

**BANNING LEWIS RANCH METROPOLITAN DISTRICT NO. 2**  
**El Paso County, Colorado**

**FINANCIAL STATEMENTS**  
**December 31, 2017**

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Office of the State Auditor

July 26, 2018

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## INDEPENDENT AUDITOR'S REPORT

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Board of Directors  
**Banning Lewis Ranch Metropolitan District No. 2**  
El Paso County, Colorado

We have audited the accompanying financial statements of the governmental activities and each major fund of Banning Lewis Ranch Metropolitan District No. 2 ("District"), as of and for the year ended December 31, 2017, 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 from material misstatement.

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

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of December 31, 2017, the respective changes in financial position and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### *Required Supplementary Information*

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinions on the basic financial statements are not affected by this missing information.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

*BiggsKofford, P.C.*

Colorado Springs, Colorado  
July 25, 2018

## **BASIC FINANCIAL STATEMENTS**

**BANNING LEWIS RANCH METROPOLITAN DISTRICT NO. 2**  
**STATEMENT OF NET POSITION**  
**December 31, 2017**

	<b>Governmental Activities</b>
<b>ASSETS</b>	
Cash and investments	\$ 194,528
Cash and investments - Restricted	649,360
Receivable - County Treasurer	9,498
Property taxes receivable	985,402
Total assets	1,838,788
<b>LIABILITIES</b>	
Due to Banning Lewis Ranch MD 1	28,647
Accrued interest payable	39,554
Noncurrent liabilities:	
Due within one year	124,736
Due in more than one year	10,977,446
Total liabilities	11,170,383
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Property tax revenue	985,402
Total deferred inflows of resources	985,402
<b>NET POSITION</b>	
Restricted for Debt Service	224,139
Unrestricted	(10,541,136)
Total net position	\$ (10,316,997)

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

**BANNING LEWIS RANCH METROPOLITAN DISTRICT NO. 2**  
**STATEMENT OF ACTIVITIES**  
Year Ended December 31, 2017

<u>Functions/Programs</u>	Program Revenues			Net (Expense) Revenue and Changes in Net Position	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Primary government:					
Government activities:					
General government	\$ 458,307	\$ -	\$ -	\$ -	\$ (458,307)
Interest and related costs on long-term debt	489,615	-	-	-	(489,615)
	\$ 947,922	\$ -	\$ -	\$ -	(947,922)
General revenues:					
Property taxes					906,568
Specific ownership taxes					122,825
Net investment income					12,391
Total general revenues					1,041,784
Change in net position					93,862
Net position - Beginning					(10,410,859)
Net position - Ending					\$ (10,316,997)

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

**BANNING LEWIS RANCH METROPOLITAN DISTRICT NO. 2**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**December 31, 2017**

	<b>General</b>	<b>Debt Service</b>	<b>Capital Projects</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>				
Cash and investments	\$ 24,926	\$ -	\$ 169,602	\$ 194,528
Cash and investments - Restricted	-	649,360	-	649,360
Receivable - County Treasurer	4,221	5,277	-	9,498
Property tax receivable	437,963	547,439	-	985,402
<b>TOTAL ASSETS</b>	<b>\$ 467,110</b>	<b>\$ 1,202,076</b>	<b>\$ 169,602</b>	<b>\$ 1,838,788</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Due to Banning Lewis Ranch MD 1	\$ 28,647	\$ -	\$ -	\$ 28,647
Total liabilities	28,647	-	-	28,647
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Property tax revenue	437,963	547,439	-	985,402
Total deferred inflows of resources	437,963	547,439	-	985,402
<b>FUND BALANCES</b>				
Restricted for:				
Debt service	-	654,637	-	654,637
Assigned:				
Capital projects	-	-	169,602	169,602
Unassigned:				
General government	500	-	-	500
Total fund balances	500	654,637	169,602	824,739
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<b>\$ 467,110</b>	<b>\$ 1,202,076</b>	<b>\$ 169,602</b>	

