

FOSSIL RIDGE METROPOLITAN DISTRICT NO. 2

Financial Statements

Year Ended December 31, 2017

with

Independent Auditors' Report

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July 5, 2018

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Board of Directors
Fossil Ridge Metropolitan District No. 2
Jefferson 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 Fossil Ridge 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 Fossil 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 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 opinion on the basic financial statements is 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 17, 2018

FOSSIL 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	\$ 5,520	\$ -	\$ 5,520	\$ -	\$ 5,520
Cash and investments - Restricted	-	38,862	38,862	-	38,862
Receivable from county treasurer	775	5,435	6,210	-	6,210
Property taxes receivable	<u>118,916</u>	<u>832,503</u>	<u>951,419</u>	-	<u>951,419</u>
Total Assets	<u>\$ 125,211</u>	<u>\$ 876,800</u>	<u>\$ 1,002,011</u>	-	<u>1,002,011</u>
LIABILITIES					
Due to District No. 1	\$ -	\$ 14,536	\$ 14,536	-	14,536
Due to District No. 3	<u>-</u>	<u>29,628</u>	<u>29,628</u>	-	<u>29,628</u>
Total Liabilities	<u>-</u>	<u>44,164</u>	<u>44,164</u>	-	<u>44,164</u>
DEFERRED INFLOWS OF RESOURCES					
Deferred property taxes	<u>118,916</u>	<u>832,503</u>	<u>951,419</u>	-	<u>951,419</u>
Total Deferred Inflows of Resources	<u>118,916</u>	<u>832,503</u>	<u>951,419</u>	-	<u>951,419</u>
FUND BALANCE					
Fund balance:					
Restricted:					
Emergencies	48	-	48	(48)	-
Debt service	-	133	133	(133)	-
Unassigned	<u>6,247</u>	<u>-</u>	<u>6,247</u>	<u>(6,247)</u>	<u>-</u>
Total Fund Balances	<u>6,295</u>	<u>133</u>	<u>6,428</u>	<u>(6,428)</u>	<u>-</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balance	<u>\$ 125,211</u>	<u>\$ 876,800</u>	<u>\$ 1,002,011</u>		
Net Position:					
Restricted for:					
Emergencies				48	48
Debt service				133	133
Unrestricted				<u>6,247</u>	<u>6,247</u>
Total Net Position				<u>\$ 6,428</u>	<u>\$ 6,428</u>

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

FOSSIL RIDGE 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>General</u>	<u>Debt Service</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
EXPENDITURES					
Transfer to District No. 1	\$ 107,586	\$ 262,416	\$ 370,002	\$ -	\$ 370,002
Transfer to District No. 3	-	534,855	534,855	-	534,855
Miscellaneous expense	14	-	14	-	14
Treasurers' fees	<u>1,578</u>	<u>11,044</u>	<u>12,622</u>	-	<u>12,622</u>
Total Expenditures	<u>109,178</u>	<u>808,315</u>	<u>917,493</u>	-	<u>917,493</u>
Net Program Income (Expense)	(109,178)	(808,315)	(917,493)	-	(917,493)
GENERAL REVENUES					
Property taxes	105,159	736,116	841,275	-	841,275
Specific ownership taxes	10,285	71,996	82,281	-	82,281
Interest income	<u>29</u>	<u>336</u>	<u>365</u>	-	<u>365</u>
Total General Revenues	<u>115,473</u>	<u>808,448</u>	<u>923,921</u>	-	<u>923,921</u>
NET CHANGE IN FUND BALANCE	6,295	133	6,428	(6,428)	
CHANGE IN NET POSITION				6,428	6,428
FUND BALANCE/NET POSITION					
BEGINNING OF YEAR	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
END OF YEAR	<u>\$ 6,295</u>	<u>\$ 133</u>	<u>\$ 6,428</u>	<u>\$ -</u>	<u>\$ 6,428</u>

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

FOSSIL RIDGE METROPOLITAN DISTRICT NO. 2

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

General Fund

For the Year Ended December 31, 2017

	Original & Final <u>Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
REVENUES			
Property taxes	\$ 105,277	\$ 105,159	\$ (118)
Specific ownership taxes	8,422	10,285	1,863
Interest income	<u>30</u>	<u>29</u>	<u>(1)</u>
 Total Revenues	 <u>113,729</u>	 <u>115,473</u>	 <u>1,744</u>
EXPENDITURES			
Miscellaneous expense	-	14	(14)
Transfer to District No. 1	112,150	107,586	4,564
Treasurers' fees	<u>1,579</u>	<u>1,578</u>	<u>1</u>
 Total Expenditures	 <u>113,729</u>	 <u>109,178</u>	 <u>4,551</u>
 NET CHANGE IN FUND BALANCE	 -	 6,295	 6,295
FUND BALANCE:			
BEGINNING OF YEAR	<u>-</u>	<u>-</u>	<u>-</u>
 END OF YEAR	 <u>\$ -</u>	 <u>\$ 6,295</u>	 <u>\$ 6,295</u>

