

MESA RIDGE METROPOLITAN DISTRICT NO. 2
El Paso County, Colorado

FINANCIAL STATEMENTS
December 31, 2017

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July 17, 2018

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Mesa Ridge Metropolitan District No. 2
El Paso County, Colorado

We have audited the accompanying financial statements of the governmental activities and each major fund of Mesa Ridge 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, 2016, the respective changes in financial position and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

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

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

BiggsKofford, P.C.

Colorado Springs, Colorado
July 12, 2018

BASIC FINANCIAL STATEMENTS

MESA RIDGE METROPOLITAN DISTRICT NO. 2
STATEMENT OF NET POSITION
December 31, 2017

	<u>Governmental Activities</u>
ASSETS	
Cash and investments - Restricted	\$ 245,110
Accounts receivable - County Treasurer	3,723
Property taxes receivable	<u>382,417</u>
Total assets	<u>631,250</u>
LIABILITIES	
Intergovernmental accounts payable	372
Accrued interest on bonds	19,500
Noncurrent liabilities:	
Due in one year	60,000
Due in more than one year	<u>3,840,000</u>
Total liabilities	<u>3,919,872</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred property tax revenue	<u>382,417</u>
Total deferred inflows of resources	<u>382,417</u>
NET POSITION	
Restricted for:	
Debt service	203,961
Unrestricted	<u>(3,875,000)</u>
Total net position	<u><u>\$ (3,671,039)</u></u>

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

MESA RIDGE METROPOLITAN DISTRICT NO. 2
STATEMENT OF ACTIVITIES
Year Ended December 31, 2017

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Position</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>
Primary government:					
Government activities:					
General government	\$ 40,361	\$ -	\$ -	\$ -	\$ (40,361)
Interest and related costs on long-term debt	242,097	-	-	-	(242,097)
	<u>\$ 282,458</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(282,458)</u>
General revenues:					
Property taxes					355,350
Specific ownership taxes					48,143
Net investment income					3,655
					<u>407,148</u>
					Change in net position 124,690
Net position - Beginning					<u>(3,795,729)</u>
Net position - Ending					<u>\$ (3,671,039)</u>

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

MESA RIDGE METROPOLITAN DISTRICT NO. 2
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2017

	General	Debt Service	Total Governmental Funds
ASSETS			
Cash and investments - Restricted	\$ -	\$ 245,110	\$ 245,110
Property taxes receivable	38,243	344,174	382,417
Receivable from County Treasurer	372	3,351	3,723
Total assets	\$ 38,615	\$ 592,635	\$ 631,250
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
LIABILITIES			
Intergovernmental accounts payable	\$ 372	\$ -	\$ 372
Total liabilities	372	-	372
DEFERRED INFLOWS OF RESOURCES			
Property tax revenue	38,243	344,174	382,417
Total deferred inflows of resources	38,243	344,174	382,417
FUND BALANCES			
Reserved for:			
Debt service	-	248,461	248,461
Total fund balances	-	248,461	248,461
TOTAL LIABILITIES AND FUND BALANCES	\$ 38,615	\$ 592,635	

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

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

Accrued interest on bonds payable	(19,500)
Bonds payable	(3,900,000)
Net position of governmental activities	\$ (3,671,039)

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

MESA RIDGE 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>Total Governmental Funds</u>
REVENUES			
Property taxes	\$ 35,535	\$ 319,815	\$ 355,350
Specific ownership taxes	4,814	43,329	48,143
Net investment income	12	3,643	3,655
Total revenues	<u>40,361</u>	<u>366,787</u>	<u>407,148</u>
EXPENDITURES			
Current			
County Treasurer's fees	533	4,797	5,330
Intergovernmental expenditures - District No.1	39,828	-	39,828
Debt Service			
Bond principal	-	60,000	60,000
Bond interest	-	237,600	237,600
Total expenditures	<u>40,361</u>	<u>302,397</u>	<u>342,758</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>-</u>	<u>64,390</u>	<u>64,390</u>
FUND BALANCES - BEGINNING OF YEAR	<u>-</u>	<u>184,071</u>	<u>184,071</u>
FUND BALANCES - END OF YEAR	<u>\$ -</u>	<u>\$ 248,461</u>	<u>\$ 248,461</u>

