

SERENITY RIDGE METROPOLITAN DISTRICT NO. 2
Arapahoe County, Colorado
—
FINANCIAL STATEMENTS
December 31, 2017

L. PAUL GOEDECKE P.C.
CERTIFIED PUBLIC ACCOUNTANTS



RECEIVED

Office of the State Auditor

September 27, 2018

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Board of Directors

Serenity Ridge Metropolitan District No. 2

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Serenity Ridge Metropolitan District No. 2 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 an opinion 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 the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Serenity Ridge Metropolitan District No. 2 as of December 31, 2017, and the respective changes in financial position and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The supplementary information as listed in the table of contents is presented for purposes of legal compliance and additional analysis and is not a required part of the financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

L. Paul Goedecke P.C.

L. Paul Goedecke, P.C.
September 18, 2018

Serenity Ridge Metropolitan District No. 2

BALANCE SHEET/STATEMENT OF NET POSITION
GOVERNMENTAL FUNDS
December 31, 2017

	<u>General</u>	<u>Debt Service</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
ASSETS					
Cash and investments	\$ -	\$ -	\$ -	\$ -	\$ -
Cash and investments - restricted	481	1,135,881	1,136,362	-	1,136,362
Receivable - County Treasurer	309	5,717	6,026	-	6,026
Property taxes receivable	41,132	1,149,388	1,190,520	-	1,190,520
Accounts receivable	<u>2,085</u>	<u>-</u>	<u>2,085</u>	<u>-</u>	<u>2,085</u>
Total Assets	<u>44,007</u>	<u>2,290,986</u>	<u>2,334,993</u>	<u>-</u>	<u>2,334,993</u>
LIABILITIES					
Accounts payable	\$ -	\$ 24,527	\$ 24,527	-	24,527
Accrued interest	-	-	-	21,925	21,925
Long-term liabilities:					
Due in one year				270,000	270,000
Due in more than one year	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,160,000</u>	<u>9,160,000</u>
Total Liabilities	<u>-</u>	<u>24,527</u>	<u>24,527</u>	<u>9,451,925</u>	<u>9,476,452</u>
DEFERRED INFLOWS OF RESOURCES					
Deferred property taxes	<u>41,132</u>	<u>1,149,388</u>	<u>1,190,520</u>	<u>-</u>	<u>1,190,520</u>
Total Deferred Inflows of Resources	<u>41,132</u>	<u>1,149,388</u>	<u>1,190,520</u>	<u>-</u>	<u>1,190,520</u>
FUND BALANCES/NET POSITION					
Fund Balances:					
Restricted:					
Emergencies	1,335	-	1,335	(1,335)	-
Debt service	-	1,117,071	1,117,071	(1,117,071)	-
Unassigned	<u>1,540</u>	<u>-</u>	<u>1,540</u>	<u>(1,540)</u>	<u>-</u>
Total Fund Balances	<u>2,875</u>	<u>1,117,071</u>	<u>1,119,946</u>	<u>(1,119,946)</u>	<u>-</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 44,007</u>	<u>\$ 2,290,986</u>	<u>\$ 2,334,993</u>		
Net Position:					
Restricted for:					
Emergencies				1,335	1,335
Debt service				1,117,071	1,117,071
Unrestricted				<u>(9,450,385)</u>	<u>(9,450,385)</u>
Total Net Position				<u>\$ (8,331,979)</u>	<u>\$ (8,331,979)</u>

The notes to the financial statements are an integral part of these statements.

