

**THE LAKES
METROPOLITAN DISTRICT NO. 2
Adams County, Colorado**

**FINANCIAL STATEMENTS
DECEMBER 31, 2017**

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Office of the State Auditor

September 28, 2018

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Independent Auditor's Report

Board of Directors
The Lakes Metropolitan District No. 2
Adams County, Colorado

We have audited the accompanying financial statements of the governmental activities and each major fund of The Lakes Metropolitan District No. 2 (District) as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of The Lakes Metropolitan District No. 2, as of December 31, 2017, and the respective changes in financial position and the 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 Supplemental Information

Management has omitted the management's discussion and analysis that governmental 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 opinion on the basic financial statements is 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 financial statements as a whole. The supplemental information listed in the table of contents is presented for purposes of 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 relate 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.

The other information listed in the table of contents has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

SCHILLING & COMPANY, INC.

Highlands Ranch, Colorado
September 27, 2018

BASIC FINANCIAL STATEMENTS

THE LAKES METROPOLITAN DISTRICT NO. 2
STATEMENT OF NET POSITION
GOVERNMENTAL ACTIVITIES
December 31, 2017

ASSETS

Cash and investments - unrestricted	\$	8,209
Cash and investments - restricted		4,406
Cash with County Treasurer		2
Property taxes receivable		65,066
Total assets		77,683

LIABILITIES

Due to The Lakes Metropolitan District No. 1		4,406
Accrued interest payable		2,708
Bonds payable		
Due in more than one year		1,585,000
Total liabilities		1,592,114

DEFERRED INFLOWS OF RESOURCES

Property tax revenue		65,066
Total deferred inflows of resources		65,066

NET POSITION

Restricted for emergencies		10
Unrestricted		(1,579,507)
Total net position	\$	(1,579,497)

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

THE LAKES METROPOLITAN DISTRICT NO. 2
STATEMENT OF ACTIVITIES
GOVERNMENTAL ACTIVITIES
Year Ended December 31, 2017

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Position</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
General government	\$ 3	\$ -	\$ -	\$ -	\$ (3)
Interest and fiscal charges	1,676,102	-	-	-	(1,676,102)
	<u>\$ 1,676,105</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(1,676,105)</u>

General revenues:

Taxes:

Property taxes 196

Specific ownership taxes 16

Transfer from The Lakes Metropolitan District No. 1 96,394

Total general revenues 96,606

Change in net position (1,579,499)

Net position - beginning 2

Net position - ending \$ (1,579,497)

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

**THE LAKES METROPOLITAN DISTRICT NO. 2
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2017**

	General	Debt Service	Capital Projects	Total Governmental Funds
ASSETS				
Cash and investments - unrestricted	\$ 8,209	\$ -	\$ -	\$ 8,209
Cash and investments - restricted	-	-	4,406	4,406
Cash with County Treasurer	2	-	-	2
Property tax receivable	13,556	51,510	-	65,066
TOTAL ASSETS	\$ 21,767	\$ 51,510	\$ 4,406	\$ 77,683
LIABILITIES				
Due to The Lakes Metropolitan District No. 1	\$ -	\$ -	\$ 4,406	\$ 4,406
Total liabilities	-	-	4,406	4,406
DEFERRED INFLOWS OF RESOURCES				
Deferred property tax revenue	13,556	51,510	-	\$ 65,066
Total deferred inflows of resources	13,556	51,510	-	65,066
FUND BALANCES				
Spendable:				
Restricted for:				
Emergencies	10	-	-	10
Assigned for subsequent year's expenditures	2,809	-	-	2,809
Unassigned	5,392	-	-	5,392
Total fund balances	8,211	-	-	8,211
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 21,767	\$ 51,510	\$ 4,406	

Amounts reported for governmental activities in the Statement of Net Position are different because:

Some liabilities, including bonds payable and other accrued payables, are not due and payable in the current period and, therefore, are not reported in the Balance Sheet - Governmental Funds.

