

ST. VRAIN LAKES METROPOLITAN DISTRICT NO. 2

Financial Statements

Year Ended December 31, 2017

with

Independent Auditors' Report

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Office of the State Auditor

July 31, 2018

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
St. Vrain Lakes Metropolitan District No. 2
Weld County, Colorado

We have audited the accompanying financial statements of the governmental activities and each major fund of St. Vrain Lakes 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 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 St. Vrain Lakes Metropolitan District No. 2, as of December 31, 2017, and the respective changes in financial position thereof, 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 Supplementary Information

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statement in an appropriate operation, 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 basic financial statements. The supplementary information as listed in the table of contents is presented for purposes of legal compliance and additional analysis and is not a required part of the basic financial statements.

The supplemental information as listed in the table of contents is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The continuing disclosure annual financial information as 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.

Fiscal Focus Partners, LLC

Lakewood, Colorado
July 25, 2018

ST VRAIN LAKES METROPOLITAN DISTRICT NO. 2

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

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
ASSETS						
Investments - restricted	\$ -	\$ 7,734,141	\$ 52,200	\$ 7,786,341	\$ -	\$ 7,786,341
Due from County treasurer	112	372	-	484	-	484
Due to other funds	(1,262)	1,262	-	-	-	-
Due from District No. 1	2,000	-	-	2,000	-	2,000
Due from District No. 3	-	30,098	-	30,098	-	30,098
Due from District No. 4	-	24,687	-	24,687	-	24,687
Property taxes receivable	47,293	157,634	-	204,927	-	204,927
Total Assets	<u>\$ 48,143</u>	<u>\$ 7,948,194</u>	<u>\$ 52,200</u>	<u>\$ 8,048,537</u>	<u>-</u>	<u>8,048,537</u>
LIABILITIES						
Accounts Payable	\$ -	\$ 1	\$ 21,200	\$ 21,201	-	21,201
Due to District No. 1	850	-	-	850	-	850
Accrued Interest	-	-	-	-	111,389	111,389
Long-term liabilities:						
Due in more than one year	-	-	-	-	43,290,746	43,290,746
Total Liabilities	<u>850</u>	<u>1</u>	<u>21,200</u>	<u>22,051</u>	<u>43,402,135</u>	<u>43,424,186</u>
DEFERRED INFLOWS OF RESOURCES						
Deferred property taxes	47,293	157,634	-	204,927	-	204,927
Total Deferred Inflows of Resources	<u>47,293</u>	<u>157,634</u>	<u>-</u>	<u>204,927</u>	<u>-</u>	<u>204,927</u>
FUND BALANCES/NET POSITION						
Fund balances:						
Restricted:						
Debt service	-	7,790,559	-	7,790,559	(7,790,559)	-
Capital projects	-	-	31,000	31,000	(31,000)	-
Total Fund Balances	<u>-</u>	<u>7,790,559</u>	<u>31,000</u>	<u>7,821,559</u>	<u>(7,821,559)</u>	<u>-</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 48,143</u>	<u>\$ 7,948,194</u>	<u>\$ 52,200</u>	<u>\$ 8,048,537</u>		
Net Position:						
Restricted for:						
Emergencies					-	-
Debt service					7,790,559	7,790,559
Capital projects					31,000	31,000
Unrestricted					<u>(43,402,135)</u>	<u>(43,402,135)</u>
Total Net Position (Deficit)					<u>\$ (35,580,576)</u>	<u>\$ (35,580,576)</u>

