portion of fund balance that cannot be spent because it is either not in spendable form (such as prepaid amounts or inventory) or legally or contractually required to be maintained intact.
- *Restricted fund balance* – The portion of fund balance that is constrained to being used for a specific purpose by external parties (such as bondholders), constitutional provisions, or enabling legislation.
- *Committed fund balance* – The portion of fund balance that can only be used for specific purposes pursuant to constraints imposed by formal action of the government’s highest level of decision-making authority, the Board of Directors. The constraint may be removed or changed only through formal action of the Board of Directors.
- *Assigned fund balance* – The portion of fund balance that is constrained by the government’s intent to be used for specific purposes, but is neither restricted nor committed. Intent is expressed by the Board of Directors to be used for a specific purpose. Constraints imposed on the use of assigned amounts are more easily removed or modified than those imposed on amounts that are classified as committed.
- *Unassigned fund balance* – The residual portion of fund balance that does not meet any of the criteria described above.

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

NOTE 3 - CASH AND INVESTMENTS

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

Statement of net position:

Cash and investments – unrestricted	\$ 507
Cash and investments – restricted	<u>149,408</u>
Total cash and investments	<u><u>\$ 149,915</u></u>

KENT PLACE METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

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

Deposits with financial institutions	\$ 146,310
Investments	<u>3,605</u>
Total cash and investments	<u>\$ 149,915</u>

Deposits with Financial Institutions

The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulators. Amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is determined by the PDPA. PDPA allows the institution to create a single collateral pool for all public funds. The pool for all the uninsured public deposits as a group is to be maintained by another institution or held in trust. The market value of the collateral must be at least 102% of the aggregate uninsured deposits.

The State Commissioners for banks and financial services are required by statute to monitor the naming of eligible depositories and reporting of the uninsured deposits and assets maintained in the collateral pools.

At December 31, 2016, the District's cash deposits had a bank balance and a carrying balance of \$146,310.

Investments

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

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

Colorado revised statutes limit investment maturities to five years or less unless formally approved by the Board of Directors. Such actions are generally associated with a debt service reserve or sinking fund requirements. Guaranteed investment contracts not purchased with bond proceeds are limited to maturities of three years or less.

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

- . Obligations of the United States, certain U.S. government agency securities and securities of the World Bank
- . General obligation and revenue bonds of U.S. local government entities
- . Certain certificates of participation
- . Certain securities lending agreements
- . Bankers' acceptances of certain banks
- . Commercial paper

KENT PLACE METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

- . Written repurchase agreements and certain reverse repurchase agreements collateralized by certain authorized securities
- . Certain money market funds
- . Guaranteed investment contracts
- * Local government investment pools

Fair Value Measurement and Application

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

Investment	Maturity	Fair Value
Colorado Surplus Asset Fund Trust (CSAFE)	Weighted average under 60 days	<u>\$ 3,605</u>

CSAFE

The District invested in the Colorado Surplus Asset Fund Trust (CSAFE), which is an investment vehicle established by state statute for local government entities to pool surplus assets. The State Securities Commissioner administers and enforces all State statutes governing CSAFE. CSAFE is similar to a money market fund, with each share valued at \$1.00. CSAFE may invest in U.S. Treasury securities and repurchase agreements collateralized by U.S. Treasury securities, certain money market funds and highest rated commercial paper. A designated custodial bank serves as custodian for CSAFE's portfolio pursuant to a custodian agreement. The custodian acts as safekeeping agent for CSAFE's investment portfolio and provides services as the depository in connection with direct investments and withdrawals. The custodian's internal records segregate investments owned by CSAFE. CSAFE is rated AAAM by Standard & Poor's.

