

**STERLING RANCH METROPOLITAN DISTRICT NO. 2**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2017**

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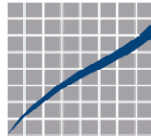
July 31, 2018



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**BiggsKofford**  
CERTIFIED PUBLIC ACCOUNTANTS

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## INDEPENDENT AUDITOR'S REPORT

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Board of Directors  
**Sterling Ranch Metropolitan District No. 2**  
Colorado Springs, Colorado

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and each major fund of Sterling Ranch Metropolitan District #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 30, 2018

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## **BASIC FINANCIAL STATEMENTS**

**STERLING RANCH METROPOLITAN DISTRICT NO. 2**  
**STATEMENT OF NET POSITION**  
**DECEMBER 31, 2017**

	<b>Governmental Activities</b>
<b><u>ASSETS</u></b>	
Cash and investments	\$ 26,565
Cash and investments - restricted	786,305
Accounts receivable - County Treasurer	57
Property taxes receivable	11,686
Note receivable	738,408
Infrastructure assets	6,773,077
Total assets	8,336,098
<b><u>LIABILITIES</u></b>	
Accounts payable	35,293
Noncurrent liabilities:	
Accounts payable	50,667
Developer advances	42,193
General obligation limited tax bonds:	
Due in more than one year	10,208,944
Total liabilities	10,337,097
<b><u>DEFERRED INFLOWS OF RESOURCES</u></b>	
Deferred property tax revenues	11,686
Total deferred inflows of resources	11,686
<b><u>NET POSITION</u></b>	
Restricted for:	
Debt service	987
Capital projects	786,305
Emergency reserve	980
Unrestricted	(2,800,957)
Total net position	\$ (2,012,685)

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

**STERLING RANCH METROPOLITAN DISTRICT NO. 2**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED DECEMBER 31, 2017**

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net Revenue and Change in Net Position of Primary Government - Governmental Activities</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
<b>FUNCTIONS/PROGRAMS</b>					
<b>PRIMARY GOVERNMENT:</b>					
General government	\$ 51,114	\$ -	\$ -	\$ -	\$ (51,114)
Interest and related costs on long-term debt	817,153	-	-	-	(817,153)
<b>Total primary government</b>	<b>\$ 868,267</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>(868,267)</b>
<b>GENERAL REVENUES:</b>					
Property taxes					4,979
Specific ownership taxes					649
Interest income					39,121
<b>Total general revenues</b>					<b>44,749</b>
<b>Changes in net position</b>					<b>(823,518)</b>
<b>Net position, beginning of year</b>					<b>(1,189,167)</b>
<b>Net position, end of year</b>					<b>\$ (2,012,685)</b>

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

**STERLING RANCH METROPOLITAN DISTRICT NO. 2**  
**BALANCE SHEETS**  
**GOVERNMENTAL FUNDS**  
**DECEMBER 31, 2017**

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
<b><u>ASSETS</u></b>				
Cash and investments	\$ 25,624	\$ 941	\$ -	\$ 26,565
Cash and investments - restricted	-	-	786,305	786,305
Accounts receivable - County Treasurer	11	46	-	57
Property taxes receivable	2,337	9,349	-	11,686
<b>Total assets</b>	<b>\$ 27,972</b>	<b>\$ 10,336</b>	<b>\$ 786,305</b>	<b>824,613</b>
<b><u>LIABILITIES</u></b>				
Accounts payable	35,293	-	-	35,293
<b>Total liabilities</b>	<b>35,293</b>	<b>-</b>	<b>-</b>	<b>35,293</b>
<b><u>DEFERRED INFLOWS OF RESOURCES</u></b>				
Deferred property tax revenues	2,337	9,349	-	11,686
<b>Total deferred inflows of resources</b>	<b>2,337</b>	<b>9,349</b>	<b>-</b>	<b>11,686</b>
<b><u>FUND BALANCE</u></b>				
Restricted for:				
Debt service	-	46	-	46
Capital projects	-	-	786,305	786,305
Emergency reserve	980	-	-	980
Unassigned	(10,638)	941	-	(9,697)
<b>Total fund balances</b>	<b>(9,658)</b>	<b>987</b>	<b>786,305</b>	<b>777,634</b>
<b>Total liabilities and fund balances</b>	<b>\$ 27,972</b>	<b>\$ 10,336</b>	<b>\$ 786,305</b>	

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

Capital assets and note receivable used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Infrastructure assets	6,773,077
Note receivable	738,408

Certain liabilities and receivables are not due and payable in the current period and therefore are not reported in the funds:

Noncurrent accounts payable	(50,667)
Developer advances	(42,193)
Bonds payable	(10,208,944)

Net position of governmental activities	<b>\$ (2,012,685)</b>
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The accompanying notes and independent auditor's report  
should be read with this financial statement.

