

TALLYN'S REACH METROPOLITAN DISTRICT NO. 2

Financial Statements

Year Ended December 31, 2017

with

Independent Auditors' Report

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Office of the State Auditor

June 28, 2018

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Board of Directors  
Tallyn's Reach Metropolitan District No. 2  
Arapahoe County, Colorado

## Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities and each major fund of Tallyn's Reach Metropolitan District No. 2 (the "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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards general 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 Tallyn's Reach Metropolitan District No. 2 as of December 31, 2017, and the respective changes in the 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**

Management has omitted the management's discussion and analysis that accounting principles general 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 an opinion on the financial statements that collectively comprise the District's financial statements as a whole. The supplemental information as listed in the table of contents is presented for the purposes of legal compliance and additional analysis and is not a required part of the financial statements. The supplemental 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.

*Stratagem PC*  
*Certified Public Accountants*  
*Lakewood, Colorado*

June 11, 2018

## TALLYN'S REACH METROPOLITAN DISTRICT NO. 2

### BALANCE SHEET/STATEMENT OF NET POSITION

#### GOVERNMENTAL FUNDS

December 31, 2017

	Debt Service	Total	Adjustments	Statement of Net Position
<b>ASSETS</b>				
Cash and investments - restricted	\$ 492,553	\$ 492,553	\$ -	\$ 492,553
Accounts receivable - county treasurer	5,512	5,512	-	5,512
Property taxes receivable	<u>937,658</u>	<u>937,658</u>	<u>-</u>	<u>937,658</u>
Total Assets	<u>1,435,723</u>	<u>1,435,723</u>	<u>-</u>	<u>1,435,723</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred loss on refunding	<u>-</u>	<u>-</u>	<u>215,048</u>	<u>215,048</u>
Total Deferred Outflows of Resources	<u>-</u>	<u>-</u>	<u>215,048</u>	<u>215,048</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 1,435,723</u>	<u>\$ 1,435,723</u>		
<b>LIABILITIES</b>				
Due to District No. 1	\$ 241,752	\$ -	-	241,752
Accrued interest on loan	-	-	7,789	7,789
Long-term liabilities:				
Due within one year	-	-	602,237	602,237
Due in more than one year	<u>-</u>	<u>-</u>	<u>3,246,168</u>	<u>3,246,168</u>
Total Liabilities	<u>241,752</u>	<u>-</u>	<u>3,856,194</u>	<u>4,097,946</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Deferred property taxes	<u>937,658</u>	<u>937,658</u>	<u>-</u>	<u>937,658</u>
Total Deferred Inflows of Resources	<u>937,658</u>	<u>937,658</u>	<u>-</u>	<u>937,658</u>
<b>FUND BALANCE</b>				
Fund balance:				
Restricted:				
Debt service	<u>256,313</u>	<u>256,313</u>	<u>(256,313)</u>	<u>-</u>
Total Fund Balances	<u>256,313</u>	<u>256,313</u>	<u>(256,313)</u>	<u>-</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 1,435,723</u>	<u>\$ 1,193,971</u>		
<b>NET POSITION</b>				
Restricted for:				
Debt service			248,524	248,524
Unrestricted			<u>(3,633,357)</u>	<u>(3,633,357)</u>
Total Net Position			<u>\$ (3,384,833)</u>	<u>\$ (3,384,833)</u>

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

**TALLYN'S REACH METROPOLITAN DISTRICT NO. 2**

STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE/STATEMENT OF ACTIVITIES  
GOVERNMENTAL FUNDS  
For the Year Ended December 31, 2017