KENT PLACE METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 4 - LONG-TERM OBLIGATIONS

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

	<u>Balance at December 31, 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at December 31, 2016</u>	<u>Due Within One Year</u>
Promissory note - Series 2011	\$ 1,132,827	\$ -	\$ 1,132,827	\$ -	\$ -
Subordinate note - Series 2013	900,000	-	-	900,000	-
Series 2016 - General Obligation Refunding and Improvement Bonds	-	1,916,000	10,000	1,906,000	15,000
Accrued interest - Subordinate note	82,107	72,000	97,000	57,107	-
Developer advances - Capital	596,554	-	596,554	-	-
Developer advance interest - Capital	126,926	24,420	151,346	-	-
	<u>\$ 2,838,414</u>	<u>\$ 2,012,420</u>	<u>\$ 1,987,727</u>	<u>\$ 2,863,107</u>	<u>\$ 15,000</u>

2011 Promissory Note

On August 12, 2011, the District entered into a loan agreement with FirstBank. The loan has a principal amount of \$1,200,000 with a ten year maturity and carries a fixed rate of 4.5%. Interest is calculated on a 360-day year times the actual number of days. Payments of accrued interest shall be due and payable on August 1, 2012, and on the 1st day of August of each year thereafter up to and including August 1, 2021. Payment of principal and interest is calculated based upon a 22-year period, beginning on August 1, 2014. Payment of principal shall be due and payable by August 1, 2014, and on the 1st of day August of each year thereafter up to and including August 1, 2021. All amounts of unpaid principal and accrued interest are due and payable on August 12, 2021.

The District, FirstBank, and the Guarantors have entered into a debt service guaranty agreement, whereby the Guarantors have agreed to guaranty payment of all outstanding principal and interest due on the Promissory Note.

The District is required to maintain a Debt Service Reserve Account with a minimum balance of \$107,550 that was funded from the proceeds of the Promissory Note.

This note was repaid in full during 2016, with the issuance of the Series 2016 General Obligation Refunding and Improvement Bonds.

2013 Subordinate Note

On September 15, 2013, the District entered into a Subordinate Limited Tax General Obligation Note, Series 2013 (Subordinate Note). The Subordinate Note has a principal amount of \$900,000 with a maturity date of September 15, 2053, and carries a simple interest rate of 8.00%, payable annually beginning September 15, 2014. The principal of and interest on the Subordinate Note are payable solely from and to the extent of the Subordinate Note Pledged Revenue on a basis subordinate to the Senior Note and other obligations of the District specifically set forth in the Note Resolution, which may or may not be sufficient to pay the principal of and interest on the Subordinate Note. Failure of the District to make any interest payment on the Subordinate Note when the same shall come due shall not constitute an "Event of Default" under the Note Resolution. Interest on the Subordinate Note shall continue to accrue

KENT PLACE METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 4 - LONG-TERM OBLIGATIONS (CONTINUED)

and shall be paid on the next Interest Payment Date when funds are available for such payment. Furthermore, if any amount of principal or interest remains due and owing on this Subordinate Note on September 15, 2053, such amounts shall be discharged and no further amounts shall be due on this Series 2013 Subordinate Note.

The Subordinate Note was issued for the purpose of paying the costs of acquiring public improvements. The Subordinate Note was purchased by Kent Place Investors, LLC, which is the Developer of the property in the District.

During 2016, \$97,000 of previously accrued interest was paid on the 2013 Subordinate Note. At December 31, 2016, the balance of accrued unpaid interest was \$57,107.

Series 2016 Bonds

\$1,916,000 General Obligation Refunding and Improvement Bonds, dated May 31, 2016, with interest at 5.00%, payable semi-annually on June 1 and December 1, commencing December 1, 2016, maturing on December 1, 2045. The proceeds of the bonds were used to repay the 2011 Promissory Note, to reimburse the Developer for advances made to the District, to fund the Debt Service Reserve fund and to pay other costs of issuance.

The Bonds are payable from the Pledged Revenue consisting of monies derived by the District from the following sources, net of any collection costs: (1) the Required Mill Levy, (2) the portion of the Specific Ownership Tax which is collected as a result of the imposition of the Required Mill Levy, and (3) any other legally available monies which the District determines in its sole discretion to be treated as Pledged Revenue. Required Mill Levy means an ad valorem mill levy imposed upon all taxable property of the District each year in an amount sufficient to pay the principal and interest on the Bonds. The maximum Required Mill Levy is 37.000 mills, adjusted for changes in the ratio of actual value to assessed value of property within the District. In no event shall the Required Mill Levy exceed 50 mills.