General obligation bonds payable	(1,585,000)
Accrued interest payable - bonds	(2,708)
	(1,587,708)
Net position of governmental activities	\$ (1,579,497)

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

THE LAKES METROPOLITAN DISTRICT NO. 2
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
Year Ended December 31, 2017

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
REVENUES				
Property tax	\$ 196	\$ -	\$ -	\$ 196
Specific ownership tax	16	-	-	16
Transfer from The Lakes Metropolitan District No. 1	8,000	-	88,394	96,394
Total revenues	<u>8,212</u>	<u>-</u>	<u>88,394</u>	<u>96,606</u>
EXPENDITURES				
Current				
County Treasurer's fees	3	-	-	3
Developer reimbursement	-	-	1,585,000	1,585,000
Debt service				
Bond issuance costs	-	-	88,394	88,394
Total expenditures	<u>3</u>	<u>-</u>	<u>1,673,394</u>	<u>1,673,397</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>8,209</u>	<u>-</u>	<u>(1,585,000)</u>	<u>(1,576,791)</u>
OTHER FINANCING SOURCES (USES)				
Bond proceeds	-	-	1,585,000	1,585,000
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>1,585,000</u>	<u>1,585,000</u>
NET CHANGE IN FUND BALANCES	8,209	-	-	8,209
FUND BALANCES - BEGINNING OF YEAR	2	-	-	2
FUND BALANCES - END OF YEAR	<u>\$ 8,211</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,211</u>

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

**THE LAKES METROPOLITAN DISTRICT NO. 2
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL
FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended December 31, 2017**

A reconciliation reflecting the differences between the governmental funds net change in fund balances and change in net position reported for governmental activities in the Statement of Activities as follows:

Net change in fund balances - Total governmental funds	\$ 8,209
<p>Governmental funds report capital outlays as expenditures. In the statement of activities capital outlay is not reported as an expenditure. Instead the cost of the asset is allocated over its estimated useful life, and recorded as depreciation expense in each of those years.</p>	
Capital assets transferred from The Lakes Metropolitan District No. 1	1,364,674
Capital assets conveyed to other entities	<u>(1,364,674)</u>
	<u>-</u>
<p>The issuance of long-term debt provides for current financial resources of governmental funds. However, it has no effect on net position.</p>	
Bond proceeds	<u>(1,585,000)</u>
<p>Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.</p>	
Change in accrued interest payable - bonds	<u>(2,708)</u>
	<u>(2,708)</u>
Change in net position - Governmental activities	<u>\$ (1,579,499)</u>

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

THE LAKES METROPOLITAN DISTRICT NO. 2
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
Year Ended December 31, 2017

	Original and Final Budgeted Amounts	Actual	Variance with Final Budget - Positive (Negative)
REVENUES			
Property tax	\$ 198	\$ 196	\$ (2)
Specific ownership taxes	22	16	(6)
Transfer from The Lakes Metropolitan District No. 1	-	8,000	8,000
Total Revenues	<u>220</u>	<u>8,212</u>	<u>7,992</u>
EXPENDITURES			
County Treasurer's fees	-	3	(3)
Transfer to The Lakes Metropolitan District No. 1	220	-	220
Total Expenditures	<u>220</u>	<u>3</u>	<u>217</u>
NET CHANGE IN FUND BALANCE	-	8,209	8,209
FUND BALANCE - BEGINNING OF YEAR	-	2	2
FUND BALANCE - END OF YEAR	<u>\$ -</u>	<u>\$ 8,211</u>	<u>\$ 8,211</u>

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

THE LAKES METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 1 – DEFINITION OF REPORTING ENTITY

The Lakes Metropolitan District No. 2 (District), a quasi-municipal corporation, was organized on January 9, 2007 and is governed pursuant to the provisions of the Colorado Special District Act. The District's service area is located in the City of Brighton (City), Adams County, Colorado. The District was established to provide financing for the acquisition, construction, installation and/or operation of street improvements, water, sanitation, safety protection, park and recreation and transportation services. The District was formed concurrently with The Lakes Metropolitan District Nos. 1 (management district), 3 & 4 (together with the District, the Taxing Districts). All facilities constructed by the District have been conveyed to the City for perpetual maintenance.