	<u>Debt</u>			Statement
	<u>Service</u>	<u>Total</u>	<u>Adjustments</u>	of
				<u>Activities</u>
EXPENDITURES				
2012 Loan principal	\$ 505,000	\$ 505,000	\$ (505,000)	\$ -
2012 Loan interest	89,149	89,149	(1,007)	88,142
2014 Loan principal	84,745	84,745	(84,745)	-
2014 Loan interest	18,926	18,926	(210)	18,716
Bank fees	12	12	-	12
Transfer to District #1	241,752	241,752	-	241,752
Treasurers' fees	12,195	12,195	-	12,195
Amortization of loss on refunding	-	-	43,010	43,010
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total Expenditures	951,779	951,779	(547,952)	403,827
GENERAL REVENUES				
Property taxes	812,340	812,340	-	812,340
Specific ownership taxes	69,561	69,561	-	69,561
Interest income	1,748	1,748	-	1,748
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total General Revenues	883,649	883,649	-	883,649
NET CHANGES IN FUND BALANCE	(68,130)	(68,130)	68,130	
CHANGES IN NET POSITION			479,822	479,822
FUND BALANCE/NET POSITION:				
BEGINNING OF YEAR	<u>324,443</u>	<u>324,443</u>	<u>(4,189,098)</u>	<u>(3,864,655)</u>
END OF YEAR	<u>\$ 256,313</u>	<u>\$ 256,313</u>	<u>\$ (3,641,146)</u>	<u>\$ (3,384,833)</u>

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

## TALLYN'S REACH METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements  
December 31, 2017

### Note 1: Summary of Significant Accounting Policies

The accounting policies of the Tallyn's Reach Metropolitan District No. 2 (the "District"), located in Arapahoe County, Colorado, conform to the accounting principles generally accepted in the United States of America ("GAAP") as applicable to governmental units. The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant policies consistently applied in the preparation of financial statements.

#### Definition of Reporting Entity

The District was organized on November 6, 1998, as a quasi-municipal organization established under the State of Colorado Special District Act. The District was established to provide water, street, traffic and safety control, television relay and translator, transportation, parks and recreation and sanitation improvements that benefit the citizens of the District. At the time of formation, Tallyn's Reach Metropolitan District No. 1 ("District No. 1") and the Tallyn's Reach Metropolitan District No. 3 ("District No. 3") were also formed. All three districts are governed by the same Service Plan, which provides that District No. 1 is the "Operating District" and the District and District No. 3 are the "Taxing Districts". The Taxing Districts are to provide funding to the Operations District for the construction, operation and maintenance of various public improvements and the Operating District is expected to manage such construction, operation and maintenance. The District's primary revenues are property taxes. The District is governed by an elected Board of Directors.

As required by GAAP, these financial statements present the activities of the District, which is legally separate and financially independent of other state and local governments. The District follows the GASB pronouncements, which provide guidance for determining which governmental activities, organizations and functions should be included within the financial reporting entity. GASB sets 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 pronouncements also require including a possible component unit if it would be misleading to exclude it.

The District is not financially accountable for any other organization. The District has no component units as defined by the GASB.

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

## TALLYN'S REACH METROPOLITAN DISTRICT NO. 2

### Notes to Financial Statements December 31, 2017

#### Basis of Presentation

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

The government-wide financial statements (i.e. the governmental funds balance sheet/statement of net position and the governmental funds statement of revenues, expenditures, and changes in fund balances/statement of activities) report information on all of the governmental activities of the District. The statement of net position reports all financial and capital resources of the District. The difference between the (a) assets and deferred outflows of resources and the (b) liabilities and deferred inflows of resources of the District is reported as net position. The statement of activities demonstrates the degree to which expenditures/expenses of the governmental funds are supported by general revenues. For the most part, the effect of interfund activity has been removed from these statements.

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*.

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 the related cash flows. Property taxes are recognized as revenues in the year for which they are collected.

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 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.

## TALLYN'S REACH METROPOLITAN DISTRICT NO. 2

### Notes to Financial Statements December 31, 2017

The District reports the following major governmental fund:

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

#### Budgetary Accounting

Budgets are adopted on a non-GAAP basis for the governmental funds. In accordance with the State Budget Law of Colorado, 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 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 appropriation is at the total fund expenditures level and lapses at year end.

In November 2017, the District amended its total appropriations in the Debt Service Fund from \$829,104 to \$975,000 primarily due to higher transfers to District No. 1.

#### Assets, Liabilities and Net Position

##### Fair Value of Financial Instruments

The District's financial instruments include cash and cash equivalents, accounts receivable and accounts payable. The District estimates that the fair value of all financial instruments at December 31, 2017, does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying balance sheet. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

##### Deposits and Investments

The District's cash and cash equivalents are considered to be cash on hand and short-term investments with maturities of three months or less from the date of acquisition. Investments for the government are reported at fair value.