**STERLING RANCH METROPOLITAN DISTRICT NO. 2**  
**STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN**  
**FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**YEAR ENDED DECEMBER 31, 2017**

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
<b><u>REVENUES</u></b>				
Property taxes	\$ 996	\$ 3,983	\$ -	\$ 4,979
Specific ownership taxes	130	519	-	649
Net investment income	1	-	22,871	22,872
<b>Total revenues</b>	<b>1,127</b>	<b>4,502</b>	<b>22,871</b>	<b>28,500</b>
<b><u>EXPENDITURES</u></b>				
Current:				
Audit	7,500	-	-	7,500
Bank charges	235	-	7,070	7,305
Dues and subscription	520	-	-	520
Insurance	2,737	-	-	2,737
Legal	3,187	-	-	3,187
Management fees	18,081	-	-	18,081
Office expense	126	-	-	126
Treasurer's fees	15	60	-	75
Capital projects:				
Capital outlay	-	-	3,611,475	3,611,475
<b>Total expenditures</b>	<b>32,401</b>	<b>60</b>	<b>3,618,545</b>	<b>3,651,006</b>
<b>Excess of revenues over (under) expenditures</b>	<b>(31,274)</b>	<b>4,442</b>	<b>(3,595,674)</b>	<b>(3,622,506)</b>
<b><u>OTHER FINANCING SOURCES (USES)</u></b>				
Developer advances	41,891	-	-	41,891
Transfer in (out) other funds	(5,871)	-	5,871	-
<b>Total other financing sources (uses)</b>	<b>36,020</b>	<b>-</b>	<b>5,871</b>	<b>41,891</b>
<b>Net change in fund balances</b>	<b>4,746</b>	<b>4,442</b>	<b>(3,589,803)</b>	<b>(3,580,615)</b>
<b>Fund balances, beginning of year</b>	<b>(17,904)</b>	<b>45</b>	<b>4,376,108</b>	<b>4,358,249</b>
<b>Fund balances, end of year</b>	<b>\$ (13,158)</b>	<b>\$ 4,487</b>	<b>\$ 786,305</b>	<b>\$ 777,634</b>

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

**STERLING RANCH METROPOLITAN DISTRICT NO. 2**  
**RECONCILIATION OF THE STATEMENTS OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED DECEMBER 31, 2017**

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

**Net change in fund balances - total governmental funds** \$ (3,580,615)

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Infrastructure assets, note receivable and accrued interest on note receivable used in governmental activities are not financial resources and, therefore, are not reported in the funds

Infrastructure assets	2,889,316
Note receivable	722,159
Interest income, note receivable	16,249

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The issuance of debt provides current financial resources to government funds, while the repayment of principal of debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. The net effect of these differences in the treatment of debt is as follows.

Bond discount	(15,008)
Series 2015 Bond accretion	(802,145)
Developer advances	(41,893)

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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.

Change in and reclassification of noncurrent accounts payable	(11,581)
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**Changes in net position of governmental activities** **\$ (823,518)**

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

**STERLING RANCH METROPOLITAN DISTRICT NO. 2**  
**GENERAL FUND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**YEAR ENDED DECEMBER 31, 2017**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
<b><u>REVENUES</u></b>				
Property taxes	\$ 957	\$ 996	\$ 996	\$ -
Specific ownership taxes	67	130	130	-
Net investment income	1	38	1	(37)
<b>Total revenues</b>	<b>1,025</b>	<b>1,164</b>	<b>1,127</b>	<b>(37)</b>
<b><u>EXPENDITURES</u></b>				
Audit	16,000	7,500	7,500	-
Bank charges	150	235	235	-
Dues and subscription	1,000	520	520	-
Insurance	2,500	2,800	2,737	63
Legal	48,000	14,100	3,187	10,913
Management fees	48,000	24,000	18,081	5,919
Office expense	-	126	126	-
Maintenance expense	30,000	-	-	-
Treasurer's fees	14	15	15	-
<b>Total expenditures</b>	<b>145,664</b>	<b>49,296</b>	<b>32,401</b>	<b>16,895</b>
Excess of revenues over (under) expenditures	(144,639)	(48,132)	(31,274)	16,858
<b><u>OTHER FINANCING SOURCES (USES)</u></b>				
Developer advances	150,000	41,891	41,891	-
Transfer from other funds	-	-	(5,871)	(5,871)
<b>Total other financing sources</b>	<b>150,000</b>	<b>41,891</b>	<b>36,020</b>	<b>(5,871)</b>
<b>Net change in fund balance</b>	<b>\$ 5,361</b>	<b>\$ (6,241)</b>	<b>4,746</b>	<b>\$ 10,987</b>
Fund balance, beginning of year			(17,904)	
Fund balance, end of year			<b>\$ (13,158)</b>	