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

The District follows the Governmental Accounting Standards Board (GASB) accounting pronouncements which provide guidance for determining which governmental activities, organizations and functions should be included within the financial reporting entity. GASB pronouncements set forth the financial accountability of a governmental organization's elected governing body as the basic criterion for including a possible component governmental organization in a primary government's legal entity. Financial accountability includes, but is not limited to, appointment of a voting majority of the organization's governing body, ability to impose its will on the organization, a potential for the organization to provide specific financial benefits or burdens and fiscal dependency.

The District is not financially accountable for any other organization, nor is the District a component unit of any other primary governmental entity.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Government-wide and Fund Financial Statements

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

The statement of net position reports all financial and capital resources of the District, the difference between the District's assets plus deferred outflows of resources and liabilities plus deferred inflows of resources, being reported as net position.

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.

THE LAKES METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

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 related cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met. Depreciation is computed and recorded as an operating expense. Expenditures for capital assets are shown as increases in assets and redemption of bonds and notes are recorded as a reduction in liabilities.

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 government 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 and specific ownership taxes. Expenditures, other than interest on long-term obligations, are recorded when the liability is incurred or the long-term obligation paid. All other revenue items are considered to be measurable and available only when cash is received by the District.

The District reports the following major governmental funds:

The General Fund is the District's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Debt Service Fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of the governmental funds.

The Capital Projects Fund accounts for the financial resources to be used for the acquisition and construction of capital equipment and facilities.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

Budgets

In accordance with the State Budget Law, the District's Board of Directors holds public hearings in the fall each year to approve the budget and appropriate the funds for the ensuing year. The appropriation is at the total fund expenditures level and lapses at year end. The District's Board of Directors can modify the budget by line item within the total appropriation without notification. The appropriation can only be modified upon completion of notification and publication

THE LAKES METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

requirements. The budget includes each fund on its basis of accounting unless otherwise indicated.

The District amended its annual budget in the Capital Projects Fund for the year ended December 31, 2017.

Pooled Cash and Investments

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

Capital Assets

Capital assets, which include land and infrastructure improvements, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Capital assets which are anticipated to be conveyed to other governmental entities are recorded as construction in process, and are not included in the calculation of net investment in capital assets component of the District's net position.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable. Any construction in process that will be dedicated to another entity is not depreciated. At December 31, 2017, the District had no depreciable assets.

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 taxpayer's election, in February and June. Delinquent taxpayers are notified in August and generally sales of the tax liens on delinquent properties are held in November or December. The County Treasurer remits the taxes collected monthly to the District.

Property taxes, net of estimated uncollectible taxes, are recorded initially as deferred inflows of resources 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.

THE LAKES METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

Deferred Inflows/Outflows of Resources

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 or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. Deferred inflows of resources reported in the governmental funds for unavailable revenues are property taxes levied for the ensuing year.

Debt Issue Costs and Original Issue Discount/Premium

In the government-wide financial statements, debt premiums and discounts are deferred and amortized over the life of the debt using the effective interest method, with the unamortized amount included as a component of the debt. Debt issuance costs are treated as a period cost and expensed in the year incurred.

In the fund financial statements, governmental fund types recognize debt premiums and discounts, as well as issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Balances – Governmental Funds

The District's governmental fund balances may consist of five classifications based on the relative strength of the spending constraints:

Nonspendable fund balance—the amount of fund balance that is not in spendable form (such as inventory or prepaids) or is legally or contractually required to be maintained intact.

Restricted fund balance—the amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.