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

ST VRAIN LAKES METROPOLITAN DISTRICT NO. 2

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

For the Year Ended December 31, 2017

	<u>General</u>	<u>Debt Service</u>	<u>Capital Project</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
EXPENDITURES						
Treasurer's fees	\$ 308	\$ 1,025	\$ -	\$ 1,333	\$ -	\$ 1,333
Bond interest	-	-	-	-	111,389	111,389
Transfer to Firestone	-	6,734	-	6,734	-	6,734
Transfer to District No. 1	21,797	-	35,587,429	35,609,226	-	35,609,226
Bond issuance costs	-	-	<u>1,183,922</u>	<u>1,183,922</u>	-	<u>1,183,922</u>
Total Expenditures	<u>22,105</u>	<u>7,759</u>	<u>36,771,351</u>	<u>36,801,215</u>	<u>111,389</u>	<u>36,912,604</u>
GENERAL REVENUES						
Property taxes	20,513	68,376	-	88,889	-	88,889
Specific ownership taxes	1,592	5,310	-	6,902	-	6,902
Transfer from District No. 3	-	700,267	-	700,267	-	700,267
Transfer from District No. 4	-	528,175	-	528,175	-	528,175
Interest income	-	<u>6,556</u>	-	<u>6,556</u>	-	<u>6,556</u>
Total General Revenues	<u>22,105</u>	<u>1,308,684</u>	<u>-</u>	<u>1,330,789</u>	<u>-</u>	<u>1,330,789</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	-	1,300,925	(36,771,351)	(35,470,426)	(111,389)	(35,581,815)
OTHER FINANCING SOURCES (USES)						
Bond proceeds	-	-	43,290,746	43,290,746	(43,290,746)	-
Transfer (to) from other funds	-	<u>6,488,395</u>	<u>(6,488,395)</u>	-	-	-
Total Other Financing Sources (Uses)	-	<u>6,488,395</u>	<u>36,802,351</u>	<u>43,290,746</u>	<u>(43,290,746)</u>	-
NET CHANGES IN FUND BALANCES	-	7,789,320	31,000	7,820,320	(7,820,320)	
CHANGES IN NET POSITION					(35,581,815)	(35,581,815)
FUND BALANCES/NET POSITION						
BEGINNING OF YEAR	-	<u>1,239</u>	-	<u>1,239</u>	-	<u>1,239</u>
END OF YEAR	<u>\$ -</u>	<u>\$ 7,790,559</u>	<u>\$ 31,000</u>	<u>\$ 7,821,559</u>	<u>\$ (43,402,135)</u>	<u>\$(35,580,576)</u>

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

ST VRAIN LAKES METROPOLITAN DISTRICT NO. 2

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

For the Year Ended December 31, 2017

	Original & Final		Variance
	<u>Budget</u>	<u>Actual</u>	Favorable (Unfavorable)
REVENUES			
Property taxes	\$ 20,513	\$ 20,513	\$ -
Specific ownership taxes	1,846	1,592	(254)
Interest income	<u>50</u>	<u>-</u>	<u>(50)</u>
Total Revenues	<u>22,409</u>	<u>22,105</u>	<u>(304)</u>
EXPENDITURES			
Treasurer's fees	\$ 308	\$ 308	\$ -
Transfer to District No. 1	<u>22,101</u>	<u>21,797</u>	<u>304</u>
Total Expenditures	<u>22,409</u>	<u>22,105</u>	<u>304</u>
NET CHANGE IN FUND BALANCE	-	-	-
FUND BALANCE:			
BEGINNING OF YEAR	<u>-</u>	<u>-</u>	<u>-</u>
END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

ST. VRAIN LAKES METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2017

Note 1: Summary of Significant Accounting Policies

The accounting policies of the St. Vrain Lakes Metropolitan District No. 2 (“District”), located in Weld 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 22, 2006, as a quasi-municipal organization established under the State of Colorado Special District Act. The District was organized as part of a service plan establishing the District, St. Vrain Lakes Metropolitan District No. 1 (“District No. 2”), St. Vrain Lakes Metropolitan District No. 3 (“District No. 3”), and St. Vrain Lakes Metropolitan District No. 4 (“District No. 4”). District No. 1 is proposed to be the service district and is expected to manage and oversee the permitted district activities. The District, District No. 3 and District No. 4 are the proposed financing districts. The District was established to provide for the construction and financing of the public improvements for the use and benefit of the residents and property owners within the service area. 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.

ST. VRAIN LAKES 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.

ST. VRAIN LAKES 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 all financial resources not accounted for and reported in another fund.

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

Capital Projects Fund – The Capital Projects Fund is used to account for all financial resources that are restricted, committed or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other assets.

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.

Subsequent to year end, the District amended its total appropriations in the Capital Projects Fund from \$10,000,000 to \$44,000,000 primarily 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 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.

ST. VRAIN LAKES METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2017

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.

Interfund Balances

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds". These amounts are eliminated in the Statement of Net Position.

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 type of 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.

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.

ST. VRAIN LAKES METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2017

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.

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 \$7,790,559 is restricted for the payment of the debt service costs associated with the General Obligation Bonds Series 2017 (see Note 3).

