

SOUTH SLOAN'S LAKE METROPOLITAN DISTRICT NO. 2
Denver County, Colorado

FINANCIAL STATEMENTS
December 31, 2016



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Independent Auditor's Report

To the Board of Directors
South Sloan's Lake Metropolitan District No. 2

We have audited the accompanying financial statements of the governmental activities and the major funds of South Sloan's Lake 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 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 of 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 the major funds of South Sloan's Lake Metropolitan District No. 2, as of December 31, 2016 and the respective changes in financial position and the 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 the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise South Sloan's Lake Metropolitan District No. 2's financial statements as a whole. The supplementary information section is presented for purposes of additional analysis and is not a required part of the financial statements.

The supplementary information as listed in the table of contents 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 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.



Littleton, Colorado
July 27, 2017

BASIC FINANCIAL STATEMENTS

SOUTH SLOAN'S LAKE METROPOLITAN DISTRICT NO. 2
STATEMENT OF NET POSITION
December 31, 2016

	<u>Governmental Activities</u>
ASSETS	
Cash and investments - Restricted	\$ 574,389
Property taxes receivable	29,018
Receivable from County Treasurer	1,396
Total assets	<u>604,803</u>
LIABILITIES	
Accounts payable	108,173
Accrued interest payable	18,324
Due to District No. 1	399
Noncurrent liabilities	
Due in more than one year	<u>8,000,000</u>
Total liabilities	<u>8,126,896</u>
DEFERRED INFLOWS OF RESOURCES	
Property tax revenue	<u>29,018</u>
Total deferred inflows of resources	<u>29,018</u>
NET POSITION	
Restricted for:	
Debt service	96,670
Unrestricted	<u>(7,647,781)</u>
Total net position	<u><u>\$ (7,551,111)</u></u>

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

SOUTH SLOAN'S LAKE METROPOLITAN DISTRICT NO. 2
STATEMENT OF ACTIVITIES
Year Ended December 31, 2016

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense)</u> <u>Revenue and</u> <u>Changes in</u> <u>Net Position</u>
		<u>Charges</u> <u>for</u> <u>Services</u>	<u>Operating</u> <u>Grants and</u> <u>Contributions</u>	<u>Capital</u> <u>Grants and</u> <u>Contributions</u>	<u>Governmental</u> <u>Activities</u>
Primary government:					
Government activities:					
General government	\$ 75,364	\$ -	\$ 63,101	\$ -	\$ (12,263)
Intergovernmental expenditures for infrastructure improvements	7,278,500	-	-	-	(7,278,500)
Interest and related costs on long-term debt	478,446	-	175,253	-	(303,193)
	<u>\$ 7,832,310</u>	<u>\$ -</u>	<u>\$ 238,354</u>	<u>\$ -</u>	<u>(7,593,956)</u>
General revenues:					
Property taxes					25,308
Specific ownership taxes					17,411
Net investment income					<u>126</u>
Total general revenues					<u>42,845</u>
Change in net position					<u>(7,551,111)</u>
Net position - Beginning					-
Net position - Ending					<u>\$ (7,551,111)</u>

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

SOUTH SLOAN'S LAKE METROPOLITAN DISTRICT NO. 2
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2016

	General	Debt Service	Capital Projects	Total Governmental Funds
ASSETS				
Cash and investments - Restricted	\$ -	\$ 574,389	\$ -	\$ 574,389
Property taxes receivable	9,374	19,644	-	29,018
Receivable from County Treasurer	399	997	-	1,396
TOTAL ASSETS	\$ 9,773	\$ 595,030	\$ -	604,803
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ -	\$ 108,173	\$ -	\$ 108,173
Due to District No. 1	399	-	-	399
Total liabilities	399	108,173	-	108,572
DEFERRED INFLOWS OF RESOURCES				
Property tax revenue	9,374	19,644	-	29,018
Total deferred inflows or resources	9,374	19,644	-	29,018
FUND BALANCES				
Restricted for:				
Debt service	-	467,213	-	467,213
Total fund balances	-	467,213	-	467,213
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 9,773	\$ 595,030	\$ -	

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

Long-term liabilities, including loans payable and interest payable, are not due and payable in the current period and, therefore, are not reported in the funds.