Committed fund balance—amounts constrained to specific purposes by the District itself, using its highest level of decision-making authority (i.e., Board of Directors). To be reported as committed, amounts cannot be used for any other purpose unless the District takes the same highest level action to remove or change the constraint.

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

Unassigned fund balance—amounts that are available for any purpose.

THE LAKES METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the District Board of Directors has provided otherwise in its commitment or assignment actions.

NOTE 3 - CASH AND INVESTMENTS

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

Cash and investments - unrestricted	\$ 8,209
Cash and investments - restricted	<u>4,406</u>
	<u><u>\$ 12,615</u></u>

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

Deposits with financial institutions	<u><u>\$ 12,615</u></u>
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Cash Deposits

The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulators. Amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is determined by the PDPA. PDPA allows the institution to create a single collateral pool for all public funds. The pool for all the uninsured public deposits as a group is to be maintained by another institution or held in trust. The market value of the collateral must be at least 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.

At December 31, 2017, the District's cash deposits had a bank balance and carrying balance of \$12,615.

Investments

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

The District follows Colorado State Statutes which 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 and the World Bank
- . General obligation and revenue bonds of U.S. local government entities
- . Bankers' acceptances of certain banks

**THE LAKES METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

- . Commercial paper
- . Certain reverse repurchase agreements
- . Certain securities lending agreements
- . Certain corporate bonds
- . Written repurchase agreements collateralized by certain authorized securities
- . Certain money market funds
- . Guaranteed investment contracts
- . Local government investment pools

At December 31, 2017, the District had no investments.

Restricted Cash and Investments

At December 31, 2017, cash and investments in the amount of \$4,406 are restricted for debt service in accordance with the indenture of trust related to the Series 2017A and B General Obligation Bonds (See Note 5).

NOTE 4 – CAPITAL ASSETS

An analysis of the changes in capital assets for the year ended December 31, 2017 follows:

<u>Governmental Activities</u>	<u>Balance at January 1, 2017</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at December 31, 2017</u>
Capital assets, not being depreciated:				
Streets	\$ -	\$ 740,489	\$ 740,489	\$ -
Water	-	301,222	301,222	-
Sanitary and storm drainage	-	322,962	322,962	-
Governmental activities capital assets, net	<u>\$ -</u>	<u>\$ 1,364,673</u>	<u>\$ 1,364,673</u>	<u>\$ -</u>

All of the capital assets were transferred from District No. 1 to District No.2 in 2017. As of December 31, 2017, all of the capital assets have been conveyed to the City of Brighton.

NOTE 5 – LONG-TERM OBLIGATIONS

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

THE LAKES METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

	Balance at December 31, 2016	Additions	Retirements	Balance at December 31, 2017	Due Within One Year
GO Bonds					
2017	\$ -	\$ 1,585,000	\$ -	\$ 1,585,000	\$ -
Developer Advances	-	1,356,280	(1,356,280)	-	-
Accrued interest on Developer advances	-	228,720	(228,720)	-	-
	<u>\$ -</u>	<u>\$ 3,170,000</u>	<u>\$ (1,585,000)</u>	<u>\$ 1,585,000</u>	<u>\$ -</u>

The detail of the District's long-term debt is as follows:

General Obligation Limited Tax Bonds, Series 2017

On December 15, 2017, the District issued \$1,585,000 General Obligation Limited Tax Bonds, Series 2017, (2017 Bonds), with interest of 4.10%. Proceeds of the Bonds were used to reimburse the developer for capital costs. The Bonds mature on September 1, 2047 with mandatory sinking fund payments each year beginning September 1, 2018 if funds are available from pledged revenues. Interest is due each September 1, commencing September 1, 2018. The 2017 Bonds are subject to optional redemption, as a whole or in integral multiples of \$1,000 on any date, upon payment of par and accrued interest plus a redemption premium in varying rates beginning on September 1, 2022.