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

Long-term liabilities, including bonds payable, are not due and payable in the current period and are not reported in the funds.	
Bonds payable	(11,205,000)
Bonds discount	102,818
Accrued interest payable - Bonds	(39,554)
Net position of governmental activities	<b>\$ (10,316,997)</b>

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

**BANNING LEWIS RANCH METROPOLITAN DISTRICT NO. 2**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**Year Ended December 31, 2017**

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>				
Property taxes	\$ 402,919	\$ 503,649	\$ -	\$ 906,568
Specific ownership taxes	54,589	68,236	-	122,825
Net investment income	1,299	9,006	2,086	12,391
Total revenues	<u>458,807</u>	<u>580,891</u>	<u>2,086</u>	<u>1,041,784</u>
<b>EXPENDITURES</b>				
General				
County Treasurer's fees	6,045	7,556	-	13,601
Banking fees	93	-	-	93
Directors' fees	2,800	-	-	2,800
Payroll taxes	214	-	-	214
Transfer to Banning Lewis Ranch MD 1 - O&M taxes	449,155	-	-	449,155
Debt service				
Bond principal - Series 2016	-	105,000	-	105,000
Bond interest - Series 2016	-	467,480	-	467,480
Total expenditures	<u>458,307</u>	<u>580,036</u>	<u>-</u>	<u>1,038,343</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>500</u>	<u>855</u>	<u>2,086</u>	<u>3,441</u>
<b>FUND BALANCES - BEGINNING OF YEAR</b>	<u>-</u>	<u>653,782</u>	<u>167,516</u>	<u>821,298</u>
<b>FUND BALANCES - END OF YEAR</b>	<u>\$ 500</u>	<u>\$ 654,637</u>	<u>\$ 169,602</u>	<u>\$ 824,739</u>

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

**BANNING LEWIS RANCH 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, 2017**

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

Net change in fund balances - Total governmental funds	\$	3,441
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The issuance of long-term debt (e.g., bonds, receipt of 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. 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. The net effect of these differences in the treatment of long-term debt and related items is as follows:

Bond principal		105,000
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:

Accrued interest on bonds - Change in liability		(9,394)
Amortization of bond discount		(5,185)
		(5,185)

Changes in net position of governmental activities	\$	93,862
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These financial statements should be read only in connection with  
the accompanying notes to financial statements.

**BANNING LEWIS RANCH METROPOLITAN DISTRICT NO. 2**  
**GENERAL FUND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN**  
**FUND BALANCES - BUDGET AND ACTUAL**  
**Year Ended December 31, 2017**

	<u>Budget Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Property taxes	\$ 402,919	\$ 402,919	\$ 402,919	\$ -
Specific ownership taxes	44,320	53,000	54,589	1,589
Net investment income	300	1,400	1,299	(101)
Other income	1,000	2,681	-	(2,681)
Total revenues	<u>448,539</u>	<u>460,000</u>	<u>458,807</u>	<u>(1,193)</u>
<b>EXPENDITURES</b>				
County Treasurer's fees	6,050	6,050	6,045	5
Banking fees	50	100	93	7
Directors' fees	3,000	3,500	2,800	700
Payroll taxes	229	268	214	54
Transfer to Banning Lewis Ranch MD 1 - O&M taxes	436,710	447,401	449,155	(1,754)
Contingency	2,500	2,681	-	2,681
Total expenditures	<u>448,539</u>	<u>460,000</u>	<u>458,307</u>	<u>1,693</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>-</u>	<u>-</u>	<u>500</u>	<u>500</u>
<b>FUND BALANCES - BEGINNING OF YEAR</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>FUND BALANCES - END OF YEAR</b>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 500</u></u>	<u><u>\$ 500</u></u>