Loans payable	(8,000,000)
Accrued interest on loans payable	(18,324)
Net position of governmental activities	\$ (7,551,111)

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

SOUTH SLOAN'S LAKE 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	\$ 7,231	\$ 18,077	\$ -	\$ 25,308
Specific ownership taxes	4,976	12,435	-	17,411
TIF revenue from DURA	63,101	157,753	-	220,854
Intergovernmental revenue	-	17,500	-	17,500
Net investment income	-	126	-	126
Total revenues	<u>75,308</u>	<u>205,891</u>	<u>-</u>	<u>281,199</u>
EXPENDITURES				
Current				
County Treasurer's fees	71	180	-	251
Debt issue costs	-	-	259,512	259,512
Intergovernmental expenditures	75,237	-	7,278,500	7,353,737
Miscellaneous	-	190	56	246
Debt service				
Interest expense - loan	-	200,240	-	200,240
Total expenditures	<u>75,308</u>	<u>200,610</u>	<u>7,538,068</u>	<u>7,813,986</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>-</u>	<u>5,281</u>	<u>(7,538,068)</u>	<u>(7,532,787)</u>
OTHER FINANCING SOURCES (USES)				
Debt issue proceeds	-	-	8,000,000	8,000,000
Transfers from other funds	-	461,932	-	461,932
Transfers to other funds	-	-	(461,932)	(461,932)
Total other financing sources (uses)	<u>-</u>	<u>461,932</u>	<u>7,538,068</u>	<u>8,000,000</u>
NET CHANGE IN FUND BALANCES	-	467,213	-	467,213
FUND BALANCES - BEGINNING OF YEAR	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES - END OF YEAR	<u>\$ -</u>	<u>\$ 467,213</u>	<u>\$ -</u>	<u>\$ 467,213</u>

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

**SOUTH SLOAN'S LAKE 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	\$ 467,213
<p>Long-term debt (e.g., loans) 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. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.</p>	
Debt issue proceeds	(8,000,000)
<p>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.</p>	
Loan interest - change in liability	<u>(18,324)</u>
Changes in net position of governmental activities	<u>\$ (7,551,111)</u>

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

SOUTH SLOAN'S LAKE 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	\$ 7,552	\$ 7,231	\$ (321)
Specific ownership taxes	5,190	4,976	(214)
TIF revenue from DURA	65,904	63,101	(2,803)
Other income	1,000	-	(1,000)
Total revenues	<u>79,646</u>	<u>75,308</u>	<u>(4,338)</u>
EXPENDITURES			
Current			
County Treasurer's fees	76	71	5
Intergovernmental expenditures	78,570	75,237	3,333
Contingency	1,000	-	1,000
Total expenditures	<u>79,646</u>	<u>75,308</u>	<u>4,338</u>
NET CHANGE IN FUND BALANCE	-	-	-
FUND BALANCES - BEGINNING OF YEAR	-	-	-
FUND BALANCES - END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

SOUTH SLOAN'S LAKE METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 1 - DEFINITION OF REPORTING ENTITY

South Sloan's Lake Metropolitan District No. 2 (the District), a quasi-municipal corporation and political subdivision of the State of Colorado, was organized by order and decree of the District Court for the City and County of Denver recorded on January 16, 2014, and is governed pursuant to provisions of the Colorado Special District Act (Title 32, Article 1, Colorado Revised Statutes). The District operates under a Service Plan approved by the City and County of Denver on August 5, 2013. The District's service area is located entirely within the City and County of Denver, Colorado.

The District was organized in conjunction with South Sloan's Lake Metropolitan District No. 1 ("District No. 1" and collectively, the "Districts"). The Districts were established to provide financing for the acquisition, construction, completion, and operation and maintenance of public improvements, including all streets, traffic and safety, water, sanitation, storm drainage, transportation, mosquito control, and park and recreation facilities.

The District serves as the Financing District and District No. 1 serves as the Coordinating District. The Coordinating District provides for the construction design, operation and maintenance of the Districts' Improvements, as well as the overall administration of the Districts. The Financing District pays tax collections and/or bond proceeds and other revenue to the Coordinating District, which revenue will be applied to the payment of: (i) the acquisition, construction, and financing of the Improvements; and (ii) the costs of administration, operation and maintenance of the Improvements that are owned, operated and/or maintained by the Districts. Debt associated with each District will be incurred directly by each District.