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 minimum number of bank accounts. 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.

## TALLYN'S REACH METROPOLITAN DISTRICT NO. 2

### Notes to Financial Statements December 31, 2017

#### Estimates

The preparation of these financial statements in conformity with GAAP requires the District management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

#### Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District only has one item that qualifies for reporting in this category. It is the deferred loss on refunding reported in the government-wide statement of net position. A deferred loss on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District only has one type of item that qualifies for reporting in this category. It is the deferred property taxes, which arises only under a modified accrual basis of accounting. Accordingly, deferred property taxes are reported only in the governmental funds balance sheet and are deferred and recognized as an inflow of resources in the period that the amounts become available.

#### Property Taxes

Property taxes are levied by the District's Board of Directors. The levy is based on assessed valuations determined by the County Assessor generally as of January 1 of each year. The levy is normally set by December 15 by certification to the County Commissioners to put the tax lien on the individual properties as of January 1 of the following year. The County Treasurer collects the determined taxes during the ensuing calendar year. The taxes are payable by April 30 or if in equal installments, at the taxpayers' election, in February and June. Delinquent taxpayers are notified in July or 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 since they are not normally available nor are they budgeted as a resource until the subsequent year. The deferred property taxes are recorded as revenue in the subsequent year when they are available or collected.

#### Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities.

## TALLYN'S REACH METROPOLITAN DISTRICT NO. 2

### Notes to Financial Statements December 31, 2017

#### Loss on Refunding

The deferred loss on refunding from the Series 2012 Loan is being amortized over the life of the loan using the straight-line method. Accumulated amortization of the deferred loss on refunding amounted to \$258,060 at December 31, 2017.

#### Fund Equity

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. Because circumstances differ among governments, not every government or every governmental fund will present all of these components. The following classifications make the nature and extent of the constraints placed on a government's fund balance more transparent:

#### Nonspendable Fund Balance

Nonspendable fund balance includes amounts that cannot be spent because they are either not spendable in form (such as inventory or prepaids) or are legally or contractually required to be maintained intact.

#### Restricted Fund Balance

The restricted fund balance includes amounts restricted for a specific purpose by external parties such as grantors, bondholders, constitutional provisions or enabling legislation.

The restricted fund balance in the Debt Service Fund in the amount of \$256,313 is restricted for the payment of the debt service costs associated with the 2012 General Obligation Refunding Loan and the 2014 General Obligation Loan (see Note 3).

#### Committed Fund Balance

The portion of fund balance that can only be used for specific purposes pursuant to constraints imposed by a 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

Assigned fund balance includes amounts the District intends to use for a specific purpose. Intent can be expressed by the District's Board of Directors or by an official or body to which the Board of Directors delegates the authority.

#### Unassigned Fund Balance

Unassigned fund balance includes amounts that are available for any purpose. Positive amounts are reported only in the General Fund, all other funds can report negative amounts.

For the classification of Governmental Fund balances, the District considers an expenditure to be made from the most restrictive first when more than one classification is available.

TALLYN'S REACH METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements  
December 31, 2017

Net Position

Net Position represents the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources. The District can report three categories of net position, as follows:

Net investment in capital assets – consists of net capital assets, reduced by outstanding balances of any related debt obligations and deferred inflows of resources attributable to the acquisition, construction, or improvement of those assets and increased by balances of deferred outflows or resources related to those assets.

Restricted net position – net position is considered restricted if their use is constrained to a particular purpose. Restrictions are imposed by external organizations such as federal or state laws. Restricted net position is reduced by liabilities and deferred inflows of resources related to the restricted assets.

Unrestricted net position – consists of all other net position that does not meet the definition of the above two components and is available for general use by the District.

When an expense is incurred for purposes for which both restricted and unrestricted net position are available, the District will use the most restrictive net position first.

Note 2: Cash and Investments

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

Statement of Net Position:

Cash and investments - Restricted	\$ <u>492,553</u>
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Cash and investments as of December 31, 2017, consist of the following:

Deposits with financial institutions	\$ <u>492,553</u>
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## TALLYN'S REACH METROPOLITAN DISTRICT NO. 2

### Notes to Financial Statements December 31, 2017

#### Deposits

##### Custodial Credit Risk

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 equal to 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.