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

**STERLING RANCH METROPOLITAN DISTRICT NO. 2**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

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**1. DEFINITION OF REPORTING ENTITY**

Sterling Ranch Metropolitan District No. 2 ("District #2"), a quasi-municipal corporation and a political subdivision of the State of Colorado created pursuant to the Special District Act, was formed in 2010 for the purpose of providing the funding for various public improvements. The District's service area is located in El Paso County, Colorado ("County").

District #2 was formed in conjunction with Sterling Ranch Metropolitan District ("District #1") and Sterling Ranch Metropolitan District No. 3 ("District #3") to design, finance, and construct a central water system, drainage improvements, an interconnected system of trails, parks, and open spaces, and transportation improvements for Marksheffel Road, Vollmer Road, Banning Lewis Parkway, and Stapleton Road.

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.

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

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Government-wide and fund financial statements

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

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

See independent auditor's report

**STERLING RANCH METROPOLITAN DISTRICT NO. 2**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Government-wide and fund financial statements (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 position

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectable within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, District #2 considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The major sources of revenue susceptible to accrual are property taxes, specific ownership taxes, recoveries and intergovernmental revenue. All other revenue items are considered to be measurable and available only when cash is received by the District #2. District #2 has 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.

District #2 reports the following major governmental funds:

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

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

*Capital projects fund* - The capital projects fund accounts for financial resources to be used for the acquisition and construction of capital equipment and facilities.

See independent auditor's report

**STERLING RANCH METROPOLITAN DISTRICT NO. 2**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Budgets

In accordance with state budget law, District #2's board of directors holds public hearings in the fall each year to approve the budget and appropriate the funds for the ensuing year. The appropriation is at the total fund expenditures and other financing uses level and lapses at year-end. District #2's board of directors can modify the budget by line item within the total appropriation without notification. The appropriation can only be modified upon completion of notification and publication requirements. The budget includes each fund on its basis of accounting unless otherwise indicated.

Pooled cash and investments

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

Infrastructure assets

Costs of certain engineering, feasibility, environmental and other infrastructure costs are capitalized as infrastructure assets, and are not depreciated. Upon completion of the infrastructure assets and acceptance, the assets will be contributed to the County.

Property taxes

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

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

See independent auditor's report

**STERLING RANCH METROPOLITAN DISTRICT NO. 2**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Interfund balances

District #2 reports interfund balances that are representative of lending/borrowing arrangements between funds in the fund financial statements as due to/from other funds. The interfund balances have been eliminated in the government-wide statements.

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 are 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 is legally or contractually required to be maintained intact.

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

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

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

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

See independent auditor's report

**STERLING RANCH METROPOLITAN DISTRICT NO. 2**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Equity (continued)

Fund balance (continued)

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

**3. CASH AND INVESTMENTS**

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

Statement of net position:

Cash and investments	26,565
Cash and investments - restricted	<u>786,305</u>
 Total cash and investments	 <u><u>\$ 812,870</u></u>

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

Deposits with financial institutions	\$ 26,565
Investments	<u>786,305</u>
 Total cash and investments	 <u><u>\$ 812,870</u></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. The PDPA allows the institution to create a single collateral pool for all public funds. The pool for all the uninsured public deposits as a group is to be maintained by another institution or held in trust. The market value of the collateral must be 102% of the aggregate uninsured deposits.

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

At December 31, 2017, the District's cash deposits had a bank balance of \$26,565 and a carrying balance of \$26,565.

See independent auditor's report

**STERLING RANCH METROPOLITAN DISTRICT NO. 2**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

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**3. CASH AND INVESTMENTS (CONTINUED)**

Investments

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

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

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

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

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

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

<b>Investments</b>	<b>Maturity</b>	<b>Fair Value</b>
Colorado Surplus Asset Trust Fund (CSAFE)	Weighted average under 60 days	<u>\$ 786,305</u>

See independent auditor's report

**STERLING RANCH METROPOLITAN DISTRICT NO. 2**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

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**3. CASH AND INVESTMENTS (CONTINUED)**

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.