The bonds are payable from pledged revenue, which includes the District's covenant to levy the required mill levy on all taxable property within the District to pay for debt scheduled payments, specific ownership taxes, capital fees and any other revenues designated as such and pledged to the payment of the bonds by a resolution adopted by the Board. The District is required to impose a mill levy sufficient to pay principal and interest on the bonds as they come due in an amount of equal to 38.000 mills. However, in the event that, on or after September 5, 2006, there were changes in the ratio of actual valuation to assessed valuation, pursuant to Article X, Section 3(1)(b) of the Colorado Constitution and legislation implementing such Section, then the mill levy of 38.000 mills will be increased or decreased to offset such changes, which are to be determined by the District in good faith. Considering the change in the 2017-2018 ratio of actual to assessed valuation in mill levy from 7.96% down to 7.2%, the adjusted mill levy of the District is 42.011.

Facilities Reimbursement Agreement

The District, The Lakes Metropolitan District No. 1 (District No. 1), RH Indigo Trails LLLP (Indigo Trails) and Meritage Homes of Colorado, Inc (Meritage) entered into a Facilities Reimbursement Agreement on May 21, 2015. The Agreement provides for Meritage to construct certain public improvements and directed District Nos. 1 and 2 to reimburse Indigo Trails for such costs, together with interest of 8%, from revenues derived from a mill levy imposed by District No. 2.

On December 11, 2017 an Assignment and Assumption of the Facilities Reimbursement Agreement was approved by the parties. As required by the Facilities Reimbursement Agreement, District No. 1 engaged an independent engineer to review and certify the construction related expenses incurred by Meritage and to verify that they are reimbursable. The Assignment acknowledges that construction related expenses were verified in the amount of \$1,364,674 and accrued interest of \$228,720. The Assignment also acknowledges that

THE LAKES METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

District No. 1 has assigned to the District and the District consents to the assignment of District No. 1's obligation to repay Indigo Trails for the verified costs and accrued interest with the proceeds of the 2017 bonds. Repayment is to be applied first to accrued interest and then to the principal balance of the verified costs. If the net proceeds from the 2017 Bonds are insufficient to repay all of the verified costs, any remaining amount is to remain the obligation of District No. 1. The 2017 bonds were insufficient to pay all of the verified costs, therefore \$8,393 remains the obligation of District No. 1 to Indigo Trails as of December 31, 2017.

Annual debt service requirements of the District's 2017 General Obligation Limited Tax Bonds are not currently determinable since they are payable only from funds available from the Pledged Revenue.

NOTE 6 – DEBT AUTHORIZATION

At December 31, 2017, the District had the following authorized but unissued indebtedness:

	Authorized May 6, 2014 Election	Authorization Used	Remaining at December 31, 2017
Streets	\$ 80,000,000	\$ 740,489	\$ 79,259,511
Parks and recreation	\$ 80,000,000	-	\$ 80,000,000
Water	\$ 80,000,000	301,222	\$ 79,698,778
Storm and sanitary sewer	\$ 80,000,000	314,569	\$ 79,685,431
Public transportation	\$ 80,000,000	-	\$ 80,000,000
Mosquito control	\$ 10,000,000	-	\$ 10,000,000
Safety Protection	\$ 80,000,000	-	\$ 80,000,000
Fire Protection	\$ 80,000,000	-	\$ 80,000,000
TV relay	\$ 80,000,000	-	\$ 80,000,000
Security services	\$ 80,000,000	-	\$ 80,000,000
Developer advances	\$ 80,000,000	228,720	\$ 79,771,280
Refunding	\$ 80,000,000	-	\$ 80,000,000
Regional improvements	\$ 80,000,000	-	\$ 80,000,000
	<u>\$ 970,000,000</u>	<u>\$ 1,585,000</u>	<u>\$ 968,415,000</u>

**The District's service plan limits the total debt issued to \$80,000,000.

NOTE 7 – FUND EQUITY

At December 31, 2017, the District reported the following classifications of fund equity.