The Bonds are subject to redemption prior to maturity at the option of the District on or after December 1, 2019 at a redemption price equal to 101% of the principal amount plus accrued interest to the redemption date.

The Debt Service Reserve Fund was established upon issuance of the Series 2016 Bonds, and was funded in the amount of \$145,100. Moneys in this account are to be used solely as a reserve to pay the principal and interest on the Bonds. The balance in this account is \$146,310 at December 31, 2016.

KENT PLACE METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 4 - LONG-TERM OBLIGATIONS (CONTINUED)

Using the interest rate of 5.0%, the mandatory redemption of the Series 2016 General Obligation Refunding and Improvement Bonds is as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 15,000	\$ 95,300	\$ 110,300
2018	18,000	94,550	112,550
2019	19,000	93,650	112,650
2020	22,000	92,700	114,700
2021	23,000	91,600	114,600
2022-2026	157,000	437,800	594,800
2027-2031	231,000	391,650	622,650
2032-2036	332,000	324,300	656,300
2037-2041	459,000	229,200	688,200
2042-2045	630,000	91,400	721,400
	<u>\$ 1,906,000</u>	<u>\$ 1,942,150</u>	<u>\$ 3,848,150</u>

Facilities and Reimbursement Agreement

On May 16, 2011, Kent Place Metropolitan District No. 1 (District No. 1) entered into a Funding and Reimbursement Agreement with the Developer to repay advances made for operations and maintenance costs. The District is a party to this agreement by its acknowledgments within the agreement. The Developer agrees to advance funds for operations and maintenance costs of up to \$50,000 per year for five years. These funds shall be available to the Districts through December 31, 2016. The Districts agree to repay the advances, along with annual compounding interest of 8%, from the date of the advance. As of December 31, 2016, no advances have been recorded by the District. District No. 1 pays all operations and maintenance expenses for the Districts.

Infrastructure Acquisition and Reimbursement Agreement

The District has entered into an Infrastructure Acquisition and Reimbursement Agreement, as amended, with the Developer to repay for advances and infrastructure acquisition made by the Developer for public infrastructure and improvements. The District agrees to repay the Developer along with annual compounding interest of 8% from the date of the advance. The balance outstanding on this agreement was paid in full during 2016, and the unpaid accrued interest was waived.

KENT PLACE METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 4 - LONG-TERM OBLIGATIONS (CONTINUED)

Debt Authorization

On November 6, 2007, a majority of the qualified electors of the District authorized the issuance of indebtedness in an amount not to exceed \$420,000,000 for infrastructure improvements and operations, such debt to bear interest at a rate not in excess of 18% per annum. At December 31, 2016, the District had authorized but unissued indebtedness in the following amounts allocated for the following purposes:

	Amount Authorized on November 6, 2007	Prior Authorization Used	Series 2016 Authorization Used	Authorized But Unissued as of December 31, 2016
Street improvements	\$ 30,000,000	\$ 1,588,494	\$ 691,281	\$ 27,720,225
Water	30,000,000	-	-	30,000,000
Sanitation	30,000,000	-	-	30,000,000
Traffic and safety	30,000,000	19,124	-	29,980,876
Intergovernmental agreements	30,000,000	-	-	30,000,000
Private party agreements	30,000,000	-	-	30,000,000
Fire protection, ambulance service	30,000,000	-	-	30,000,000
Perimeter and interior security	30,000,000	-	-	30,000,000
Park and recreation	30,000,000	492,382	-	29,507,618
Mosquito control	30,000,000	-	-	30,000,000
Television relay and translation	30,000,000	-	-	30,000,000
Public transportation	30,000,000	-	-	30,000,000
Operations and maintenance	30,000,000	-	-	30,000,000
Debt refunding	30,000,000	-	1,224,719	28,775,281
	<u>\$ 420,000,000</u>	<u>\$ 2,100,000</u>	<u>\$ 1,916,000</u>	<u>\$ 415,984,000</u>

Pursuant to its Service Plan, the District is only permitted to issue debt up to \$30,000,000.