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

**BANNING LEWIS RANCH METROPOLITAN DISTRICT NO. 2**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2017**

**NOTE 1 - DEFINITION OF REPORTING ENTITY**

Banning Lewis Ranch Metropolitan District No. 2 (the District), a quasi-municipal corporation and a political subdivision of the State of Colorado, was organized concurrently with Banning Lewis Ranch Metropolitan District Nos. 1, 3-5, 7 and Banning Lewis Ranch Regional Metropolitan District (collectively, the Districts) by order and decree of the District Court for the City of Colorado Springs, El Paso County, Colorado, on December 1, 2005, and is governed pursuant to provisions of the Colorado Special Districts Act (Title 32, Article 1, Colorado Revised Statutes). The Districts' service area is located entirely within the City of Colorado Springs, El Paso County, Colorado. The Districts operate under a Consolidated Service Plan to provide financing for the design, acquisition, installation and construction of public improvements and services, including street improvements, parks and recreational facilities, water supply, wastewater facilities, traffic and safety controls, public transportation, fire protection, mosquito control and television relay. Pursuant to the Service Plan, the District, along with Districts Nos. 3-5, 7 and Banning Lewis Ranch Regional Metropolitan District, are intended to serve as the Taxing Districts related to District No. 1, which will serve as the Operating 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.

**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.

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

**BANNING LEWIS RANCH METROPOLITAN DISTRICT NO. 2**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2017**

**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.

**BANNING LEWIS RANCH METROPOLITAN DISTRICT NO. 2**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2017**

**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 amended its annual budget for the year ended December 31, 2017.

**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.

**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 sales 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.

**Facilities Fees**

The District assesses a facility fee of \$1,000 per lot which is due at the time of lot sale.

**BANNING LEWIS RANCH METROPOLITAN DISTRICT NO. 2**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2017**

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

**Amortization**

**Original Issue Discount**

In the government-wide financial statements, bond discounts are deferred and amortized over the life of the bonds using the effective interest method.

In the fund financial statements, governmental fund types recognize bond discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Discounts on debt issuance are reported as other financing uses. Issuance costs, whether nor not withheld from the actual debt proceeds received, are reported as expenditures.

**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 and so will not be recognized as an inflow of resources (revenue) until that time. The District has one item that qualifies for reporting in this category. Accordingly, the item, *deferred property tax revenue*, is deferred and recognized as an inflow of resources in the period that the amount becomes 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.

**BANNING LEWIS RANCH METROPOLITAN DISTRICT NO. 2**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2017**

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

- *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, 2017, are classified in the accompanying financial statements as follows:

Statement of net position	
Cash and investments	\$ 194,528
Cash and investments - Restricted	649,360
Total cash and investments	<u>\$ 843,888</u>

Cash and investments as of December 31, 2017, consist of the following:

Deposits with financial institutions	\$ 500
Investments	843,388
Total cash and investments	<u>\$ 843,888</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.

**BANNING LEWIS RANCH METROPOLITAN DISTRICT NO. 2**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2017**

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

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, 2017, the District's cash deposits had a bank balance and a carrying balance of \$500.

**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.

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

As of December 31, 2017, the District had the following investments:

<b>Investment</b>	<b>Maturity</b>	<b>Amount</b>
Colorado Surplus Asset Fund Trust (CSAFE)	Weighted average under 60 days	\$ 251,853
Colorado Local Government Liquid Asset Trust (COLOTRUST)	Weighted average under 60 days	591,535
		<u>\$ 843,388</u>

**BANNING LEWIS RANCH METROPOLITAN DISTRICT NO. 2**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2017**

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

**CSAFE**

The District invested in the Colorado Surplus Asset Fund Trust (CSAFE) (the Trust), 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 the Trust. The Trust is similar to a money market fund, with each share valued at \$1.00. CSAFE may invest in U.S. Treasury securities, 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. CSAFE records its investments at amortized cost and the District records its investments in CSAFE using the amortized cost method. There are no unfunded commitments, the redemption frequency is daily and there is no redemption notice period.