**4. NOTE RECEIVABLE**

On March 31, 2017, the District entered into a promissory note agreement with SR Land, LLC ("Developer") in the amount of \$722,159. The purpose of this note is to provide short-term financing for two irrevocable standby letters of credit required by Board of County Commissioners, El Paso County, Colorado ("County") to guarantee the construction and completion of grading and erosion control in connection with the development of a project within the District. This note bears interest at 3.00% per annum, maturing on July 1, 2018. The balance outstanding as of December 31, 2017 totaled \$738,408, which includes accrued interest in the amount of \$16,249. Because the note is past maturity, it is callable by the District.

**5. INFRASTRUCTURE ASSETS**

The following is a summary schedule of infrastructure asset activity recorded by District #2 during the year ended December 31, 2017:

	Balance 01/01/17	Additions/ Reclass- ifications	Dispositions Reclass- ifications	Balance 12/31/17
Infrastructure assets	\$ 3,883,761	\$ 2,889,316	\$ -	\$ 6,773,077

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**STERLING RANCH METROPOLITAN DISTRICT NO. 2**  
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**6. LONG-TERM OBLIGATIONS**

Series 2015 Bonds

On December 18, 2015, District #2 issued bonds with an original value of \$9,062,406 and a fully accreted face value of \$13,365,000. The difference between these amounts will accrete from issuance until December 1, 2021 due to the fact that no payments of principal or interest are required until that date. The bonds bear interest at a rate of 8.00% per annum, to be paid to bondholders semi-annually on each June 1 and December 1, beginning on June 1, 2021. The bonds mature on December 1, 2045 and are subject to redemption between December 1, 2022 and November 30, 2024 at the option of District #2. Any redemptions during that period must be in amounts greater than \$1,000 and are subject to prepayment fees ranging from 1.00% to 2.00%. The bonds are subject to mandatory sinking fund redemption prior to maturity on each December 1 from 2024 through maturity in 2045. The bonds will be paid from pledged revenues including property taxes, specific ownership taxes and development fees.

District #2 is required, pursuant to the bond agreement, to maintain project, surplus, loan payment, reserve and cost of issuance cash accounts. District #2 is in compliance with the requirements as of December 31, 2017.

The following is a summary of bonds payable for the year ended December 31, 2017 as follows:

	<u>Balance 01/01/17</u>	<u>Additions</u>	<u>Repayments/ Accretion</u>	<u>Balance 12/31/17</u>	<u>Due within one year</u>
Series 2015 Bonds	\$ 13,365,000	\$ -	\$ -	\$ 13,365,000	\$ -
Series 2015 Bond Accretion	(3,534,241)	-	802,145	(2,732,096)	-
Series 2015 Bond Discount	<u>(438,968)</u>	<u>-</u>	<u>15,008</u>	<u>(423,960)</u>	<u>-</u>
	<u>\$ 9,391,791</u>	<u>\$ -</u>	<u>\$ 817,153</u>	<u>\$ 10,208,944</u>	<u>\$ -</u>

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**STERLING RANCH METROPOLITAN DISTRICT NO. 2**  
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**6. LONG-TERM OBLIGATIONS (CONTINUED)**

Annual requirements to amortize 2015 Series Bonds:

<u>Year Ending December 31,</u>	<u>Principal Payments</u>	<u>Interest/ Accretion</u>	<u>Total</u>
2018	-	861,909	861,909
2019	-	932,209	932,209
2020	-	1,008,389	1,008,389
2021	-	1,069,200	1,069,200
2022	-	1,069,200	1,069,200
2023-2027	580,000	5,302,800	5,882,800
2027-2032	1,635,000	4,882,400	6,517,400
2032-2037	2,785,000	4,059,600	6,844,600
2037-2042	4,515,000	2,689,600	7,204,600
2043-2045	3,850,000	634,400	4,484,400
Total	<u>\$ 13,365,000</u>	<u>\$ 22,509,707</u>	<u>\$ 35,874,707</u>

**7. NET POSITION**

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

Restricted positions include net positions that are subject to restrictions for use either by external restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation. District #2 had a restricted net position of as of December 31, 2017 as follows:

	<u>Government Activities</u>
Restricted net position:	
Debt service (see Note 6)	\$ 987
Capital projects	786,305
Emergencies (see Note 11)	980
Total restricted net position	<u>\$ 788,272</u>

District #2's unrestricted net position as of December 31, 2017 totaled a deficit of \$2,800,957. This deficit amount was a result of District #2's responsibility for the repayment of general obligation bonds related to assets which have been contributed to other governments.