The restricted fund balance in the Capital Projects Fund in the amount of \$31,000 is restricted for the payment of the costs for capital improvements within the District.

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.

ST. VRAIN LAKES METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements
December 31, 2017

Unassigned Fund Balance

Unassigned fund balance includes amounts that are available for any purpose. Positive amounts are reported only in the General Fund.

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.

Net Position

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

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 component 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: Investments

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

Statement of Net Position:	
Cash and investments - Restricted	<u>\$ 7,786,341</u>
Total	<u>\$ 7,786,341</u>

Investments as of December 31, 2013 consist of the following:

Investments - COLOTRUST	\$ 1,245,746
Investments – MSILF Treasury Fund	<u>6,540,595</u>
	<u>\$ 7,786,341</u>

ST. VRAIN LAKES METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2017

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 investments are not required to be categorized within the fair value hierarchy. COLOTRUST's value is calculated using the net asset value method (NAV) per share and MSILF Treasury Fund's value is calculated using the amortized cost method.

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

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 ventures 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 trusts operate 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 trusts. Substantially all securities owned by the trusts 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 \$1,245,746 invested in COLOTRUST.

Morgan Stanley Institutional Liquidity Funds Treasury Portfolio

During 2017, the District's funds that were included in the trust accounts at the UMB Bank were invested in the Morgan Stanley Institutional Liquidity Funds Treasury Portfolio. This fund is a money market fund and each share is equal in value to \$1.00. The fund is AAAM rated and invests exclusively in U.S. Treasury securities and repurchase agreements collateralized by U.S. Treasury securities. The maturity of the underlying securities is 30 days or less. As of December 31, 2017, the District has \$6,540,595 invested in the fund, \$6,498,395 was restricted for the repayment of bond principal and interest.

ST. VRAIN LAKES METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements
December 31, 2017

Credit Risk

The District's investment policy requires that the District follow state statutes for 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.

Note 3: Long-term Obligations

\$32,760,000 Limited Tax General Obligation Bonds, Series 2017A, \$3,247,000 Subordinate Limited Tax General Obligation Bonds, Series 2017B, and \$7,283,746 Junior Lien Limited Tax General Obligation Bonds, Series 2017C

On December 13, 2017, the District issued \$32,760,000 Limited Tax General Obligation Bonds, Series 2017A ("Series 2017A Bonds"), \$3,247,000 Subordinate Limited Tax General Obligation Bonds, Series 2017B ("Series 2017B Bonds"), and \$7,283,746 Junior Lien Limited Tax General Obligation Bonds, Series 2017C ("Series 2017C Bonds"), (collectively "the Series 2017 Bonds"). The Series 2017 Bonds were issued for the purpose of funding and reimbursing a portion of the costs of acquiring, constructing and installing certain public improvements, paying capitalized interest on the Series 2017A bonds, funding an initial deposit to the Series 2017A Surplus Fund and to pay the costs of issuing the Series 2017A Bonds, the Series 2017B Bonds and the Series 2017C Bonds.

The Series 2017A Bonds bear interest at rates ranging from 5.000% to 5.125%, payable semiannually on June 1 and December 1, mature on December 1, 2047. The Series 2017A Bonds are secured by a required maximum mill levy of 55.277 mills, the portion of specific ownership taxes attributable to the property taxes used for debt service, capitalized interest of \$3,688,395 and to the extent excess pledged revenues are available, deposits will be made to a Surplus Fund, up to a maximum amount of \$6,552,000.

ST. VRAIN LAKES METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements
December 31, 2017

The Series 2017B Bonds bear interest at 7.625% and mature on December 15, 2047. The Subordinate Series 2017B Bonds are cash flow bonds with annual payments anticipated to be made on December 15. Unpaid interest compounds annually on December 15 at the rate of 7.625%. Payments toward interest and principal can be made provided the Series 2017A Bonds are current and the Surplus Fund for the Series 2017A Bonds is full. The District is required to impose the minimum required mill levy of 55.277 mills until the Series 2017B Bonds are fully paid or discharged on December 15, 2057; however, only revenues resulting from the number of mills equal to 55.277 mills less the Senior Required Mill Levy are pledged to payment of the Series 2017B Bonds.