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

FOSSIL RIDGE METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2017

Note 1: Summary of Significant Accounting Policies

The accounting policies of the Fossil Ridge Metropolitan District No. 2 (“District”), located in Jefferson 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 October 10, 2006, as a quasi-municipal corporation and political subdivision of the State of Colorado pursuant to the Colorado Special District Act. At the time of formation, the Fossil Ridge Metropolitan District No. 1 (“District No. 1”) and the Fossil Ridge Metropolitan District No. 3 (“District No. 3”) were also organized. All three districts are governed by the same Service Plan (as amended by the Second Amended and Restated Service Plan approved by the City of Lakewood on August 27, 2007), 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 Operating 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.

FOSSIL RIDGE 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 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.

FOSSIL RIDGE METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2017

The District 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 all the financial resources that are restricted, committed or assigned to expenditures for principal, interest and other debt related costs. The resources are transferred to District No. 1 for payment to the bondholders.

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 a public hearing 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 total appropriation can only be modified upon completion of public notification and hearing 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. Subsequent to year end the district amended its total appropriations in the Debt Services Fund from \$795,972 to \$810,000 due to increased 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 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.

FOSSIL RIDGE 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 has no items that qualify for reporting in this category.

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 has one item that qualifies for reporting in this category. This item is deferred property taxes. Deferred property taxes are deferred and recognized as an inflow of resources in the period that the amounts become available.

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.

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 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.

FOSSIL RIDGE METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements 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 General Fund represents Emergency Reserves that have been provided as required by Article X, Section 20 of the Constitution of the State of Colorado. A total of \$48 of the General Fund balance has been reserved in compliance with this requirement.

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 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.

FOSSIL RIDGE 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, investments are classified in the accompanying financial statements as follows:

Statement of Net Position:

Cash	\$ 5,520
Cash & Investments – Restricted	<u>38,862</u>
Total	\$ <u>44,382</u>

Investments as of December 31, 2017, consist of the following:

Deposits with financial institutions	\$ 27,884
Investments - COLOTRUST	<u>16,498</u>
Total	\$ <u>44,382</u>

FOSSIL RIDGE 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. This investment’s value is calculated using the net asset value method (NAV) per share.

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.

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.

FOSSIL RIDGE METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2017

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

COLOTRUST

The local government investment pool, Colorado Local Government Liquid Asset Trust (“COLOTRUST”) is rated AAAM by Standard & Poor’s with a weighted average maturity of under 60 days. COLOTRUST is an investment trust/joint venture established for local government entities in Colorado to pool surplus funds. The State Securities Commissioner administers and enforces all State statutes governing the Trust. COLOTRUST records its investments at fair value and the District records its investment in COLOTRUST using the net asset value method. The Trust operates similarly to a money market fund with each share maintaining a value of \$1.00. The Trust offers shares in two portfolios, COLOTRUST PRIME and COLOTRUST PLUS+. Both investments consist of U.S. Treasury bills and notes 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. Designated custodian banks provide safekeeping and depository services to the Trust. Substantially all securities owned by the Trust are held by the Federal Reserve Bank in the accounts maintained for the custodian banks. The custodians’ internal records identify the investments owned by COLOTRUST. At December 31, 2017, the District had \$16,498 invested in COLOTRUST.

Note 3: Long-Term Debt

Joint Funding Agreements

On September 1, 2009, the District entered into a Joint Funding Agreement with Districts No. 1 and No. 3 to provide for the payment to the trustee of certain property taxes and specific ownership taxes collected by the District and No. 3 for the purpose of paying debt service on District No. 1’s Series 2009 Bonds. An Amended and Restated Joint Funding Agreement was approved on September 1, 2010 which allowed for the payment of the debt service related to District No. 1’s Series 2010 Bonds.

On December 22, 2014, the District entered into a 2014 Joint Funding Agreement with District No. 1 and District No. 3, pursuant to which both the District and District No. 3 will be obligated to impose a required mill levy for the purpose of providing for the payment of District No. 3’s Series 2014 Bonds. All revenues payable to the trustee under the Funding Agreements constitute Pledged Revenue pledged to the payment of the Series 2010 Bonds and Series 2014 Bonds on parity.