Serenity Ridge Metropolitan District No. 2

STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES/STATEMENT OF ACTIVITIES
GOVERNMENTAL FUNDS

For the Year Ended December 31, 2017

	<u>General</u>	<u>Debt Service</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
EXPENDITURES					
Accounting and audit	\$ -	\$ 6,300	\$ 6,300	\$ -	\$ 6,300
Transfer to District No. 1	42,500	-	42,500	-	42,500
Treasurer's fees	611	12,723	13,334	-	13,334
Loan principal	-	265,000	265,000	(265,000)	-
Bond issuance costs	-	24,525	24,525	-	24,525
2014 Loan interest	-	267,003	267,003	(616)	266,387
Paying and loan fees	-	2,000	2,000	-	2,000
	<u>43,111</u>	<u>577,551</u>	<u>620,662</u>	<u>(265,616)</u>	<u>355,046</u>
Total Expenditures					
GENERAL REVENUES					
Property taxes	40,726	847,486	888,212	-	888,212
Specific ownership taxes	3,521	72,540	76,061	-	76,061
Interest income	112	13,154	13,266	-	13,266
Miscellaneous income	147	-	147	-	147
	<u>44,506</u>	<u>933,180</u>	<u>977,686</u>	<u>-</u>	<u>977,686</u>
Total General Revenues					
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	1,395	355,629	357,024	265,616	622,640
OTHER FINANCING SOURCES (USES)					
Transfers in (out)	<u>(8,300)</u>	<u>8,300</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>(8,300)</u>	<u>8,300</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGES IN FUND BALANCES	(6,905)	363,929	357,024	(357,024)	
CHANGE IN NET POSITION				622,640	622,640
FUND BALANCES/NET POSITION:					
BEGINNING OF YEAR- RESTATED	<u>9,780</u>	<u>753,142</u>	<u>762,922</u>	<u>(9,717,541)</u>	<u>(8,954,619)</u>
END OF YEAR	<u>\$ 2,875</u>	<u>\$ 1,117,071</u>	<u>\$ 1,119,946</u>	<u>\$ (9,451,925)</u>	<u>\$ (8,331,979)</u>

The notes to the financial statements are an integral part of these statements.

Serenity Ridge Metropolitan District No. 2

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND

For the Year Ended December 31, 2017

	Original <u>Budget</u>	Final <u>Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
REVENUES				
Property taxes	\$ 40,953	\$ 40,953	\$ 40,726	\$ (227)
Specific ownership taxes	2,800	3,600	3,521	(79)
Interest income	600	600	112	(488)
Miscellaneous income	-	1,067	147	(920)
Total Revenues	<u>44,353</u>	<u>46,220</u>	<u>44,506</u>	<u>(1,714)</u>
EXPENDITURES				
Transfer to District No. 1	40,727	47,089	42,500	4,589
Treasurer's fees	700	611	611	-
Contingency	647	-	-	-
Emergency reserve	1,331	-	-	-
Total Expenditures	<u>43,405</u>	<u>47,700</u>	<u>43,111</u>	<u>4,589</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES				
	948	(1,480)	1,395	2,875
OTHER FINANCING SOURCES (USES)				
Transfers out	-	(8,300)	(8,300)	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>(8,300)</u>	<u>(8,300)</u>	<u>-</u>
NET CHANGE IN FUND BALANCE				
	948	(9,780)	(6,905)	2,875
FUND BALANCE:				
BEGINNING OF YEAR	<u>16,685</u>	<u>9,780</u>	<u>9,780</u>	<u>-</u>
END OF YEAR	<u>\$ 17,633</u>	<u>\$ -</u>	<u>\$ 2,875</u>	<u>\$ 2,875</u>

The notes to the financial statements are an integral part of these statements.

SERENITY RIDGE METROPOLITAN DISTRICT NO. 2

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE 1 – DEFINITION OF REPORTING ENTITY

Definition of Reporting Entity

Serenity Ridge Metropolitan District No. 2 (the “District” or “District No. 2”), a quasi-municipal corporation, was organized on February 2, 2004 and is governed pursuant to provisions of the Colorado Special District Act. The District’s service area is located in Arapahoe County, Colorado. The District was created in conjunction with Serenity Ridge Metropolitan District No. 1 (“District No. 1” and, together with District No. 2, the “Districts”) as part of a common plan to serve the needs of the Serenity Ridge development.

Pursuant to the Districts’ Consolidated Service Plan approved by the City Council of the City of Aurora, Colorado on August 4, 2003 (“Service Plan”), the Districts intend to provide in a cooperative manner, certain essential public-purpose services and facilities for the use and benefit of their property owners, inhabitants and taxpayers, all in accordance with the laws of the State of Colorado. The types of services and facilities that the Districts have the power to provide include water, streets, traffic and safety controls, parks, open space and recreation, sanitary sewer, and drainage and storm water improvements.

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

The District follows the Governmental Accounting Standards Boards (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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Presentation

The accompanying financial statements are presented per GASB Statement No. 34 – Special Purpose Governments.

SERENITY RIDGE METROPOLITAN DISTRICT NO. 2

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. Property taxes are recognized as revenues in the year for which they are levied.