The District follows state statutes for deposits. None of the District's deposits were exposed to custodial credit risk.

#### Investments

##### Investment Valuation

Certain investments are measured at fair value 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. The District's investment is not required to be categorized within the fair value hierarchy.

##### Credit Risk

The District has not adopted a formal investment policy. However, the District follows state statutes regarding investments. Colorado statutes specify the types of investments meeting defined rating and risk criteria in which local governments may invest. These investments include obligations of the United States and certain U.S. Government agency entities, certain money market funds, guaranteed investment contracts, and local government investment pools.

##### 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 no investments.

TALLYN’S REACH METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements  
December 31, 2017

Note 3: Long Term Debt

The following is an analysis of changes in long-term debt for the period ending December 31, 2017:

	Balance 1/1/2017	Additions	Deletions	Balance 12/31/2017	Current Portion
G. O. Loan - 2012	\$ 3,790,000	\$ -	\$ 505,000	\$ 3,285,000	\$ 515,000
G. O. Loan - 2014	648,150	-	84,745	563,405	87,237
Total	<u>\$ 4,438,150</u>	<u>\$ -</u>	<u>\$ 589,745</u>	<u>\$ 3,848,405</u>	<u>\$ 602,237</u>

A description of the long-term obligations as of December 31, 2017, is as follows:

\$5,905,000 General Obligation Refunding Loan - 2012

On August 6, 2012 (“Closing Date”), the District entered into a Loan Agreement (“2012 Loan”) with Compass Bank (“Lender”) for a loan of \$5,905,000. The 2012 Loan is evidenced by a promissory note. The 2012 Loan was issued to provide funds to refund the District’s Series 2004 Bonds.

The 2012 Loan matures on December 1, 2023. Principal payments are due on December 1 of each year beginning December 1, 2012. Interest is payable on June 1 and December 1 of each year beginning December 1, 2012. The 2012 Loan bears interest at a fixed rate of 2.32% per annum calculated on the basis of a 360-day year and the actual number of days elapsed in the applicable accrual period. The District may, at its option, prepay the 2012 Loan in whole or in part on any interest payment date at a prepayment price equal to the sum of the (a) the principal so prepaid; (b) accrued interest thereon at the rate then borne by the 2012 Loan to the date of such prepayment; (c) a Prepayment Penalty, if any, equal to 3% of the outstanding principal, and (d) a Yield Maintenance Fee, if any.

The Pledged Revenue for the repayment of the 2012 Loan is a debt service mill levy fixed at 48.96 mills (which can be adjusted to account for changes in law) and specific ownership taxes. The 2012 Loan requires that a Loan Payment Fund be credited an amount of Pledged Revenue each loan year which is equal to the loan requirements for the then current year. The 2012 Loan is secured by collateral made up of (a) the Pledged Revenue, (b) all amounts on deposit in the Loan Payment Fund; and (c) all moneys of the District legally available.

The District advance refunded the Series 2004 Bonds to reduce its total debt service payments over the next 11 years by almost \$765,000 and to obtain an economic gain (difference between the present values of the debt service payments between the old and new debt) of almost \$670,000. In the governmental-wide financial statements, the District incurred a cost of refunding of \$473,108 which has been deferred and is being amortized over the life of the debt.

TALLYN’S REACH METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements  
December 31, 2017

The following is a summary of the annual long-term debt principal and interest requirements of the 2012 Loan:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 515,000	\$ 77,270	\$ 592,270
2019	530,000	65,157	595,157
2020	540,000	52,834	592,834
2021	555,000	39,988	594,988
2022	565,000	26,933	591,933
2023	580,000	13,644	593,644
Total	<u>\$ 3,285,000</u>	<u>\$ 275,826</u>	<u>\$ 3,560,826</u>

\$856,400 General Obligation Loan - 2014

On June 24, 2014, the District entered into a Loan Agreement (“2014 Loan”) with Compass Bank (“Lender”) for a loan of \$856,400. The 2014 Loan is evidenced by a promissory note. The 2014 Loan was issued to provide funds for the purpose of financing certain costs of public improvements and facilities.