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.

SOUTH SLOAN'S LAKE METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

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 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.

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 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 government 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.

SOUTH SLOAN'S LAKE METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

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 total cash.

Property Taxes

Property taxes are levied by the District'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 by certification to the County Commissioners to put the tax lien on the individual properties as of January 1 of the following year. The County Treasurer collects the determined taxes during the ensuing calendar year. The taxes are payable by April or if in equal installments, at the taxpayer's election, in February and June. Delinquent taxpayers are notified in August, and generally, sale of the tax liens on delinquent properties are held in November or December. The County Treasurer remits the taxes collected monthly to the District.

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

SOUTH SLOAN'S LAKE METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, *deferred property tax revenue*, which qualifies for reporting in this category. 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.

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.

SOUTH SLOAN'S LAKE METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- *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 - Restricted	\$ <u>574,389</u>
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Cash and investments as of December 31, 2016, consist of the following:

Deposits with financial institutions	\$ <u>574,389</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. 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 \$574,389.

Investments

The District has adopted an investment policy in accordance with 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.

SOUTH SLOAN'S LAKE METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

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.

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

The District had no investments at December 31, 2016.

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.

SOUTH SLOAN'S LAKE METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 4 - LONG-TERM OBLIGATIONS

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

	<u>Balance at January 1, 2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at December 31, 2016</u>	<u>Due Within One Year</u>
General obligation loan payable:					
2016 Loan	\$ -	\$8,000,000	\$ -	\$ 8,000,000	\$ -

The District executed a promissory note evidencing the indebtedness of the Loan Agreement between Compass Mortgage Corporation (the "Lender") and the District dated February 17, 2016 (the "Loan") in a maximum principal amount equal to \$15,500,000. The Lender will advance funds to the District periodically, as requested by the District, from the date of closing on the Loan through and including February 17, 2019.

The Initial Funded Amount was \$8,000,000, the proceeds of which were used to: (i) reimburse the Developer for a portion of the funds advanced for the costs of capital infrastructure improvements; (ii) provide capitalized interest; (iii) provide a Reserve Fund; and (iv) pay costs of issuance of the Loan. The proceeds of subsequent Advances will be used in the same manner as the Initial Funded Amount.

The Initial Funded Amount bears interest at a Fixed Rate of 2.66%. At the District's option, to be exercised in each Advance Request Certificate, each Advance may bear interest at either a Fixed Rate or the Variable Rate. If elected by the District, the Fixed Rate applicable to any Advance Amount shall be determined by the Lender and agreed to by the District on the applicable Advance Date.

Variable Rate means a rate of interest which varies periodically and is not fixed, which shall be a rate equal to the sum of 1.90% plus 65% of the LIBOR Index, initially calculated as of each Advance Date with respect to the Advance that will be bearing interest at the Variable Rate and resetting on each Interest Reset Date thereafter. The Interest Reset Date is June 1 and December 1.

Interest on the Loan is payable semi-annually on June 1 and December 1, beginning on June 1, 2016. All interest is calculated on the basis of a 360-day year and actual number of days elapsed in the applicable period.

Annual principal payments are due on December 1, beginning on December 1, 2018 with final maturity on February 17, 2021. The Loan is subject to optional redemption on any June 1 or December 1 after the third anniversary of the Closing Date upon payment of principal, accrued interest, a Prepayment Premium of 2% of the principal amount of the Loan that is prepaid, and a Yield Maintenance Fee, if any, as described in the Loan Agreement.

SOUTH SLOAN'S LAKE METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 4 - LONG-TERM OBLIGATIONS (CONTINUED)

The Loan is secured by and payable solely from and to the extent of the Pledged Revenue, which includes moneys derived from the following sources, net of costs of collection: (i) the Required Mill Levy; (ii) the portion of the Specific Ownership Tax which is collected as a result of the imposition of the Required Mill Levy; and (iii) any other legally available amounts which the District determines, in its absolute discretion, to apply as Pledged Revenue.