Restricted Fund Balance

The restricted fund balance in the General Fund in the amount of \$10 is comprised of the Emergency Reserves that have been provided for as required by Article X, Section 20 of the Constitution of the State of Colorado (see Note 11).

THE LAKES METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

Assigned Fund Balance

The assigned fund balance in the General Fund in the amount of \$2,809 is comprised of amounts assigned by the Board of Directors by a resolution to eliminate the projected budgetary deficit in the subsequent year's budget.

NOTE 8 - NET POSITION

The District's net position consists of two components –restricted and unrestricted.

The restricted portion of net position includes amounts that are restricted for use either externally imposed by creditors, grantors, contributors, or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The District's restricted net position at December 31, 2017 is as follows:

Restricted net position:

Emergency reserves (see Note 11)	<u>\$ 10</u>
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The District's unrestricted net position at December 31, 2017 totaled \$(1,579,507). This deficit amount was a result of the District being responsible for repayment of bonds issued for public improvements conveyed to other governmental entities.

NOTE 9 – RELATED PARTIES

The property within the District was developed by a Builder (Meritage) and the Developer. During 2017, all of the members of the Board of Directors were officers or employees for, or otherwise associated with the Developer and may have conflicts of interest in matters involving the District.

NOTE 10 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, thefts of, damage to, or destruction of assets; errors or omissions; injuries to employees, or acts of God. The District is a member of the Colorado Special Districts Property and Liability Pool (Pool) 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.

THE LAKES METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
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NOTE 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 that 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.

On May 6, 2014, a majority of the District's electors approved the following questions regarding TABOR:

Ballot Issue 5A:

Shall The Lakes Metropolitan District No. 2's taxes be increased \$5,000,000 annually or by lesser amount necessary to pay the District's administration, operations, maintenance and capital expenses by the imposition of ad valorem property taxes levied in any year, without limitation as to rate or amount or any other condition to pay such expenses and shall the proceeds of such taxes and any investment income thereon be collected, retained and spent by the District in fiscal year 2014 and in each fiscal year thereafter as voter-approved revenue change without regard to any spending, revenue-raising, or other limitation contained within Article X, Section 20 of the Colorado Constitution, the limits imposed on increases in property taxation by Section 29-1-301, C.R.S. in any year or any other law which purports to limit the District's revenues or expenditures as it currently exists or as it may be amended in the future, all without limiting in any year the amount of other revenues that may be collected, retained and spent by the District?

Ballot Issue 5B:

Shall The Lakes Metropolitan District No. 2's taxes be increased \$5,000,000 annually or by lesser amount necessary to pay the District's administration, operations, maintenance and capital expenses by the imposition of a fee or fees imposed, without limitation as to rate or amount or any other condition to pay such expenses and shall the proceeds of such taxes and any investment income thereon be collected, retained and spent by the District in fiscal year 2014 and in each fiscal year thereafter as voter-approved revenue change without regard to any spending, revenue-raising, or other limitation contained within Article X, Section 20 of the Colorado Constitution, the limits imposed on increases in property taxation by Section 29-1-301, C.R.S. in any year or any other law which purports to limit the District's revenues or expenditures as it currently exists or as it may be amended in the future, all without limiting in any year the amount of other revenues that may be collected, retained and spent by the District?

THE LAKES METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

Ballot Issue 5C:

Shall The Lakes Metropolitan District No. 2's taxes be increased \$5,000,000 annually or by lesser amount necessary for the payment of such amounts due pursuant to one or more intergovernmental agreements or other contracts, by the imposition of ad valorem property taxes in any year, without limitation as to rate or amount or any other condition to pay such expenses and shall the proceeds of such taxes and any investment income thereon be collected, retained and spent by the District in fiscal year 2014 and in each fiscal year thereafter as voter-approved revenue change without regard to any spending, revenue-raising, or other limitation contained within Article X, Section 20 of the Colorado Constitution, the limits imposed on increases in property taxation by Section 29-1-301, C.R.S. in any year or any other law which purports to limit the District's revenues or expenditures as it currently exists or as it may be amended in the future, all without limiting in any year the amount of other revenues that may be collected, retained and spent by the District?