**COLOTRUST**

The District invested in the Colorado Local Government Liquid Asset Trust (COLOTRUST) (the Trust), an investment vehicle established for local government entities in Colorado to pool surplus funds. The State Securities Commissioner administers and enforces all State statutes governing the Trust. The Trust operates similarly to a money market fund and each share is equal in value to \$1.00. The Trust offers shares in two portfolios, COLOTRUST PRIME and COLOTRUST PLUS+. Both portfolios may invest in U.S. Treasury securities and repurchase agreements collateralized by U.S. Treasury securities. COLOTRUST PLUS+ may also invest in certain obligations of U.S. government agencies, highest rated commercial paper and any security allowed under CRS 24-75-601. A designated custodial bank serves as custodian for the Trust's portfolios pursuant to a custodian agreement. The custodian acts as safekeeping agent for the Trust's investment portfolios and provides services as the depository in connection with direct investments and withdrawals. The custodian's internal records segregate investments owned by the Trust. COLOTRUST is rated AAAM by Standard & Poor's. COLOTRUST records its investments at fair value and the District records its investment in COLOTRUST using the net asset value method. There are no unfunded commitments, the redemption frequency is daily and there is no redemption notice period.

**BANNING LEWIS RANCH METROPOLITAN DISTRICT NO. 2**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2017**

**NOTE 4 - LONG-TERM OBLIGATIONS**

The following is an analysis of changes in long-term obligations for the year ended December 31, 2017:

	<u>Balance at December 31, 2016</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance at December 31, 2017</u>	<u>Due Within One Year</u>
2016 G.O. Refunding Bonds	\$ 11,310,000	\$ -	\$ 105,000	\$ 11,205,000	\$ 130,000
2016 Bond issue discount	(108,003)	-	(5,185)	(102,818)	(5,264)
	<u>\$ 11,201,997</u>	<u>\$ -</u>	<u>\$ 99,815</u>	<u>\$ 11,102,182</u>	<u>\$ 124,736</u>

The details of the District's long-term obligations are as follows:

**General Obligation Bonds**

On December 8, 2016, the District issued **\$11,310,000 of General Obligation Refunding Bonds, Series 2016** (the 2016 Bonds). The 2016 Bonds are serial and term bonds that bear interest between 2.00% and 5.00% per annum payable on June 1 and December 1, commencing on June 1, 2017. Mandatory principal payments are due on December 1, commencing on December 1, 2017, with final payment due on December 1, 2046. Bonds maturing after December 1, 2026, are subject to redemption prior to maturity, at the option of the District, on December 1, 2026, and on any date thereafter, upon payment of par and accrued interest, without redemption premium.

The 2016 Bonds are secured by and payable from general ad valorem taxes which may be levied on all taxable property within the District without limitation of rate and in an amount necessary to pay when due the principal and interest on the 2016 Bonds. The 2016 Bonds are additionally secured by the Reserve Fund, which was initially funded with proceeds of the 2016 Bonds in the amount of \$390,944.

Proceeds of the 2016 Bonds and other District funds were used to: (i) pay and cancel all of the District's outstanding General Obligation Limited Tax Bonds, Series 2013, originally issued in the aggregate principal amount of \$8,250,000 and outstanding in the aggregate principal amount of \$8,020,000 at date of payment (the 2013 Bonds); (ii) pay and cancel all of the District's General Obligation Limited Tax Subordinate Bonds, Series 2014, originally issued in the aggregate principal amount of \$2,750,000 and outstanding in the aggregate principal amount of \$2,750,000 at date of payment (the 2014 Bonds), (iii) purchase a municipal bond insurance policy; (iv) fund the Reserve Fund; and (v) pay the costs of issuing the 2016 Bonds.