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 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 period. The material sources of revenue subject to accrual are property taxes and interest. Expenditures, other than interest on long-term obligations, are recorded when the liability is incurred or the long-term obligation is paid.

The government reports the following major governmental funds:

General Fund – The General Fund is the general operating fund of the District. It is used to account for all financial resources not accounted for and reported in another fund.

Debt Service Fund – The Debt Service Fund is used to account for the accumulation of resources that are restricted, committed or assigned to expenditures for principal, interest and other debt related costs.

Fund Balances

Beginning with fiscal year 2011 the District implemented GASB Statement No. 54, “Fund Balance Reporting and Governmental Fund Type Definitions.” This statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government’s fund balances more transparent. In the fund financial statements the following classifications describe the relative strength of the spending constraints.

Non-spendable fund balance – The portion of fund balance that cannot be spent because it is either not in spendable form (such as inventory) or is legally or contractually required to be maintained intact.

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

SERENITY RIDGE 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 constrained for specific purposes according to limitations imposed by the District’s highest level of decision making authority, the Board of Directors prior to the end of the current fiscal year. 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 above criteria.

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

Budgets

In accordance with the State Budget Law, the District’s Board of Directors holds public hearings in the fall of 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 General Fund budget from \$43,404 to \$56,000 and its Debt Service Fund budget from \$513,653 to \$580,000.

Cash

The District follows the practice of pooling cash 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.

SERENITY RIDGE METROPOLITAN DISTRICT NO. 2

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fixed Assets

The District transfers all capital funds as needed to District No. 1 pursuant to the District Facilities Construction and Services Agreement described in Note 5. Construction in progress is reflected on District No. 1's financial statements.

Property Taxes

Property taxes are levied by the District 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 assess the property tax obligation of 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 at the taxpayer's election, in equal installments in February and June. Delinquent taxpayers are notified in August and the sales of the resultant tax liens on delinquent properties are generally 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 inflows in the year they are levied and measurable. The deferred property tax revenues are recorded as revenue in the year they are available or collected.

Restricted Fund Balance

Emergency Reserves have been provided for as required by Article X, Section 20 of the Constitution of the State of Colorado. \$1,335 of the General Fund balance has been restricted in compliance with this requirement.

NOTE 3 - CASH AND INVESTMENTS

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

Statement of net position:

Cash and investments – restricted	\$ 1,136,362
	<u>\$ 1,136,362</u>

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

Investments	<u>\$ 1,136,362</u>
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SERENITY RIDGE METROPOLITAN DISTRICT NO. 2

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

Deposits

Deposits with Financial Institutions

The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. State regulators determine eligibility. 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 is to be maintained by another institution, or held in trust for all the uninsured public deposits as a group. 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.

While the District does not have a formal policy for deposits, as of December 31, 2017, none of the District's deposits were exposed to custodial credit risk.

Investments

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

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

Colorado State 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 U.S. government agency securities
- Certain international agency securities
- General obligation and revenue bonds of U.S. local government entities
- Bankers' acceptances of certain banks
- Commercial paper
- Written repurchase agreements collateralized by certain authorized securities

SERENITY RIDGE METROPOLITAN DISTRICT NO. 2

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NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

- Certain money market mutual funds
- Guaranteed investment contracts
- * Local government investment pools

Custodial And Concentration Of Credit Risk

None of the District's investments are subject to custodial or concentration of credit risk.

Interest Rate Risk

Colorado revised statutes limit investment maturities to five years or less unless formally approved by the Board of Directors.

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

<u>Investment</u>	<u>Maturity</u>	<u>Fair Value</u>
U.S. Bank Fidelity Governmental Fund	Weighted average Under 60 days	\$ 291,193
COLOTRUST PLUS+	Weighted average Under 60 days	845,169
		<u>\$ 1,136,362</u>

FIDELITY GOVERNMENTAL FUND MONEY MARKET FUND

As of December 31, 2017, the District had \$291,193 invested in the Fidelity Governmental Fund Money Market Fund. The money market fund may invest in U.S. government treasury securities, U.S. government agency securities, commercial paper and repurchase agreements collateralized with securities valued in excess of the repurchase agreement amount. The maximum maturity allowed for any investment is 365 days. A designated custodial bank provides safekeeping depository services, and substantially all securities owned by the Fidelity Governmental Fund Money Market Fund are held by the Federal Reserve Bank in the account maintained for the custodial bank.