Ballot Issue 5E:

Shall The Lakes Metropolitan District No. 2 be authorized to collect, receive, retain, and spend the full amount of all taxes, tax increment revenues, tap fees, park fees, facility fees, public improvement fees, service charges, inspection charges, administrative charges, grants or any other fee, rate, toll, penalty, or charge authorized by law, covenants or contract to be imposed, collected or received by the District during 2014 and in each fiscal year thereafter such amounts to constitute a voter-approved revenue change and be collected, retained and spent by the District without regard to any spending revenue-raising, or other limitation contained within Article X, Section 20 of the Colorado Constitution, the limits imposed on increases in property taxation by Section 29-1-301, C.R.S. in any subsequent year or any other law which purports to limit the District's revenues or expenditures as it currently exists or as it may be amended in the future, all without limiting in any year the amount of other revenues that may be collected, retained and spent by the District?

The District's management believes the District is in compliance with the provisions of TABOR. However, TABOR is complex and subject to interpretation. Many of the provisions, including the interpretation of how to calculate Fiscal Year Spending limits will require judicial interpretation.

This information is an integral part of the accompanying financial statements.

SUPPLEMENTAL INFORMATION

THE LAKES METROPOLITAN DISTRICT NO. 2
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
CAPITAL PROJECTS FUND
Year Ended December 31, 2017

	<u>Original Budgeted Amounts</u>	<u>Final Budgeted Amounts</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
REVENUES				
Transfer from The Lakes Metropolitan District No. 1	\$ -	\$ -	\$ 88,394	\$ 88,394
Total Revenues	<u>-</u>	<u>-</u>	<u>88,394</u>	<u>88,394</u>
EXPENDITURES				
Developer reimbursement	-	1,619,727	1,585,000	34,727
Bond issuance costs	-	92,800	88,394	4,406
Capital outlay	-	1,364,673	-	1,364,673
Total Expenditures	<u>-</u>	<u>3,077,200</u>	<u>1,673,394</u>	<u>1,403,806</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>-</u>	<u>(3,077,200)</u>	<u>(1,585,000)</u>	<u>1,492,200</u>
OTHER FINANCING SOURCES (USES)				
Bond proceeds	-	1,585,000	1,585,000	-
Capital assets transferred from The Lakes Metropolitan District No. 1	-	1,492,200	-	(1,492,200)
Total other financing sources (uses)	<u>-</u>	<u>3,077,200</u>	<u>1,585,000</u>	<u>(1,492,200)</u>
NET CHANGE IN FUND BALANCE	-	-	-	-
FUND BALANCE - BEGINNING OF YEAR	2	-	-	-
FUND BALANCE - END OF YEAR	<u>\$ 2</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

OTHER INFORMATION

**THE LAKES METROPOLITAN DISTRICT NO. 2
SUMMARY OF ASSESSED VALUATION , MILL LEVY
AND PROPERTY TAXES COLLECTED
Year Ended December 31, 2017**

<u>Year Ended December 31,</u>	<u>Prior Year Assessed Valuation for Current Year Property Tax Levy</u>	<u>Mills Levied</u>			<u>Property Taxes</u>		<u>Percentage Collected to Levied</u>
		<u>General</u>	<u>Debt</u>	<u>Total</u>	<u>Levied</u>	<u>Collected</u>	
2017	\$ 19,810	10.000	0.000	10.000	\$ 198	\$ 196	99.0%
Estimated for year ending December 31, 2018	\$ 1,226,100	11.056	42.011	53.067	\$ 65,066		

NOTE: Property taxes collected in any one year may include collection of delinquent property taxes levied in prior years. Information received from the County Treasurer does not permit identification of specific year of levy.