**BANNING LEWIS RANCH METROPOLITAN DISTRICT NO. 2**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2017**

**NOTE 4 - LONG-TERM OBLIGATIONS (CONTINUED)**

The District's bonds mature as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 130,000	\$ 474,650	\$ 604,650
2019	130,000	472,050	602,050
2020	145,000	469,450	614,450
2021	155,000	463,650	618,650
2022	170,000	457,450	627,450
2023 - 2027	1,060,000	2,161,950	3,221,950
2028 - 2032	1,515,000	1,868,614	3,383,614
2033 - 2037	2,045,000	1,509,794	3,554,794
2038 - 2042	2,710,000	1,026,374	3,736,374
2043 - 2046	3,145,000	367,199	3,512,199
	<u>\$ 11,205,000</u>	<u>\$ 9,271,181</u>	<u>\$ 20,476,181</u>

**Debt Authorization**

On November 1, 2005, a majority of the qualified electors of the District authorized the issuance of indebtedness in an amount not to exceed \$929,500,000 for infrastructure improvements and operations, such debt to bear interest at a rate not in excess of 18% per annum. At December 31, 2017, the District had authorized but unissued indebtedness in the following amounts allocated for the following purposes:

	<u>Amount Authorized on November 1, 2005</u>	<u>Authorization Used by Intergovernmental Financing Agreement</u>	<u>Authorization Used by Series 2013 Bonds</u>	<u>Authorization Used by Series 2014 Bonds</u>	<u>Authorization Used by Series 2016 Bonds</u>	<u>Authorized But Unissued as of December 31, 2017</u>
Street improvements	\$ 84,500,000	\$ 21,946,361	\$2,538,525	\$ 846,175	\$ -	\$ 59,168,939
Water	84,500,000	15,105,546	1,747,350	582,450	-	67,064,654
Sanitation	84,500,000	19,763,995	2,286,075	762,025	-	61,687,905
Traffic and safety	84,500,000	-	-	-	-	84,500,000
Fire protection, ambulance service	84,500,000	-	-	-	-	84,500,000
Park and recreation	84,500,000	14,505,161	1,678,050	559,350	-	67,757,439
Mosquito control	84,500,000	-	-	-	-	84,500,000
Television relay and translation	84,500,000	-	-	-	-	84,500,000
Public transportation	84,500,000	-	-	-	-	84,500,000
Operations and maintenance	84,500,000	1,512,920	-	-	-	82,987,080
Debt refunding	84,500,000	-	-	-	8,560,000	75,940,000
	<u>\$929,500,000</u>	<u>\$ 72,833,983</u>	<u>\$8,250,000</u>	<u>\$2,750,000</u>	<u>\$8,560,000</u>	<u>\$837,106,017</u>

**BANNING LEWIS RANCH METROPOLITAN DISTRICT NO. 2**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2017**

**NOTE 4 LONG TERM OBLIGATIONS (CONTINUED)**

Pursuant to the Consolidated Service Plan, the District is only permitted to issue debt up to \$84,500,000. District Nos. 3 – 5, 7 and Banning Lewis Ranch Regional Metropolitan District will be permitted to issue additional debt only at such time that such additional debt is approved by the City and that repayment of such additional debt can be accomplished only to the extent of the maximum permitted residential or commercial mill levy of 30.000 mills and 50.000 mills, respectively, as may be adjusted by a change in the ratio of actual valuation. On November 8, 2016, the Consolidated Service Plan was amended for the sole purpose of allowing the District to levy an unlimited maximum debt service levy.

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.

**NOTE 5 - NET POSITION**

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

Restricted assets include net assets that are restricted for use, 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 \$224,139 as of December 31, 2017.

The unrestricted component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of the restricted component of net position.

The District has a deficit in unrestricted net position. This deficit amount is a result of the District being responsible for the repayment of bonds issued for public improvements and for Developer advances for capital improvements which were recorded by District No. 1.