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

**MESA RIDGE 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	\$	64,390
<p>Long-term debt (e.g., issuance of bonds, the 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 assets.</p>		
Current year bonds principal payment		60,000
<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>		
Accrued interest on bonds payable - change in liability		300
Changes in net position of governmental activities	\$	124,690

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

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

	Budgets		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Property taxes	\$ 35,535	\$ 35,535	\$ 35,535	\$ -
Specific ownership tax	3,910	4,800	4,814	14
Net investment income	-	15	12	(3)
Other income	500	650	-	(650)
Total revenues	<u>39,945</u>	<u>41,000</u>	<u>40,361</u>	<u>(639)</u>
EXPENDITURES				
General and administrative				
County Treasurer's fees	530	533	533	-
Intergovernmental expenditures - District No.1	38,415	39,817	39,828	(11)
Contingency	1,000	650	-	650
Total expenditures	<u>39,945</u>	<u>41,000</u>	<u>40,361</u>	<u>639</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES - BEGINNING OF YEAR	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES - END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

MESA RIDGE METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 1 - DEFINITION OF REPORTING ENTITY

Mesa Ridge 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 of El Paso County on September 20, 2004, concurrently with Mesa Ridge Metropolitan District No. 1 (District No. 1) (collectively, the Districts). The Districts were formed under a Joint Service Plan approved by the City of Fountain (the City) and are 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. District No. 1 is responsible for managing the design, construction, and operation of the public facilities and improvements and will be deemed to be the "Managing District". The District is responsible for providing funding to support costs related to services and improvements utilizing the tax base, fees, and charges and will be deemed to be the "Financing District" in order to generate the necessary revenues. Under the Service Plan, the Districts provide the following services: water, wastewater, street improvements, safety protection, parks and recreation, mosquito control, television relay and translation, transportation, and drainage.

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 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.

MESA RIDGE 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 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.

MESA RIDGE METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

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 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 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.

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.

MESA RIDGE METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Balance

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

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

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

NOTE 3 - CASH AND INVESTMENTS

Cash and investments as of December 31, 2017 are classified in the accompanying financial statements as follows:

Statement of net assets:

Cash and investments - Restricted	\$ 245,110
Total cash and investments	<u>\$ 245,110</u>

MESA RIDGE METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

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

Investments	<u>\$ 245,110</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, 2017, the District had no cash deposits with financial institutions.

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

**MESA RIDGE METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

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

Investment	Maturity	Amount
Colorado Local Government Liquid Asset Trust (COLOTRUST)	Weighted average under 60 days	<u>\$ 245,110</u>

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.

NOTE 4 - LONG-TERM OBLIGATIONS

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

	<u>Balance at December 31, 2016</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at December 31, 2017</u>	<u>Due within one year</u>
Limited Tax General Obligation Bonds					
Series 2015	\$ 3,960,000	\$ -	\$ 60,000	\$ 3,900,000	\$ 60,000
	<u>\$ 3,960,000</u>	<u>\$ -</u>	<u>\$ 60,000</u>	<u>\$ 3,900,000</u>	<u>\$ 60,000</u>

**MESA RIDGE METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 4 - LONG-TERM OBLIGATIONS (CONTINUED)

General Obligation Bonds

On March 26, 2015, the District issued \$4,000,000 of Limited Tax General Obligation Bonds, Series 2015. The bonds bear interest at the rate of 6% per annum, payable semiannually on June 1 and December 1, commencing on June 1, 2015. Principal payments are due on December 1, commencing on December 1, 2015. The bonds mature on December 1, 2044. The bonds are subject to redemption prior to maturity, at the option of the District, on or after December 1, 2024, upon payment of par and accrued interest, without redemption premium.

The bonds are secured by Pledged Revenue, which consists of the Limited Mill Levy, the portion of specific ownership taxes attributable to the Limited Mill Levy, and any other revenues of the District legally available to pay principal of and interest on the bonds which are not required to pay the District's operations and maintenance costs. The Limited Mill Levy is an ad valorem mill levy imposed upon all taxable property in the District each year in an amount sufficient to pay the principal of, premium if any, and interest on the bonds, but not in excess of 45.000 mills. For 2018, the residential assessment ratio changed from 7.96% to 7.20%. Therefore, the Limited Mill Levy will be adjusted to 49.750.