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**8. RELATED PARTIES**

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

Note receivable

The District entered into a note receivable agreement with the developer (see Note 4).

**9. ECONOMIC DEPENDENCY**

The District has not yet established a revenue base sufficient to pay operational and capital expenditures and meet debt service requirements. Until an independent revenue base is established, continuation of operations in the District and construction of public improvements will be dependent upon funding by the developer.

**10. RISK MANAGEMENT**

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

District #2 is a member of the Colorado Special Districts Property and Liability Pool ("Pool") as of December 31, 2017. The Pool is an organization created by intergovernmental agreement to provide property, liability, public officials liability, boiler and machinery and workers compensation coverage to its members. Settled claims have not exceeded this coverage in any of the past three fiscal years.

District #2 pays annual premiums to the Pool for liability, property and public officials liability coverage. In the event aggregated losses incurred by the Pool exceed amounts recoverable from reinsurance contracts and funds accumulated by the Pool, the Pool may require additional contributions from the Pool members. Any excess funds which the Pool determines are not needed for purposes of the Pool may be returned to the members pursuant to a distribution formula.

**11. TAX, SPENDING AND DEBT LIMITATIONS**

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

Spending and revenue limits are determined based on the prior fiscal year spending adjusted for allowable increases based upon inflation and local growth. Fiscal year spending is generally defined as expenditures plus reserve increases with certain exceptions. Revenue in excess of the fiscal year spending limit must be refunded unless the voters approve retention of such revenue. District #2's voters approved a ballot issue allowing District #2 to retain all revenues.

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**STERLING RANCH METROPOLITAN DISTRICT NO. 2**  
**NOTES TO FINANCIAL STATEMENTS**  
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**11. TAX, SPENDING AND DEBT LIMITATIONS**

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.

District #2's management believes it is in compliance with the provisions of TABOR. However, TABOR is complex and subject to interpretation. Many of the provisions, including the interpretation of how to calculate fiscal year spending limits, will likely require judicial interpretation.

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## **SUPPLEMENTARY INFORMATION**

**STERLING RANCH METROPOLITAN DISTRICT NO. 2**  
**DEBT SERVICE FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**YEAR ENDED DECEMBER 31, 2017**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
<b><u>REVENUES</u></b>				
Property taxes	\$ 3,830	\$ 3,983	\$ 3,983	\$ -
Specific ownership taxes	268	519	519	-
Total revenues	<u>4,098</u>	<u>4,502</u>	<u>4,502</u>	<u>-</u>
<b><u>EXPENDITURES</u></b>				
Bank charges	-	3,500	-	3,500
Treasurer's fees	57	60	60	-
Contingency	-	100	-	100
Total expenditures	<u>57</u>	<u>3,660</u>	<u>60</u>	<u>3,600</u>
Revenues in excess of expenditures	4,041	842	4,442	3,600
<b><u>OTHER FINANCING SOURCES (USES)</u></b>				
Transfer in (out) other funds	-	-	-	-
Total other financing uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	<u>\$ 4,041</u>	<u>\$ 842</u>	\$ 4,442	<u>\$ 3,600</u>
Fund balance, beginning of year			<u>45</u>	
Fund balance, end of year			<u>\$ 4,487</u>	

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**STERLING RANCH METROPOLITAN DISTRICT NO. 2**  
**CAPITAL PROJECTS FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**YEAR ENDED DECEMBER 31, 2017**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
<b><u>REVENUES</u></b>				
Net investment income	\$ -	\$ 22,871	\$ 22,871	\$ -
Total revenues	-	22,871	22,871	-
<b><u>EXPENDITURES</u></b>				
Bank charges	6,200	7,070	7,070	-
Capital outlay	4,426,590	3,663,000	3,611,475	51,525
Total expenditures	4,432,790	3,670,070	3,618,545	51,525
Revenues in excess (deficit) of expenditures	(4,432,790)	(3,647,199)	(3,595,674)	51,525
<b><u>OTHER FINANCING SOURCES (USES)</u></b>				
Transfer in (out) other funds	-	-	5,871	5,871
Total other financing sources	-	-	5,871	5,871
Net change in fund balance	<u>\$ (4,432,790)</u>	<u>\$ (3,647,199)</u>	\$ (3,589,803)	<u>\$ 57,396</u>
Fund balance, beginning of year			4,376,108	
Fund balance, end of year			<u>\$ 786,305</u>	

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