**NOTE 6 - INTERGOVERNMENTAL AGREEMENT**

Effective as of January 1, 2007, the District and Banning Lewis Ranch Metropolitan District No. 1 entered into a District Facilities Agreement (Agreement) wherein District No. 1 has agreed to construct, own, operate, and maintain facilities benefitting both the District and District No. 1. The District has agreed to pay for the costs of operation and maintenance of such facilities from: 1) the imposition of a mill levy not to exceed 20.000 mills, adjusted to account for constitutional and legislative changes, including new exemptions, in the manner, method or base percentage calculation for the computation of assessed values of taxable property, provided that the levy shall never exceed 50.000 mills, 2) to the extent that the 20.000 mills are insufficient to pay the costs of operations, from the imposition of fees assessed and collected from each single family lot and from each multi-family unit, and from each square foot of commercial development, their pro rata share of the operating costs, and 3) from any other revenues the District may have legally available to pay for such costs.

**BANNING LEWIS RANCH METROPOLITAN DISTRICT NO. 2**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2017**

**NOTE 7 - 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 8 - TAX, SPENDING AND DEBT LIMITATIONS**

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

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.

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 intergovernmental agreement. Therefore, the Emergency Reserves related to the District's revenues are reported in District No. 1.

On November 1, 2005, the District's voters authorized the District to increase property taxes \$8,000,000 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.

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**

**BANNING LEWIS RANCH METROPOLITAN DISTRICT NO. 2**  
**DEBT SERVICE FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN**  
**FUND BALANCES - BUDGET AND ACTUAL**  
Year Ended December 31, 2017

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
<b>REVENUES</b>			
Property taxes	\$ 503,649	\$ 503,649	\$ -
Specific ownership taxes	55,400	68,236	12,836
Net investment income	4,100	9,006	4,906
Total revenues	<u>563,149</u>	<u>580,891</u>	<u>17,742</u>
<b>EXPENDITURES</b>			
County Treasurer's fees	7,555	7,556	(1)
Bond principal - Series 2016	105,000	105,000	-
Bond interest - Series 2016	467,480	467,480	-
Paying agent fees	1,600	-	1,600
Contingency	2,365	-	2,365
Total expenditures	<u>584,000</u>	<u>580,036</u>	<u>3,964</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(20,851)</u>	<u>855</u>	<u>21,706</u>
<b>FUND BALANCES - BEGINNING OF YEAR</b>	<u>861,260</u>	<u>653,782</u>	<u>(207,478)</u>
<b>FUND BALANCES - END OF YEAR</b>	<u><u>\$ 840,409</u></u>	<u><u>\$ 654,637</u></u>	<u><u>\$ (185,772)</u></u>

**BANNING LEWIS RANCH METROPOLITAN DISTRICT NO. 2**  
**CAPITAL PROJECTS FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN**  
**FUND BALANCES - BUDGET AND ACTUAL**  
**Year Ended December 31, 2017**

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
<b>REVENUES</b>			
Investment income	\$ 680	\$ 2,086	\$ 1,406
Total revenues	<u>680</u>	<u>2,086</u>	<u>1,406</u>
<b>EXPENDITURES</b>			
Capital outlay	50,000	-	50,000
Contingency	5,000	-	5,000
Total expenditures	<u>55,000</u>	<u>-</u>	<u>55,000</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(54,320)</u>	<u>2,086</u>	<u>56,406</u>
<b>FUND BALANCES - BEGINNING OF YEAR</b>	<u>164,831</u>	<u>167,516</u>	<u>2,685</u>
<b>FUND BALANCES - END OF YEAR</b>	<u><u>\$ 110,511</u></u>	<u><u>\$ 169,602</u></u>	<u><u>\$ 59,091</u></u>

**BANNING LEWIS RANCH METROPOLITAN DISTRICT NO. 2  
SCHEDULE OF DEBT SERVICE REQUIREMENTS TO MATURITY  
December 31, 2017**

**\$11,310,000 General Obligation Refunding Bonds  
Series 2016  
Dated December 8, 2016  
Principal Due December 1  
Interest Rate 2.00% - 5.00% Payable  
June 1 and December 1**