The Loan matures on December 1, 2023. Principal payments are due on December 1 of each year beginning December 1, 2014. Interest is payable on June 1 and December 1 of each year beginning December 1, 2014. The 2014 Loan bears interest at a fixed rate of 2.88% per annum calculated on the basis of a 360-day year and the actual number of days elapsed in the applicable accrual period. The District may, at its option, prepay the 2014 Loan in whole or in part on any interest payment date at a prepayment price equal to the sum of the (a) the principal so prepaid; (b) accrued interest thereon at the rate then borne by the 2014 Loan to the date of such prepayment; (c) a Prepayment Penalty, if any, and (d) a Yield Maintenance Fee, if any.

The Pledged Revenue for the repayment of the Loan is a debt service mill levy fixed at 48.96 mills (which can be adjusted to account for changes in law) and specific ownership taxes. The 2014 Loan requires that a Loan Payment Fund be credited an amount of Pledged Revenue each loan year which is equal to the loan requirements for the then current year. The 2014 Loan is secured by collateral made up of (a) the Pledged Revenue, (b) all amounts on deposit in the Loan Payment Fund; and (c) all moneys of the District legally available.

TALLYN’S REACH METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements  
December 31, 2017

The following is a summary of the annual long-term debt principal and interest requirements of the 2014 Loan:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 87,237	\$ 16,451	\$ 103,688
2019	89,802	13,904	103,706
2020	92,411	11,312	103,723
2021	95,160	8,584	103,744
2022	97,957	5,804	103,761
2023	100,838	2,944	103,782
Total	<u>\$ 563,405</u>	<u>\$ 58,999</u>	<u>\$ 622,404</u>

Debt Authorization

As of December 31, 2017, the District had no remaining voted debt authorization.

Note 4: Related Party

During 2017 a majority of the Board of Directors were employees, owners or were otherwise associated with Brookfield Residential (Colorado) LLC, formerly Carma Colorado (“Developer”), and may have had conflicts of interest in dealing with the District. Management believes that all potential conflicts, if any, have been disclosed to the Board.

Note 5: Tax, Spending and Debt Limitations

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

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

TABOR requires local governments to establish Emergency Reserves. These reserves must be at least 3% of Fiscal Year Spending (excluding bonded debt service). Local governments are not allowed to use the emergency reserves to compensate for economic conditions, revenue shortfalls, or salary or benefit increases. The District has no General Fund as all operating costs are paid by District No. 1 and therefore has no 3% reserve.

## TALLYN'S REACH METROPOLITAN DISTRICT NO. 2

### Notes to Financial Statements December 31, 2017

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.

On November 7, 2000, a majority of the District's electors authorized the District to collect and spend or retain in a reserve all currently levied taxes and fees of the District without regard to any limitations under Article X, Section 20 of the Colorado Constitution.

Note 6: Risk Management

Except as provided in the Colorado Governmental Immunity Act, 24-10-101, et seq., CRS, the District may be exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets; errors or omissions; injuries to agents; and natural disasters. The District has elected to participate in the Colorado Special Districts Property and Liability Pool ("Pool") which is an organization created by intergovernmental agreement to provide common liability and casualty insurance coverage to its members at a cost that is considered economically appropriate. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

The District pays annual premiums to the Pool for auto, public officials' liability, and property and general liability coverage. In the event aggregated losses incurred by the Pool exceed its amounts recoverable from reinsurance contracts and its accumulated reserves, the District may be called upon to make additional contributions to the Pool on the basis proportionate to other 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 7: District Agreements

District Facilities Construction and Service Agreement

On January 1, 2002, and as amended on December 17, 2003 and February 13, 2007, the District entered into a District Facilities Construction and Service Agreement with District No. 1 and District No. 3. The agreement states that the District and District No. 3 will pay District No. 1 for the capital costs of designing, acquiring, construction, operation and maintenance of the District facilities. The amendment states that until such time as any bonds issued by the Taxing Districts are discharged, all remaining obligations of the Taxing Districts to make payments to the Operating District will be fully subordinate to the bonds. The agreement allows District No. 1 to establish various fees.