COLOTRUST

As of December 31, 2017 the District had invested in the Colorado Local Government Liquid Asset Trust (ColoTrust), an investment vehicle established for local government entities in Colorado to pool surplus funds. The State Securities Commission 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

SERENITY RIDGE METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2017

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

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 repurchase agreements collateralized by certain obligations of U.S. government agencies. 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. As of December 31, 2017, the District has \$845,169 invested in COLOTRUST PLUS+.

NOTE 4 – LONG TERM DEBT

2014 Loan Agreement

On September 10, 2014, the District entered into a Loan Agreement with U.S. Bank National Association (the "Bank") in an amount not to exceed \$9,850,000 for the purpose of refunding the District's Series 2004 General Obligation Bonds and for the purpose of pay or reimbursing certain capital improvements costs ("2014 Loan"). The 2014 Loan bears interest at 2.79% and matures September 10, 2019.

The 2014 Loan is a limited tax obligation of the District secured by Pledged Revenue, consisting of the moneys derived by the District from the following sources, net of any costs of collection: (i) the Required Mill Levy, (ii) the portion of the Specific Ownership Taxes allocable to the amount of the District's debt service mill levy (i.e. not including its operations mill levy); and (iii) any other legally available funds of the District, which the Board determines in its sole discretion to apply as Pledged Revenue. The District has covenanted to levy an ad valorem mill levy upon all taxable property of the District, in addition to all other taxes, direct annual taxes in the amount of the Required Mill Levy to be imposed in each of the years 2014 to 2018, inclusive (for collection in 2015 to 2019, inclusive), and to the extent necessary to pay the unpaid principal or interest due on the 2014 Loan, in each year thereafter until the principal of and interest on the 2014 Loan is fully paid, satisfied and discharged. Nothing in the 2014 Loan Agreement shall be construed to require the District to levy an ad valorem tax in excess of the Required Mill Levy.

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

SERENITY RIDGE METROPOLITAN DISTRICT NO. 2

**Notes to Financial Statements
December 31, 2017**

NOTE 4 – LONG TERM DEBT (CONTINUED)

	Balance 1/1/2017	Additions	Deletions	Balance 12/31/2017	Current Portion
2014 Limited Tax Obligation Loan	\$ 9,695,000	\$ -	\$ 265,000	\$ 9,430,000	\$ 270,000
	<u>\$ 9,695,000</u>	<u>\$ -</u>	<u>\$ 265,000</u>	<u>\$ 9,430,000</u>	<u>\$ 270,000</u>

The following schedule sets forth the debt service for the District’s outstanding limited tax general obligation debt:

Year	Principal	Interest	Total
2018	\$ 270,000	\$ 263,097	\$ 533,097
2019	9,160,000	255,564	9,415,564
	<u>\$ 9,430,000</u>	<u>\$ 518,661</u>	<u>\$ 9,948,661</u>

Authorization – At an election of the qualified electors of the District held on November 4, 2003 the District’s electorate authorized the issuance of \$27,000,000 of debt for providing improvements, \$500,000 of debt for operation and maintenance and \$27,000,000 of debt for refunding outstanding debt. As of December 31, 2017, the District has \$37,900,000 authorized but unissued debt. Pursuant to the Service Plan, District No. 1 and District No. 2 have a cumulative debt limit of \$18,200,000. As of December 31, 2017, \$9,921,502 of the Service Plan debt authorization remains. During 2018, the District issued its 2018A Bonds and 2018B Bonds in the aggregate amount of \$16,561,000 (See Note 9). \$9,833,001 was issued for refunding outstanding debt and \$6,727,999 was issued for providing public improvements.

NOTE 5 – AGREEMENTS

Acquisition Agreement

District No. 1 and Neumann Homes of Colorado, LLC (the “Developer”) entered into an Improvement Acquisition Agreement dated March 24, 2004 (the “Acquisition Agreement”) whereby the Developer agreed to design and construct certain improvements (the “Improvements”) for the benefit of District No. 1 and the development in anticipation of District No. 1 later acquiring such Improvements from the Developer. In exchange, District No. 1 agreed to pay the Developer for those costs associated with the design and construction of the Improvements, pursuant to the terms of the Acquisition Agreement. As of December 31, 2017, District No. 1 had not acquired any Improvements from the Developer under the Acquisition Agreement.