The Series 2017C Bonds were authorized in the amount of \$12,200,000, but were only issued in the amount of \$7,283,746. The Series 2017C Bonds bear interest at 6.00% and mature on December 15, 2053. The 2017C Bonds are cash flow bonds with annual payments anticipated to be made on December 15. Unpaid interest compounds annually on December 15 at the rate of 6.00%. Payments toward interest and principal can be made provided the Series 2017A Bonds are current and the Surplus Fund for the Series 2017A Bonds is full. The District is required to impose the minimum required mill levy of 55.277 mills until the Subordinate Series 2017C Bonds are fully paid or discharged on December 15, 2053.

The following is a summary of the annual long-term debt principal and interest requirements for the Series 2017A Bonds.

Year	Principal	Interest	Total
2018	\$ -	\$ 1,608,473	\$ 1,608,473
2019	-	1,663,938	1,663,938
2020	-	1,663,938	1,663,938
2021	-	1,663,938	1,663,938
2022	-	1,663,938	1,663,938
2023-2027	1,310,000	8,275,688	9,585,688
2028-2032	4,420,000	7,583,438	12,003,438
2033-2037	6,280,000	6,301,688	12,581,688
2038-2042	8,775,000	4,475,406	13,250,406
2043-2047	<u>11,975,000</u>	<u>1,916,238</u>	<u>13,891,238</u>
Total	<u>\$ 32,760,000</u>	<u>\$ 36,816,679</u>	<u>\$ 69,576,679</u>

Because of the uncertainty of timing of payments under the 2017B and 2017C bonds, no related schedule of expected principal and interest payments is presented.

ST. VRAIN LAKES METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements
December 31, 2017

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

	Balance 1/1/2017	Additions	Reductions	Balance 12/31/2017	Current Portion
General Obligations Bonds:					
Series 2017A	\$ -	\$ 32,760,000	\$ -	\$ 32,760,000	\$ -
Series 2017B	-	3,247,000	-	3,247,000	-
Series 2017C	-	7,283,746	-	7,283,746	-
	<u>\$ -</u>	<u>\$ 43,290,746</u>	<u>\$ -</u>	<u>\$ 43,290,746</u>	<u>\$ -</u>

Debt Authorization

On November 7, 2006, a majority of the qualified electors of the District authorized the issuance of indebtedness in an amount not to exceed \$1,332,000,000, for capital purposes, at an interest rate not to exceed 18%. After the issuance of the Series 2017 Bonds, the remaining electoral authorization is \$1,295,993,000. The District has not budgeted to issue new debt during 2018. The District’s Service Plan restricts the total outstanding debt of the District, and Districts No. 1, No. 3 and No. 4 to a combined amount of \$166,500,000. After the issuance of the Series 2017 Bonds, the District will have \$123,209,254 of this authorization remaining

Note 4: District Agreements

District Facilities Construction and Service Agreement (“Master IGA”)

On June 12, 2007, the District entered into a District Facilities Construction and Service Agreement (“Master IGA”) with District No. 1, District No. 3 and District No. 4. This Master IGA provides for the implementation of the principles and objectives set forth in the Districts’ Service Plan regarding the financing, construction, operation and maintenance of the Districts’ facilities. The Master IGA was superseded by (i) a Mill Levy Policy and Pledge Agreement dated as of November 9, 2016 (as subsequently amended and restated by the Amended and Restated Mill Levy Policy and Pledge Agreement dated as of December 1, 2017, the “Mill Levy Agreement”), among the St. Vrain Districts; and (ii) a District Operating Services Agreement dated as of November 9, 2016 (the “District Operating Services Agreement”), among the St. Vrain Districts.

ST. VRAIN LAKES METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2017

Mill Levy Policy Agreement

On November 9, 2016, the District entered into a Mill Levy Policy Agreement to address certain obligations of the St. Vrain Districts to the Developer. The Mill Levy Policy Agreement stipulates that any revenue collected by any of Districts Nos. 2, 3, and 4 from their respective debt service mill levies and specific ownership taxes which are not pledged for debt service purposed for their own obligations shall be pledged to District No. 1 for the payment of debt obligations owned by District No. 1 to the Developer.

District Operating Services Agreement

On November 9, 2016, the District entered into a District Operating Services Agreement which provides that District No. 1 will provide operational and maintenance services to Districts Nos. 2, 3, and 4, and Districts Nos. 2, 3, and 4 will impose an operations and maintenance mill levy and remit the proceeds thereof to District No. 1 to pay for such services.