On December 7, 2016, the District entered into a First Amendment to Joint Funding Agreement which amended the Original Joint Funding Agreement to clarify that the term “Estimated Debt Requirements” is to include all Parity Debt as well as Bonds.

FOSSIL RIDGE METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2017

Debt Authorization

As of December 31, 2017, the District had remaining voted debt authorization of approximately \$712,325,000. The District has not budgeted to issue new debt during 2018. Per the District's Service Plan, the District, in combination with Districts No. 1 and No. 3, cannot issue more than \$91 million in revenue debt, of which \$70 million of such authorization may be allocated to general obligation debt.

Note 4: District Agreements

Master Intergovernmental Agreement

On January 8, 2008, the District entered into a Master Intergovernmental Agreement with District No. 1 and District No. 3. Per the IGA, District No. 1 is to construct, own, maintain and operate the facilities benefiting the District and District No. 3, which may include the borrowing of funds or issuance of revenue bonds. The District and District No. 3 are to pay all costs related to the construction, operation, and maintenance of such facilities, including the payment of amounts owing in connection with bonds issued to finance such facilities. Such financial obligations are to be paid from bond proceeds, the District's annual certification of a mill levy (not to exceed 50 mills), homeowners assessments, and various fees subject to the limitations of the Service Plan. The IGA also sets forth certain provisions pertaining to the processes for payment of capital, operations and maintenance costs, review of budgets and project plans, execution of construction contracts, administrative management, establishment of user fees, and the transfers of funds between districts.

Reimbursement of Developer Loan and Public Infrastructure Acquisition Agreement

On May 13, 2008, District No. 1 entered into a Reimbursement of Developer Loan and Public Infrastructure Acquisition Agreement with Brookfield Residential (Colorado), LLC, formerly Carma (Colorado), Inc., ("Developer"). The agreement provides for the advancement by the Developer of certain moneys for capital improvements and operating and maintenance costs for an amount not to exceed \$91,000,000. The agreement also provides for the repayment of these advances using bond proceeds. The District and District No. 3 are responsible for determining when bonds should be issued, based upon numerous economic factors. The District No. 1 Board of Directors may in its sole discretion, use other legally available funds to repay Developer Advances. Advances shall bear interest at a rate of 6% per annum from the date of the advance. The agreement also provides for the District No. 1 to acquire any public improvements constructed by the Developer upon receipt of the proper engineer's certificate as to district eligibility. The repayment obligations by District No. 1 constitute a multiple fiscal year financial obligation and are not subject to annual appropriation; however, as discussed above, the repayment obligation is restricted to bond proceeds. The agreement states that it is between District No. 1 and the Developer. However, given the provisions of the Master IGA, the District and District No. 3 are impacted from certain covenants contained therein.

FOSSIL RIDGE METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2017

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.

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, 2006, 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.

FOSSIL RIDGE METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2017

Note 7: Related Party

Until June 30, 2017, a majority of the Board of Directors were employees, owners or otherwise associated with the Developer and may have had conflicts of interest in dealing with the District. All Developer related Directors resigned from the Board effective June 30, 2017.

Note 8: Litigation

The Developer, Brookfield Residential (Colorado) LLC (“Brookfield”), caused all of the Brookfield-affiliated Directors to resign from the Board of Directors of Fossil Ridge Metropolitan District No. 1 (“Service District”) on June 30, 2017, leaving the Board with no Directors. Brookfield then filed pleadings with the District Court for Jefferson County, Colorado, requesting that the Court appoint a receiver to control the Service District. As required by statute, the original case number assigned at the time of the Service District’s organization (Case No. 05CV3044) was used. In response to Brookfield’s actions, the Boards for Fossil Ridge Metropolitan District No. 2 and Fossil Ridge Metropolitan District No. 3 (collectively, the “Financing Districts”) filed pleadings with the Court requesting that, in accordance with the express provisions of the January 8, 2008 Master Intergovernmental District Facilities Construction and Services Agreement between the Service District and the Financing Districts, the Court appoint Board members of the Financing Districts to temporarily assume control over the Service District until additional eligible electors can be added to the Service District and elected to the Service District’s Board. On November 13, 2017, the Jefferson County District Court granted the Financing Districts’ request and appointed five of the Board members of the Financing Districts to assume control of the Service District. Brookfield appealed this decision to the Colorado Court of Appeals (Case No. 2017CA2373).