Proceeds of the bonds were used (1) to pay for improvements of the District in accordance with the Joint Financing and Reimbursement Agreement between the District, District No. 1, and the Developer, (2) fund the Reserve Fund Requirement in the amount of \$25,000, and (3) pay the costs of issuance of the bonds.

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 60,000	\$ 234,000	\$ 294,000
2019	65,000	230,400	295,400
2020	70,000	226,500	296,500
2021	75,000	222,300	297,300
2022	75,000	217,800	292,800
2023-2027	455,000	1,015,500	1,470,500
2028-2032	620,000	860,100	1,480,100
2033-2037	825,000	651,000	1,476,000
2038-2042	1,110,000	371,400	1,481,400
2043-2044	545,000	49,500	594,500
	<u>\$ 3,900,000</u>	<u>\$ 4,078,500</u>	<u>\$ 7,978,500</u>

**MESA RIDGE METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 4 - LONG TERM OBLIGATIONS (CONTINUED)

Authorized Debt

On November 2, 2004, the District's electorate authorized the issuance of indebtedness in an amount not to exceed \$17,250,000 for infrastructure improvements and operations and maintenance at an interest rate not to exceed 16% and \$20,000,000 for refunding the District's debt or other obligations. At December 31, 2017, the District had authorized but unissued indebtedness in the following amounts and allocated for the following purposes:

	Authorized November 2, 2004 Election	Authorization Used - Series 2015	Remaining at December 31, 2017
Streets	\$ 7,000,000	\$ 4,000,000	\$ 3,000,000
Water	2,000,000	-	2,000,000
Sanitary sewer and storm drainage	2,000,000	-	2,000,000
Traffic and safety controls	1,000,000	-	1,000,000
Parks and recreation	3,000,000	-	3,000,000
Mosquito control	1,000,000	-	1,000,000
Television relay and translation	1,000,000	-	1,000,000
Public transportation	250,000	-	250,000
Operations and maintenance	500,000	-	500,000
Refunding of debt	20,000,000	-	20,000,000
	<u>\$ 37,750,000</u>	<u>\$ 4,000,000</u>	<u>\$ 33,750,000</u>

Pursuant to the Joint Service Plan, the Districts can issue bond indebtedness of up to \$35,000,000. In addition, the maximum debt service mill levy for the Districts is 50.000 mills, as adjusted for changes in the ratio of actual value to assessed value of property within the Districts. As of December 31, 2017, the calculated adjusted debt service mill levy was 50.000 mills of which the District levied 45.000 mills for collection in 2017 and 49.750 mills for collection in 2018. The 2018 mill levy was adjusted for a change in the residential assessment ratio from 7.96% to 7.20%.

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

MESA RIDGE METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 5 - NET POSITION

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

The restricted component of net position includes net 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 of \$203,961 for debt service 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 payment of debt issued for public improvements, while the funds from the debt issuance were transferred to District No. 1 for use in repayment of capital advances incurred by District No. 1 pursuant to the Joint Financing and Reimbursement Agreement (see below).

NOTE 6 - RELATED PARTIES

The Developer of the property which constitutes the District is Nor'wood Development Group. The members of the Board of Directors are officers of, employees of, or associated with the Developer and may have conflicts of interest in dealing with the District. The Developer is also the owner of the District's Series 2015 bonds.

NOTE 7 - INTERGOVERNMENTAL AGREEMENT

Joint Financing and Reimbursement Agreement

On March 30, 2011, the District entered into a Joint Financing and Reimbursement Agreement (the Agreement) with District No. 1 and the Developer. Under the Agreement, any advances made by the Developer shall be made payable to District No. 1, which is coordinating the planning, design, acquisition, construction, installation, relocation, redevelopment, and financing of public improvements. All advances made to District No. 1 shall bear simple interest at the rate of seven percent (7%) per annum, calculated from January 1 of the year immediately following the year in which the advances were made. During 2015, the District issued \$4,000,000 of Limited Tax General Obligation Bonds and transferred \$3,942,500 to District No. 1 under the Agreement.

MESA RIDGE METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 8 - RISK MANAGEMENT

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

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

The District pays annual premiums to the Pool for liability, property and public officials' liability coverage. In the event aggregated losses incurred by the Pool exceed amounts recoverable from reinsurance contracts and funds accumulated by the Pool, the Pool may require additional contributions from the Pool members. Any excess funds which the Pool determines are not needed for purposes of the Pool may be returned to the members pursuant to a distribution formula.