Reimbursement and Acquisition Agreement

On June 12, 2007, District No. 1 entered into a Reimbursement and Acquisition Agreement whereby District No. 1 agrees to reimburse Brookfield Residential, LLC (formerly CARMA, Inc.) (“Developer”), for all District No. 1 costs incurred by the Developer, whether by construction of public infrastructure or by advancement of funds to District No. 1 for the purpose of providing public infrastructure including all related costs such as organization costs, operations and maintenance, engineering, surveying, construction and the costs of acquiring public lands. The repayment of such costs is not to exceed \$100,000,000. The advances do constitute multiple fiscal year financial obligations of District No. 1 and are not subject to annual appropriation by District No. 1. The advances bear interest at a rate of 6% per annum from the date of the advance. The advances are to be repaid using bond proceeds or any other legally available revenues.

Intergovernmental Agreement with the Town of Firestone

On December 9, 2015, the District entered into an Intergovernmental Agreement with the Town of Firestone (“Town”) and District No. 1, District No. 3 and District No. 4 whereby, commencing with the certification of a mill levy in 2015 for collection in 2016, each of the Districts agree to annually impose, collect, transfer, convey and remit to the Town all revenues generated from a levy of five (5) mills that shall be imposed upon all taxable property of each such District. Each District shall remit these funds monthly to the Town. The Town will place these funds in a separate account to be used to maintain regional parks, regional trails and public streets within or benefitting the property within the boundaries of the Districts.

Note 5: Related Party

All of the Board of Directors are employees, owners or are otherwise associated with the Developer and may have conflicts of interest in dealing with the District. Management believes that all potential conflicts, if any, have been disclosed to the Board.

ST. VRAIN LAKES METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements
December 31, 2017

Note 6: 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’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 7: 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.

ST. VRAIN LAKES METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements
December 31, 2017

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

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

- 1) long-term liabilities such as bonds payable and accrued bond 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 Balances/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;
- 2) governmental funds report developer advances and/or bond proceeds as revenue; and,
- 3) governmental funds report long-term debt payments as expenditures, however, in the statement of activities, the payment of long-term debt is recorded as a decrease of long-term liabilities.

SUPPLEMENTAL INFORMATION

ST VRAIN LAKES 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 & Final <u>Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
REVENUES			
Property taxes	\$ 68,376	\$ 68,376	\$ -
Specific ownership taxes	6,154	5,310	(844)
Transfer from District No. 3	709,795	700,267	(9,528)
Transfer from District No. 4	535,486	528,175	(7,311)
Interest income	<u>501</u>	<u>6,556</u>	<u>6,055</u>
Total Revenues	<u>1,320,312</u>	<u>1,308,684</u>	<u>(11,628)</u>
EXPENDITURES			
Bond interest	600,000	-	600,000
Treasurer's fees	1,026	1,025	1
Trustee fees	2,000	-	2,000
Transfer to Firestone	<u>6,735</u>	<u>6,734</u>	<u>1</u>
Total Expenditures	<u>609,761</u>	<u>7,759</u>	<u>602,002</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	710,551	1,300,925	590,374
OTHER FINANCING SOURCES			
Transfer (to) from other funds	<u>150,000</u>	<u>6,488,395</u>	<u>6,338,395</u>
Total Other Financing Sources	<u>150,000</u>	<u>6,488,395</u>	<u>6,338,395</u>
NET CHANGE IN FUND BALANCE	860,551	7,789,320	6,928,769
FUND BALANCE:			
BEGINNING OF YEAR	<u>-</u>	<u>1,239</u>	<u>1,239</u>
END OF YEAR	<u>\$ 860,551</u>	<u>\$ 7,790,559</u>	<u>\$ 6,930,008</u>