In the future, the District may issue a portion of, or all of, the remaining authorized but unissued general obligation debt as allowed under the Service Plan for purposes of providing public improvements to support development as it occurs within the District's service area.

NOTE 5 - NET POSITION

The District has net position consisting of one component – restricted.

The District has a deficit in unrestricted net position. This deficit amount is a result of the District being responsible for the repayment of debt issued for public improvements which were conveyed to the City of Englewood and which costs were removed from the District's financial records.

KENT PLACE METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 6 - RELATED PARTIES

The Developer of the property which constitutes the District is Kent Place Investors, LLC, which is an affiliate of Continuum Partners, LLC. All members of the Board of Directors are officers of, employees of, or associated with the Developer or its affiliates.

NOTE 7 - INTERFUND AND OPERATING TRANSFERS

The transfer of funds from the Debt Service Fund to the Capital Projects Fund was related to the repayment of the Developer advance from the Series 2016 Bond proceeds.

NOTE 8 - RISK MANAGEMENT

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

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

The 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.

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 voters approve retention of such revenue.

On November 6, 2007, the District's voters authorized the District to increase property taxes \$5,000,000 annually, without limitation of rate and without regard to any spending, revenue raising or other limitations contained within Article X, Section 20 of the Colorado Constitutions (TABOR) or Section 29-1-301, C.R.S., to pay the District's operations, maintenance and other expenses. Additionally, the District's electors authorized the District to collect, spend or retain all revenue without regard to any limitations under TABOR.

KENT PLACE METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 9 - TAX, SPENDING AND DEBT LIMITATIONS (CONTINUED)

TABOR requires local governments to establish Emergency Reserves. These reserves must be at least 3% of Fiscal Year Spending (excluding bonded debt service). Local governments are not allowed to use the Emergency Reserves to compensate for economic conditions, revenue shortfalls, or salary or benefit increases. The District transfers its net operating revenue to District No. 1 (Operating District) pursuant to an anticipated intergovernmental agreement. Therefore, the Emergency Reserves related to the District's revenues are reported in District No. 1.

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

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

SUPPLEMENTARY INFORMATION

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

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES				
Property taxes	\$ 143,537	\$ 143,537	\$ 143,108	\$ (429)
Specific ownership taxes	11,480	11,480	11,004	(476)
Net investment income	130	130	422	292
Other income	1,000	1,000	400	(600)
Total revenues	<u>156,147</u>	<u>156,147</u>	<u>154,934</u>	<u>(1,213)</u>
EXPENDITURES				
County Treasurer's fees	2,160	2,160	2,147	13
Note principal	35,760	1,142,660	1,142,827	(167)
Prepayment Penalty	-	11,327	11,327	-
Note interest	51,827	91,348	91,181	167
Note interest - subordinate	65,000	97,000	97,000	-
Cost of Issuance	-	83,928	83,928	-
Bank fees	-	-	90	(90)
Transfer to Kent Place Metro District No. 1	-	3,822	3,822	-
Contingency	1,253	602,755	-	602,755
Total expenditures	<u>156,000</u>	<u>2,035,000</u>	<u>1,432,322</u>	<u>602,678</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>147</u>	<u>(1,878,853)</u>	<u>(1,277,388)</u>	<u>601,465</u>
OTHER FINANCING SOURCES (USES)				
Bond Issuance	-	1,916,000	1,916,000	-
Transfers to other funds	-	-	(600,000)	(600,000)
	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>1,916,000</u>	<u>1,316,000</u>	<u>(600,000)</u>
NET CHANGE IN FUND BALANCES	147	37,147	38,612	1,465
FUND BALANCES - BEGINNING OF YEAR	<u>109,548</u>	<u>109,548</u>	<u>111,599</u>	<u>2,051</u>
FUND BALANCES - END OF YEAR	<u>\$ 109,695</u>	<u>\$ 146,695</u>	<u>\$ 150,211</u>	<u>\$ 3,516</u>