The Loan provides that a Required Mill Levy be imposed in an amount sufficient, when combined with moneys held in the Loan Payment Fund not required to be applied to the payment of the Loan in the then-current fiscal year, to pay the principal of and interest on the Loan, as they become due and payable, but not in excess of 50 mills (subject to adjustment for changes occurring after January 1, 2013, in the method of calculating assessed valuation), and for so long as the Surplus Fund is less than the Maximum Surplus Amount, not less than 25 mills (as adjusted).

Once the Loan Balance to Assessed Ratio is equal to or less than 50%, the Required Mill Levy is defined as a mill levy imposed upon all taxable property of the District each year in an amount which, when combined with moneys in the Loan Payment Fund not required to be applied to the payment of the Loan in the then-current Fiscal Year, will be sufficient to pay the principal of and interest on the Loan Balance as the same become due and payable, without limitation of rate and in amounts sufficient to make such payments when due.

The Loan is further secured by the Reserve Fund which is to be funded upon issuance of each Advance in the amounts of the Reserve Requirement. The Reserve Requirement means upon issuance of the Initial Funded Amount, the amount of \$210,000; (ii) upon disbursement of a portion of the Restricted Project Fund, an additional amount equal to 3.50% of each amount disbursed; and (iii) upon funding of each Advance, an additional amount equal to 3.50% of the amount of such Advance. At December 31, 2016, the Reserve Requirement amount was \$227,500.

Capitalized Interest is to be funded from the proceeds of each Advance in the amounts of the Capitalized Interest Requirement. The Capitalized Interest Requirement means (a) upon issuance of the Initial Funded Amount, the amount of \$250,000, and (b) upon funding of each Advance, an additional amount equal to 2% of the amount of such Advance.

The Loan is also secured by amounts accumulated in the Surplus Fund, if any. Pledged Revenue that is not needed to pay debt service on the Loan, replenish the Reserve Fund to the Reserve Requirement, and pay the Lender certain fees in any year will be deposited to and held in the Surplus Fund, up to the Maximum Surplus Amount of \$550,000. The Surplus Fund shall be maintained by the Lender for so long as the Loan is outstanding. Amounts on deposit in the Surplus Fund on the Maturity Date, if any, shall be immediately applied to the payment of the Loan, except as may be otherwise agreed to by the Lender and the District. The balance in the Surplus Fund at December 31, 2016 was \$112,993.

SOUTH SLOAN'S LAKE METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 4 - LONG-TERM OBLIGATIONS (CONTINUED)

The District's long-term obligations will mature as follows:

	Governmental Activities		
	Principal	Interest	Total
2017	\$ -	\$ 215,756	\$ 215,756
2018	75,000	215,756	290,756
2019	100,000	213,733	313,733
2020	150,000	211,614	361,614
2021	7,675,000	44,234	7,719,234
	\$ 8,000,000	\$ 901,093	\$ 8,901,093

Authorized Debt

On November 5, 2013, a majority of the qualified electors of the District authorized the issuance of indebtedness of \$50,000,000 for each of the facilities listed in the table below, \$50,000,000 for operations and maintenance, \$50,000,000 for refunding of debt and \$50,000,000 for intergovernmental contracts, at an interest rate not to exceed 18% per annum. At December 31, 2016, the District had authorized but unissued indebtedness in the following amounts allocated for the following purposes:

	Debt Authorized	Authorization Used February 17, 2016	Authorized But Unissued
Streets	\$ 50,000,000	\$ 11,369,499	\$ 38,630,501
Water	50,000,000	863,224	49,136,776
Storm or sanitary sewer	50,000,000	2,867,181	47,132,819
Parks and recreation	50,000,000	199,328	49,800,672
Traffic and safety	50,000,000	200,768	49,799,232
Mosquito control	50,000,000	-	50,000,000
Public transportation	50,000,000	-	50,000,000
Operations and maintenance	50,000,000	-	50,000,000
Refunding of debt	50,000,000	-	50,000,000
Intergovernmental contracts	50,000,000	-	50,000,000
	\$ 500,000,000	\$ 15,500,000	\$ 484,500,000

Pursuant to the Service Plan, each District shall not issue debt in an aggregate amount in excess of \$50,000,000. Additionally, the maximum debt mill levy is 50 mills as adjusted.