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

ST VRAIN LAKES METROPOLITAN DISTRICT NO. 2

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

For the Year Ended December 31, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
EXPENDITURES				
Bond issuance costs	\$ 300,000	\$ 1,100,000	\$ 1,183,922	\$ (83,922)
Transfer to District No. 1	9,550,000	35,700,000	35,587,429	112,571
Repay developer interest	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Expenditures	<u>9,850,000</u>	<u>36,800,000</u>	<u>36,771,351</u>	<u>28,649</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES				
	(9,850,000)	(36,800,000)	(36,771,351)	28,649
OTHER FINANCING SOURCES (USES)				
Bond proceeds	10,000,000	44,000,000	43,290,746	(709,254)
Transfer (to) from other funds	<u>(150,000)</u>	<u>(7,200,000)</u>	<u>(6,488,395)</u>	<u>711,605</u>
Total Other Financing Sources (Uses)	<u>9,850,000</u>	<u>36,800,000</u>	<u>36,802,351</u>	<u>2,351</u>
NET CHANGE IN FUND BALANCE	-	-	31,000	31,000
FUND BALANCE:				
BEGINNING OF YEAR	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 31,000</u>	<u>\$ 31,000</u>

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

ST VRAIN LAKES METROPOLITAN DISTRICT NO. 2

SUMMARY OF ASSESSED VALUATION, MILL LEVY
AND PROPERTY TAXES COLLECTED

December 31, 2017

(Unaudited)

<u>Year Ended December 31,</u>	Prior Year Assessed Valuation for Current Year Property Tax Levy	<u>Mills Levied</u>		<u>Total Property Tax</u>		<u>Percent Collected to Levied</u>
		<u>General Fund</u>	<u>Debt Service</u>	<u>Levied</u>	<u>Collected</u>	
2014	\$ 8,071,282	15.000	50.000	\$ 524,633	\$ 524,625	100.00%
2015	\$ 5,029,220	15.000	50.000	\$ 326,899	\$ 88,889	27.19%
2016	\$ 3,358,080	0.000	65.000	\$ 218,275	\$ 218,276	100.00%
2017	\$ 1,367,540	15.000	50.000	\$ 88,890	\$ 88,889	100.00%
Estimated for year ending December 31, 2018	\$ 2,851,720	16.584	55.277	\$ 204,927		

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.

CONTINUING DISCLOSURE ANNUAL FINANCIAL INFORMATION - UNAUDITED

ST. VRAIN LAKES METROPOLITAN DISTRICT NO. 2

**ASSESSED VALUATION OF CLASSES
OF PROPERTY IN THE DISTRICT**

December 31, 2017

UNAUDITED

<u>Class</u>	<u>2017 Assessed Valuation</u>	<u>Percent of Assessed Valuation</u>
Vacant	\$ 1,360,810	47.72%
Residential	802,780	28.15%
Oil and Gas	471,820	16.55%
State Assessed	151,560	5.31%
Agricultural	46,850	1.64%
Commercial	17,900	0.63%
Total	<u>\$ 2,851,720</u>	<u>100.00%</u>

Source: Weld County Assessor's Office

ST. VRAIN LAKES METROPOLITAN DISTRICT NO. 2

LARGEST OWNERS OF TAXABLE PROPERTY WITHIN THE DISTRICT

December 31, 2017

UNAUDITED

<u>Taxpayer Name</u>	<u>2017 Assessed Valuation</u>	<u>Percentage of Total Assessed Valuation</u>
Barefoot LLC	\$1,493,790	52.38%
Kerr-McGee Oil & Gas Onshore LP	382,180	13.40%
Calatlantic Group Inc.	337,050	11.82%
Kerr McGee Gathering LLC	174,400	6.12%
Richmond American Homes of Colorado Inc.	127,400	4.47%
Anadarko Wattenberg Oil Complex Inc.	66,720	2.34%
Private Homeowner #1	35,290	1.24%
Private Homeowner #2	35,250	1.24%
Private Homeowner #3	34,050	1.19%
Private Homeowner #4	32,050	1.11%
Total	<u>\$2,718,180</u>	<u>95.31%</u>

Source: Weld County Assessor's Office

ST. VRAIN LAKES METROPOLITAN DISTRICT NO. 2

SELECTED DEBT RATIOS OF THE DISTRICT

December 31, 2017

UNAUDITED

	2017A Senior Bonds Only	2017A Senior Bonds and 2017B Subordinate Bonds Combined
Direct Debt (Dist bonds only)	\$ 32,760,000	\$ 36,007,000
2017 Assessed Valuation	\$ 2,794,304	\$ 2,794,304
Direct Debt to 2017 Assessed Valuation	1172%	1289%
2017 Statutory Actual Value	\$ 17,634,845	\$ 17,634,845
Direct Debt to 2017 Statutory Actual Value	186%	204%