<u>Year Ended December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 130,000	\$ 474,650	\$ 604,650
2019	130,000	472,050	602,050
2020	145,000	469,450	614,450
2021	155,000	463,650	618,650
2022	170,000	457,450	627,450
2023	180,000	450,650	630,650
2024	200,000	443,450	643,450
2025	210,000	433,450	643,450
2026	230,000	422,950	652,950
2027	240,000	411,450	651,450
2028	265,000	399,450	664,450
2029	280,000	386,200	666,200
2030	305,000	373,776	678,776
2031	320,000	361,194	681,194
2032	345,000	347,994	692,994
2033	360,000	333,763	693,763
2034	390,000	318,912	708,912
2035	405,000	302,825	707,825
2036	435,000	286,119	721,119
2037	455,000	268,175	723,175
2038	485,000	248,837	733,837
2039	510,000	228,225	738,225
2040	545,000	206,550	751,550
2041	565,000	183,387	748,387
2042	605,000	159,375	764,375
2043	630,000	133,662	763,662
2044	675,000	106,887	781,887
2045	700,000	78,200	778,200
2046	1,140,000	48,450	1,188,450
	<u>\$ 11,205,000</u>	<u>\$ 9,271,181</u>	<u>\$ 20,476,181</u>

**BANNING LEWIS RANCH METROPOLITAN DISTRICT NO. 2**  
**SUMMARY OF ASSESSED VALUATION,**  
**MILL LEVY AND PROPERTY TAXES COLLECTED**  
**December 31, 2017**

<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>	
2013	\$ 10,702,760	20.000	30.000	\$ 535,138	\$ 535,110	99.99%
2014	\$ 12,228,630	20.000	30.000	\$ 611,432	\$ 604,464	98.86%
2015	\$ 15,464,690	20.000	30.000	\$ 773,235	\$ 773,395	100.02%
2016	\$ 19,249,140	20.000	30.000	\$ 962,457	\$ 964,447	100.21%
2017	\$ 20,145,970	20.000	25.000	\$ 906,568	\$ 906,568	100.00%
Estimated for the year ending December 31, 2018	\$ 19,807,480	22.111	27.638	\$ 985,402		

**NOTE:**

Property taxes shown as collected in any one year include collection of delinquent property taxes or abatements of property taxes assessed in prior years. This presentation does not attempt to identify specific years of assessments.

**CONTINUING DISCLOSURE ANNUAL FINANCIAL  
INFORMATION (UNAUDITED)**

**BANNING LEWIS RANCH METROPOLITAN DISTRICT NO. 2  
CONTINUING DISCLOSURE ANNUAL FINANCIAL INFORMATION  
(UNAUDITED)  
December 31, 2017**

**Ten Largest Owners of Taxable Property of the District (1)**

<u>Taxpayer Name</u>	<u>2017 Assessed Valuation</u>	<u>Percentage of Total Assessed Valuation</u>
Public Service of Colorado	\$ 44,290	0.22%
Private homeowner	43,750	0.22%
HP Colorado LLC	43,040	0.22%
Private homeowner	42,740	0.22%
HPA BORROWER 2016-2 LLC	41,290	0.21%
Private homeowner	38,870	0.20%
Private homeowner	35,560	0.18%
Private homeowner	33,090	0.17%
Private homeowner	32,580	0.16%
Private homeowner	32,360	0.16%
All Others	19,419,910	98.04%
	<u>\$ 19,807,480</u>	<u>100.00%</u>

(1) Based upon information furnished by El Paso County.

**2017 Assessed Valuation of Classes of Property of the District**

<u>Class</u>	<u>2017 Assessed Valuation</u>	<u>Percentage of Total Assessed Valuation</u>
Residential	\$ 19,545,860	98.68%
Vacant land	157,630	0.80%
Commercial	42,220	0.21%
State assessed	61,770	0.31%
	<u>\$ 19,807,480</u>	<u>100.00%</u>