NOTE 9 - TAX, SPENDING AND DEBT LIMITATIONS

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

Spending and revenue limits are determined based on the prior year's Fiscal Year Spending adjusted for allowable increases based upon inflation and local growth. Fiscal Year Spending is generally defined as expenditures plus reserve increases with certain exceptions. Revenue in excess of the Fiscal Year Spending limit must be refunded unless the voters approve retention of such revenue.

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. Pursuant to provisions in the Joint Service Plan, the District transfers all available General Fund revenue to District No. 1. Therefore, no Emergency Reserve related to this revenue stream is captured in the District, but is instead accounted for in District No. 1.

On November 2, 2004, the District's voters authorized the District to increase property taxes \$500,000 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.

MESA RIDGE METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

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

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

MESA RIDGE 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>
REVENUES			
Property taxes	\$ 319,815	\$ 319,815	\$ -
Specific ownership tax	35,180	43,329	8,149
Net investment income	1,000	3,643	2,643
Total revenues	<u>355,995</u>	<u>366,787</u>	<u>10,792</u>
EXPENDITURES			
Debt service			
Bond interest - Series 2015	237,600	237,600	-
Bond principal - Series 2015	60,000	60,000	-
County Treasurer's fees	4,800	4,797	3
Paying agent fees	300	-	300
Contingency	2,300	-	2,300
Total expenditures	<u>305,000</u>	<u>302,397</u>	<u>2,603</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>50,995</u>	<u>64,390</u>	<u>13,395</u>
FUND BALANCES - BEGINNING OF YEAR	<u>181,429</u>	<u>184,071</u>	<u>2,642</u>
FUND BALANCES - END OF YEAR	<u><u>\$ 232,424</u></u>	<u><u>\$ 248,461</u></u>	<u><u>\$ 16,037</u></u>

MESA RIDGE METROPOLITAN DISTRICT NO. 2
SCHEDULE OF DEBT SERVICE REQUIREMENTS TO MATURITY
December 31, 2017

\$4,000,000
Limited Tax General Obligation Bonds
Series 2015
Dated March 26, 2015
Interest Rate of 6.0%
Due June 1 and December 1
Principal Due December 1

	<u>Principal</u>	<u>Interest</u>	<u>Total General Obligation Bonds</u>
2018	\$ 60,000	\$ 234,000	\$ 294,000
2019	65,000	230,400	295,400
2020	70,000	226,500	296,500
2021	75,000	222,300	297,300
2022	75,000	217,800	292,800
2023	80,000	213,300	293,300
2024	85,000	208,500	293,500
2025	90,000	203,400	293,400
2026	95,000	198,000	293,000
2027	105,000	192,300	297,300
2028	110,000	186,000	296,000
2029	115,000	179,400	294,400
2030	125,000	172,500	297,500
2031	130,000	165,000	295,000
2032	140,000	157,200	297,200
2033	145,000	148,800	293,800
2034	155,000	140,100	295,100
2035	165,000	130,800	295,800
2036	175,000	120,900	295,900
2037	185,000	110,400	295,400
2038	195,000	99,300	294,300
2039	210,000	87,600	297,600
2040	220,000	75,000	295,000
2041	235,000	61,800	296,800
2042	250,000	47,700	297,700
2043	265,000	32,700	297,700
2044	280,000	16,800	296,800
	<u>\$ 3,900,000</u>	<u>\$ 4,078,500</u>	<u>\$ 7,978,500</u>

**MESA RIDGE METROPOLITAN DISTRICT NO. 2
SCHEDULE 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	\$ 1,294,930	37.000	0.000	\$ 47,912	\$ 47,913	100.00%
2014	\$ 2,647,050	37.000	0.000	\$ 97,940	\$ 97,905	99.96%
2015	\$ 6,062,500	5.000	38.000	\$ 260,687	\$ 264,253	101.37%
2016	\$ 6,919,520	5.000	45.000	\$ 345,976	\$ 346,229	100.07%
2017	\$ 7,107,010	5.000	45.000	\$ 355,350	\$ 355,350	100.00%
Estimated for the year ending December 31, 2018	\$ 6,918,070	5.528	49.750	\$ 382,417		

NOTE:

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