**KENT PLACE METROPOLITAN DISTRICT NO. 2
CAPITAL PROJECTS FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
Year Ended December 31, 2016**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES				
Property taxes	\$ -	\$ -	\$ -	\$ -
Total revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
EXPENDITURES				
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
OTHER FINANCING SOURCES (USES)				
Repay Developer Advance principal	-	600,000	600,000	-
Transfers from other funds	-	(600,000)	(600,000)	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	-	-	-	-
FUND BALANCES - BEGINNING OF YEAR	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES - END OF YEAR	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

KENT PLACE METROPOLITAN DISTRICT NO. 2
SCHEDULE OF DEBT SERVICE CASH REQUIREMENTS TO MATURITY (1)
December 31, 2016

\$1,916,000 Series 2016,
Limited Tax General Obligation
Refunding and Improvement Bonds
Interest Rate 5.0%
Interest Payable

<u>Year Ended</u> <u>December 31,</u>	<u>June 1 and December 1</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 15,000	\$ 95,300	\$ 110,300
2018	18,000	94,550	112,550
2019	19,000	93,650	112,650
2020	22,000	92,700	114,700
2021	23,000	91,600	114,600
2022	27,000	90,450	117,450
2023	28,000	89,100	117,100
2024	32,000	87,700	119,700
2025	33,000	86,100	119,100
2026	37,000	84,450	121,450
2027	39,000	82,600	121,600
2028	43,000	80,650	123,650
2029	46,000	78,500	124,500
2030	50,000	76,200	126,200
2031	53,000	73,700	126,700
2032	58,000	71,050	129,050
2033	61,000	68,150	129,150
2034	67,000	65,100	132,100
2035	70,000	61,750	131,750
2036	76,000	58,250	134,250
2037	80,000	54,450	134,450
2038	87,000	50,450	137,450
2039	91,000	46,100	137,100
2040	98,000	41,550	139,550
2041	103,000	36,650	139,650
2042	111,000	31,500	142,500
2043	117,000	25,950	142,950
2044	125,000	20,100	145,100
2045	277,000	13,850	290,850
	<u>\$ 1,906,000</u>	<u>\$ 1,942,150</u>	<u>\$ 3,848,150</u>

(1) Amortization is based upon an annual interest rate of 5.0% per annum due on June 1 and December 1 of each year. Payment of principal and interest is calculated based upon a 30-year period, beginning on May 31, 2016, and all amounts of unpaid principal and accrued interest due and payable on December 1, 2045.

**KENT PLACE METROPOLITAN DISTRICT NO. 2
SCHEDULE OF ASSESSED VALUATION,
MILL LEVY AND PROPERTY TAXES COLLECTED
December 31, 2016**

<u>Year Ended December 31,</u>	<u>Prior Year Assessed Valuation for Current Year Property Tax Levy</u>	<u>Mills Levied</u>		<u>Total Property Taxes</u>		<u>Percentage Collected to Levied</u>
		<u>General</u>	<u>Debt Service</u>	<u>Levied</u>	<u>Collected</u>	
2012	\$ 1,153,800	2.000	35.000	\$ 42,691	\$ 42,691	100.00%
2013	\$ 895,580	2.000	45.000	\$ 42,092	\$ 42,092	100.00%
2014	\$ 3,247,010	10.250	37.000	\$ 153,421	\$ 152,871	99.64%
2015	\$ 3,442,568	10.250	37.000	\$ 162,661	\$ 162,113	99.66%
2016	\$ 3,879,365	10.250	37.000	\$ 183,300	\$ 182,752	99.70%
Estimated for the year ending December 31, 2017	\$ 3,827,225	10.250	37.000	\$ 180,836		

NOTE:

Property taxes collected in any one year include collection of delinquent property taxes assessed in prior years, as well as reductions for property tax refunds or abatements. Information received from the County Treasurer does not permit identification of specific year of assessment.