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.

SOUTH SLOAN'S LAKE METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 5 - NET POSITION

The District has net position consisting of two components –restricted and unrestricted.

Restricted net position includes assets that are restricted for use either externally imposed by creditors, grantors, contributors, or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The District had restricted net position for debt service in the amount of \$96,670 as of December 31, 2016.

The District has a deficit in unrestricted net position. The deficit is a result of the District being responsible for the repayment of bonds issued for public improvements constructed by District No. 1 and which costs are recorded in District No. 1's financial records.

NOTE 6 - RELATED PARTY

The Developer of the property which constitutes the District is EFG-South Sloan's Lake I, LLC (the "Developer"). The majority members of the Board of Directors are employees, owners or otherwise associated with the Developer, and may have conflicts of interest in dealing with the District.

NOTE 7 - DISTRICT AGREEMENT

Memorandum of Understanding

The District and District No. 1 entered into the Memorandum of Understanding dated January 27, 2014 ("MOU"), whereby the Districts agreed that District No. 1 would provide for the construction, design, operation and maintenance of the Public Improvements, as well as the overall administration of the Districts. The MOU also contemplated the execution of the FFCOA (defined below) which FFCOA would designate a primary operations and management District and to provide for the flow of funds by and among the Districts.

Facilities Funding, Construction and Operation Agreement

The District and District No. 1 entered into the Facilities Funding, Construction and Operation Agreement dated effective February 17, 2016 ("FFCOA"), whereby the Districts established District No. 1 as the "Operating District" and as such would be responsible for the construction, design and operation of the Public Improvements, and established the District as the "Financing District" and as such would be responsible to pay for the services and benefit of the Public Improvements received from the Operating District. The Districts acknowledged and agreed that the Public Improvements are needed by the Districts and would benefit the property owners in the service areas of the Districts and that the provision of services and operation and maintenance of the Public Improvements by the Operating District would produce efficiencies and reduce the cost of the same.

SOUTH SLOAN'S LAKE METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 7 - DISTRICT AGREEMENT (CONTINUED)

Cooperation Agreement

The District is located within the boundaries of an urban redevelopment area designated in an urban renewal plan adopted by the City and County of Denver and known as the "St. Anthony's Urban Redevelopment Plan" (the "Urban Renewal Plan"). In accordance with Section 31-25-101, et. seq., Colorado Revised Statutes, as amended (the "Urban Renewal Act") and the Urban Renewal Plan, Denver Urban Renewal Authority ("DURA") is authorized to undertake certain projects within the area designated in the Urban Renewal Plan and to finance such projects by utilizing certain incremental increases in the property taxes, including property taxes imposed by the District. The District, District No. 1, and DURA entered into a Cooperation Agreement, pursuant to which DURA agreed to segregate incremental property taxes and specific ownership taxes attributable to the District's mill levies from the aggregate incremental property taxes DURA receives in connection with the Urban Renewal Plan and remit those incremental property taxes and specific ownership taxes to the District.

NOTE 8 - INTERFUND TRANSFERS

The transfer from the Capital Projects Fund to the Debt Service Fund relates to Loan proceeds that were used to provide capitalized interest and a Reserve Fund both to be held in the Debt Service Fund.

NOTE 9 - 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, public officials', crime and workers compensation 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 10 - TAX, SPENDING AND DEBT LIMITATIONS

Article X, Section 20 of the Colorado Constitution, referred to 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.

SOUTH SLOAN'S LAKE METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 10 - TAX, SPENDING AND DEBT LIMITATIONS (CONTINUED)

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 5, 2013, the District's voters passed an election question to increase property taxes \$50,000,000 annually and increase in fees \$50,000,000 annually to pay the District's operation and maintenance costs. The electors further authorized an increase in fees of \$50,000,000 to pay expenses pursuant to intergovernmental agreements. Additionally, a majority of the District's electors authorized the District to collect, retain and spend all revenue annually without regard to any limitations under TABOR.