On May 13, 2008, the First Amendment to the Amended and Restated District Facilities Construction and Service Agreement was approved which reaffirmed that the maximum amounts of authorized service and capital costs are not permitted to exceed the Service Plan aggregate of \$66,350,000.

## TALLYN'S REACH METROPOLITAN DISTRICT NO. 2

### Notes to Financial Statements December 31, 2017

#### Developer Loan Agreement

The Developer and District No. 1 are parties to a Second Amended and Restated Loan Agreement dated as of January 1, 2006, and as amended on February 13, 2007, as amended, ("Developer Loan Agreement"), pursuant to which the Developer agrees to loan up to \$32,000,000 to District No. 1 for its capital costs, and District No. 1 agrees to repay such loans. The Developer Loan Agreement represents a restatement and consolidation of previous loan agreements dating back to 1999 between the Developer and District No. 1. The agreement currently provides that it is the intention of the parties that District No. 1 will repay the loans with proceeds received from the District and District No. 3; provided, however, that any advances or accrued interest owed to the Developer in excess of \$32,000,000 shall be deemed to be contributed to District No.1 without any repayment obligation, absent further modification of the Developer Loan Agreement and Service Plan authorizing the same. The agreement states that it is between District No. 1 and the Developer, but the District and District No. 3 also signed the agreement and agreed to certain covenants contained therein. In accordance with this loan agreement, District No. 1 issued a \$32,000,000 Promissory Note which matured on December 31, 2007.

On May 13, 2008, District No. 1 entered into the Second Amendment to the Second Amended and Restated Loan Agreement. The purpose of this amendment is to restate the total maximum amount to be loaned by the Developer to District No. 1 to an amount not to exceed \$38,600,000 inclusive of principal and accrued interest, reflecting the aggregate Service Plan debt limit. Advances and/or interest accrued over and above this limit shall be deemed contributed to District No. 1. The amendment also clarifies the interest rate calculation. The obligation of the Developer to loan funds pursuant to this agreement expired on December 31, 2015. In accordance with this loan agreement, District No. 1 issued a Promissory Note with a maximum amount of \$38,600,000.

On November 16, 2010, District No. 1 entered into the Third Amendment to the Second Amended and Restated Loan Agreement. The purpose of this amendment is to incorporate operating advances into the agreement. The term of the agreement was not changed.

#### Amended and Restated Joint Resolution Concerning the Imposition of District Development Fees

On August 24, 1999, and as amended and/or restated during 2000, 2001, 2002, 2003, 2005, 2007, 2010, and 2012, the District entered into a Joint Resolution Concerning the Imposition of District Development Fees with District No. 1 and District No. 3. The agreement establishes development fees, transfer fees and monthly operations fees to be imposed on all residents of the Districts.

On December 9, 2014, the District approved an Amended and Restated Joint Resolution Regarding the Imposition of District Fees along with District No. 1 and District No. 2 which further clarified the District fees and established a schedule of fees for 2015 which is adjusted on an annual basis.

For 2017, the District established an operations fee of \$62 per month for single family residences.

## TALLYN'S REACH METROPOLITAN DISTRICT NO. 2

### Notes to Financial Statements December 31, 2017

Note 8: Reconciliation of Government-Wide Financial Statements and Fund Financial Statements

The Government Funds Balance Sheet/Statement of Net Position includes an adjustments column. The adjustments have the following elements:

- 1) Long-term liabilities such as loans payable and accrued loan interest payable are not due and payable in the current period and, therefore, are not in the funds.

The Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balance/Statement of Activities includes an adjustments column. The adjustments have the following elements:

- 1) Governmental funds report interest expense on the modified accrual basis; however, interest expense is reported on the full accrual method on the statement of activities; and,
- 2) government funds report long-term debt payments as expenditures and loan proceeds as revenue; however, in the government-wide statements, these items are recorded as changes in long-term liabilities.

Note 9: Subsequent Event

On February 12, 2018, Tallyn's Reach Metropolitan District No. 2 and Tallyn's Reach Metropolitan District No. 3 (collectively "the Districts") entered into the Tallyn's Reach Authority Establishment Agreement for the purpose of establishing the Tallyn's Reach Authority which is organized for the purpose of planning, financing, designing, constructing, installing, operating, maintaining, repairing and replacing public improvements and facilities and providing services to the residents of the Districts. It is anticipated that Tallyn's Reach Metropolitan District No. 1 will assign all of its assets, liabilities, rights and obligations to the Authority after which the Tallyn's Reach Metropolitan District No.1 will be dissolved.