In accordance with the Court’s November 13, 2017 Order, the Board for the Service District undertook a statutory process to include 34 residential properties within its jurisdictional boundaries in order to have residents who would be eligible to serve on and/or vote for the Board of Directors for the Service District. As part of that statutory process, on January 30, 2018, the Service District filed a Petition for Inclusion of Real Property with the Jefferson County District Court. As required by statute, the same organizational case number (Case No. 05CV3044) was used. Brookfield opposed the inclusion on various grounds. On February 21, 2018, the Court issued an Order rejecting Brookfield’s arguments and granting the Service District’s Petition to include the properties. Brookfield appealed that decision (Case No. 2018CA691). The Service District advised Brookfield that it intended to consolidate the two appeals. In response, Brookfield voluntarily filed a Motion to Dismiss its first appeal (Case No. 2017CA2373). That Motion is pending. The Service District intends to vigorously defend the favorable ruling it received from the Jefferson County District Court and believes those decisions will be upheld.

SUPPLEMENTAL INFORMATION

FOSSIL 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 <u>Budget</u>	Final <u>Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
REVENUES				
Property taxes	\$ 736,942	\$ 736,942	\$ 736,116	\$ (826)
Specific ownership taxes	58,955	72,983	71,996	(987)
Interest income	<u>75</u>	<u>75</u>	<u>336</u>	<u>261</u>
 Total Revenues	 <u>795,972</u>	 <u>810,000</u>	 <u>808,448</u>	 <u>(1,552)</u>
 EXPENDITURES				
Miscellaneous expense	4,000	4,000	-	4,000
Transfer to District No. 1	256,922	270,950	262,416	8,534
Transfer to District No. 3	523,996	523,996	534,855	(10,859)
Treasurers' fees	<u>11,054</u>	<u>11,054</u>	<u>11,044</u>	<u>10</u>
 Total Expenditures	 <u>795,972</u>	 <u>810,000</u>	 <u>808,315</u>	 <u>1,685</u>
 NET CHANGE IN FUND BALANCE	 -	 -	 133	 133
 FUND BALANCE:				
BEGINNING OF YEAR	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
 END OF YEAR	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$ 133</u>	 <u>\$ 133</u>

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

FOSSIL RIDGE METROPOLITAN DISTRICT NO. 2

SUMMARY OF ASSESSED VALUATION, MILL LEVY
AND PROPERTY TAXES COLLECTED

December 31, 2017

<u>Year Ended</u> <u>December 31,</u>	<u>Prior</u> <u>Year Assessed</u> <u>Valuation</u> <u>for Current</u> <u>Year Property</u> <u>Tax Levy</u>	<u>Mills Levied</u> <u>General</u>	<u>Mills Levied</u> <u>Debt Service</u>	<u>Mills Levied</u> <u>Contractual</u>	<u>Total Property Tax</u> <u>Levied</u> <u>Collected</u>		<u>Percent</u> <u>Collected</u> <u>to Levied</u>
2008	\$ 2,440,570	30.000	0.000	0.000	\$ 73,217	\$ 73,296	100.11%
2009	\$ 3,895,030	0.000	30.000	0.000	\$116,851	\$ 121,571	104.04%
2010	\$ 6,656,870	0.000	30.000	0.000	\$199,706	\$ 195,884	98.09%
2011	\$ 7,395,640	0.000	30.000	0.000	\$221,869	\$ 204,065	91.98%
2012	\$ 10,435,617	0.000	30.000	0.000	\$313,069	\$ 312,188	99.72%
2013	\$ 11,679,755	0.000	30.000	0.000	\$350,393	\$ 350,391	100.00%
2014	\$ 13,648,409	0.000	30.000	0.000	\$409,452	\$ 409,450	100.00%
2015	\$ 15,615,700	5.000	35.000	0.000	\$624,628	\$ 624,626	100.00%
2016	\$ 20,546,882	0.000	35.000	5.000	\$821,875	\$ 821,872	100.00%
2017	\$ 21,055,483	5.000	35.000	0.000	\$842,219	\$ 841,275	99.89%
Estimated for year ending December 31, 2018	\$ 21,787,559	5.458	38.210	0.000	\$951,419		

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.

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

FOSSIL RIDGE METROPOLITAN DISTRICT NO. 2

MILL LEVY RECAP

December 31, 2017

UNAUDITED

Taxing Authority	2016 Levy	2017 Levy
Jefferson County	24.709	22.420
Jefferson County School District No. R-1	45.941	42.878
Lakewood (City of)	2.392	2.148
Mount Carbon Metropolitan District (exclusion areas)	20.000	21.849
Regional Transportation District	-	-
Urban Drainage & Flood Control District	0.559	0.500
Urban Drainage & Flood Control South Platte	0.061	0.057
West Metro Fire Protection District	13.394	13.219
Total Overlapping Mill Levy	107.056	103.071
The Financing Districts	40.000	43.668
Total Mill Levy	147.056	146.739

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