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

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

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

SUPPLEMENTARY INFORMATION

SOUTH SLOAN'S LAKE 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 and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES			
Property taxes	\$ 18,880	\$ 18,077	\$ (803)
Specific ownership taxes	12,970	12,435	(535)
TIF revenue from DURA	164,760	157,753	(7,007)
Intergovernmental revenue	-	17,500	17,500
Net investment income	6,600	126	(6,474)
Total revenues	<u>203,210</u>	<u>205,891</u>	<u>2,681</u>
EXPENDITURES			
Debt service			
County Treasurer's fees	500	180	320
Interest expense - Loan	256,050	200,240	55,810
Miscellaneous	-	190	(190)
Total expenditures	<u>256,550</u>	<u>200,610</u>	<u>55,940</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(53,340)</u>	<u>5,281</u>	<u>58,621</u>
OTHER FINANCING SOURCES (USES)			
Transfers from other funds	806,443	461,932	(344,511)
Total other financing sources (uses)	<u>806,443</u>	<u>461,932</u>	<u>(344,511)</u>
NET CHANGE IN FUND BALANCES	753,103	467,213	(285,890)
FUND BALANCES - BEGINNING OF YEAR	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES - END OF YEAR	<u>\$ 753,103</u>	<u>\$ 467,213</u>	<u>\$ (285,890)</u>

SOUTH SLOAN'S LAKE 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 and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES			
EXPENDITURES			
Capital outlay			
Accounting	\$ 20,000	\$ -	\$ 20,000
Conejos Plaza construction	250,000	-	250,000
Contingency	72,869	-	72,869
Debt issue costs	206,688	259,512	(52,824)
District management	10,000	-	10,000
Engineering	5,000	-	5,000
Irrigation tap	10,000	-	10,000
Legal	20,000	-	20,000
Miscellaneous	-	56	(56)
Purchase infrastructure from Developer	6,500,000	-	6,500,000
Streetscape equipment	299,000	-	299,000
Intergovernmental expenditures	-	7,278,500	(7,278,500)
Total expenditures	<u>7,393,557</u>	<u>7,538,068</u>	<u>(144,511)</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(7,393,557)</u>	<u>(7,538,068)</u>	<u>(144,511)</u>
OTHER FINANCING SOURCES (USES)			
Debt issue proceeds	8,535,000	8,000,000	(535,000)
Transfers to other funds	(806,443)	(461,932)	344,511
Total other financing sources (uses)	<u>7,728,557</u>	<u>7,538,068</u>	<u>(190,489)</u>
NET CHANGE IN FUND BALANCES	335,000	-	(335,000)
FUND BALANCES - BEGINNING OF YEAR	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES - END OF YEAR	<u>\$ 335,000</u>	<u>\$ -</u>	<u>\$ (335,000)</u>

**SOUTH SLOAN'S LAKE METROPOLITAN DISTRICT NO. 2
SCHEDULE OF DEBT SERVICE REQUIREMENT TO MATURITY
December 31, 2016**

Bonds and Interest Maturing in the Year Ending December 31,	\$15,500,000 Compass Mortgage Corporation Loan Dated February 17, 2016 Initial Funded Amount \$8,000,000 Interest Rate of 2.66% Payable June 1 and December 1 Principal Due December 1		
	Principal	Interest	Total
2017	\$ -	\$ 215,756	\$ 215,756
2018	75,000	215,756	290,756
2019	100,000	213,733	313,733
2020	150,000	211,614	361,614
2021	7,675,000	44,234	7,719,234
	\$ 8,000,000	\$ 901,093	\$ 8,901,093

Non-Use Fee is also due semi-annually in an amount equal to 0.50% of the Unfunded Maximum Advancing Amount, computed on the basis of a 360-day year and actual days elapsed.

**SOUTH SLOAN'S LAKE METROPOLITAN DISTRICT NO. 2
SUMMARY 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>Property Taxes</u>		<u>Percent Collected to Levied</u>
			<u>Levied</u>	<u>Collected</u>	
2015	\$ 241,398	35.000	\$ 8,449	\$ 8,449	100.00%
2016	\$ 755,195	35.000	\$ 26,432	\$ 25,308	95.75%
Estimated for year ending December 31, 2017	\$ 757,885	38.288	\$ 29,018		

NOTE:

Property taxes collected in any one year include collection of delinquent property taxes levied in prior years. Information received from the County Treasurer does not permit identification of specific year of levy.