SERENITY RIDGE METROPOLITAN DISTRICT NO. 2

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Notes to Financial Statements
December 31, 2017

NOTE 5 – AGREEMENTS (CONTINUED)

District Facilities Construction and Service Agreement

On April 21, 2004, the District and District No. 1 entered into a District Facilities Construction and Service Agreement (“District Facilities Agreement”). The District Facilities Agreement designates District No. 1 as the “Operating District”, and the District as the “Taxing District.” The District Facilities Agreement, as well as the Service Plan provides that the Operating District will own, (subject to transfers to other governmental entities) operate, maintain and construct the facilities benefiting both Districts and that the Taxing District will pay all costs related to the construction, operation and maintenance of such facilities through the imposition of taxes and facility fees which will be transferred to the Operating District on an ongoing basis.

NOTE 6 – RELATED PARTY

During 2017, a majority of the District’s board members were officers, employees or consultants of landowners within the District.

NOTE 7 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Explanation of differences between the governmental fund Balance Sheet and the government-wide Statement of Net Position

The governmental fund Balance Sheet and the government-wide Statement of Net Position includes a reconciling column. Explanation of the adjustments included in the reconciling column is as follows:

Loan and interest payable	\$ 9,451,925
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Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.

Explanation of differences between the governmental fund Statement of Revenue, Expenditures and Changes in Fund Balance and the government-wide Statement of Activities

The governmental fund Statement of Revenue, Expenditures and Changes in Fund Balance and the government-wide Statement of Activities include a reconciling column. Explanation of the adjustments included in the reconciling column is as follows:

Interest expense	\$ (616)
Principal repayment	\$ (265,000)

SERENITY 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 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) 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.

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 – SUBSEQUENT EVENT

On February 16, 2018, the District issued General Obligation (Limited Tax Convertible to Unlimited Tax) Refunding and Improvement Bonds, Series 2018A in the amount of \$14,655,000 (“2018A Bonds”) and Subordinate General Obligation Limited Tax Bonds, Series 2018B in the amount of \$1,906,000 (“2018B Bonds”). The 2018A Bonds and 2018B Bonds were issued for the purpose of fully prepaying the District’s 2014 Loan, paying the Project Costs, funding the Senior Reserve Fund, and paying the costs associated with the issuance of the 2018A Bonds and 2018B Bonds.

NOTE 10 – 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 votes 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

SERENITY RIDGE METROPOLITAN DISTRICT NO. 2

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Notes to Financial Statements
December 31, 2017

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

allowed to use the emergency reserves to compensate for economic conditions, revenue shortfalls, or salary or benefit increases.

The District management believes that 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.

At the November 4, 2003 election, voters of the District approved an election question allowing the District to exceed the revenue and spending limitations of TABOR.

SUPPLEMENTAL INFORMATION

Serenity Ridge Metropolitan District No. 2

SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL -
DEBT SERVICE FUND
For the Year Ended December 31, 2017

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
Property taxes	\$ 847,300	\$ 847,300	\$ 847,486	\$ 186
Specific ownership taxes	54,500	54,500	72,540	18,040
Interest income	4,314	4,314	13,154	8,840
Total Revenues	<u>906,114</u>	<u>906,114</u>	<u>933,180</u>	<u>27,066</u>
EXPENDITURES				
Accounting and audit	3,045	6,300	6,300	-
Loan Principal	265,000	265,000	265,000	-
Loan Interest	229,059	267,003	267,003	-
Paying and loan fees	2,000	2,000	2,000	-
Bond issuance costs	-	25,148	24,525	623
Treasurer's fees	14,549	14,549	12,723	1,826
Total Expenditures	<u>513,653</u>	<u>580,000</u>	<u>577,551</u>	<u>2,449</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	392,461	326,114	355,629	29,515
OTHER FINANCING SOURCES (USES)				
Transfers in (out)	-	8,300	8,300	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>8,300</u>	<u>8,300</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	392,461	334,414	363,929	29,515
FUND BALANCE:				
BEGINNING OF YEAR	<u>776,956</u>	<u>753,142</u>	<u>753,142</u>	<u>-</u>
END OF YEAR	<u>\$ 1,169,417</u>	<u>\$ 1,087,556</u>	<u>\$ 1,117,071</u>	<u>\$ 29,515</u>

The notes to the financial statements are an integral part of these statements.