**SUPPLEMENTAL INFORMATION**

## TALLYN'S REACH 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 <u>Budget</u>	Final <u>Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
<b>REVENUES</b>				
Property taxes	\$ 812,340	\$ 812,340	\$ 812,340	\$ -
Specific ownership taxes	56,864	56,864	69,561	12,697
Interest income	<u>600</u>	<u>600</u>	<u>1,748</u>	<u>1,148</u>
Total Revenues	<u>869,804</u>	<u>869,804</u>	<u>883,649</u>	<u>13,845</u>
<b>EXPENDITURES</b>				
2012 Loan principal	505,000	505,000	505,000	-
2012 Loan interest	89,149	89,149	89,149	-
2014 Loan principal	84,745	84,745	84,745	-
2014 Loan interest	18,926	18,926	18,926	-
Bank fees	2,000	2,000	12	1,988
Trustee fees	2,000	2,000	-	2,000
Transfer to District #1	112,000	241,752	241,752	-
Miscellaneous expenses	3,099	19,243	-	19,243
Treasurers' fees	<u>12,185</u>	<u>12,185</u>	<u>12,195</u>	<u>(10)</u>
Total Expenditures	<u>829,104</u>	<u>975,000</u>	<u>951,779</u>	<u>23,221</u>
<b>NET CHANGE IN FUND BALANCE</b>	40,700	(105,196)	(68,130)	37,066
<b>FUND BALANCE:</b>				
BEGINNING OF YEAR	<u>313,000</u>	<u>324,443</u>	<u>324,443</u>	<u>-</u>
END OF YEAR	<u>\$ 353,700</u>	<u>\$ 219,247</u>	<u>\$ 256,313</u>	<u>\$ 37,066</u>

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

**TALLYN'S REACH METROPOLITAN DISTRICT NO. 2**

SUMMARY OF ASSESSED VALUATION, MILL LEVY  
AND PROPERTY TAXES COLLECTED

December 31, 2017

<u>Year Ended December 31,</u>	<u>Prior Year Assessed Valuation for Current Year Property Tax Levy</u>	<u>Mills Levied Debt Service</u>	<u>Total Property Tax</u>		<u>Percent Collected to Levied</u>
			<u>Levied</u>	<u>Collected</u>	
2004	\$ 16,703,440	48.960	\$ 817,800	\$ 795,688	97.30%
2005	\$ 15,524,730	48.960	\$ 760,091	\$ 508,261	66.87%
2006	\$ 10,540,800	48.960	\$ 516,078	\$ 504,768	97.81%
2007	\$ 10,452,020	48.960	\$ 511,731	\$ 511,731	100.00%
2008	\$ 11,627,050	48.960	\$ 569,260	\$ 569,213	99.99%
2009	\$ 11,651,450	48.960	\$ 570,455	\$ 568,971	99.74%
2010	\$ 11,059,770	48.960	\$ 541,486	\$ 538,818	99.51%
2011	\$ 11,718,980	48.960	\$ 573,761	\$ 572,859	99.84%
2012	\$ 13,095,220	48.960	\$ 641,142	\$ 641,142	100.00%
2013	\$ 13,075,570	48.960	\$ 640,180	\$ 639,310	99.86%
2014	\$ 14,127,770	48.960	\$ 691,696	\$ 691,680	100.00%
2015	\$ 14,706,629	48.960	\$ 720,037	\$ 720,036	100.00%
2016	\$ 16,585,638	48.960	\$ 812,033	\$ 812,033	100.00%
2017	\$ 16,591,914	48.960	\$ 812,340	\$ 812,340	100.00%
Estimated for year ending December 31, 2018	\$ 17,322,969	54.128	\$ 937,658		

**NOTE**

Property taxes collected in any one year include collection of delinquent property taxes levied and/or abatements or valuations in prior years. Information received from the County Treasurer does not permit identification of specific year assessment.