

**THE LAKES AT CENTERRA METROPOLITAN  
DISTRICT NO. 2**

**BASIC FINANCIAL STATEMENTS**

**December 31, 2017**

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Office of the State Auditor

July 30, 2018

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**FINANCIAL SECTION**



# JOHN CUTLER & ASSOCIATES

Board of Directors  
The Lakes at Centerra Metropolitan District No. 2  
Loveland, 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 The Lakes at Centerra Metropolitan District No. 2, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express 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 at Centerra Metropolitan District No. 2, as of December 31, 2017, and the respective changes in financial position, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on page 17 be presented to supplement the basic financial statements. Such 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has not presented 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 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 individual fund schedule is presented for purposes of additional analysis and is not a required part of the financial statements. Such 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 individual fund schedules are fairly stated in all material respects in relation to the financial statements as a whole.

*John Cutler & Associates, LLC*

July 30, 2018

## **BASIC FINANCIAL STATEMENTS**

THE LAKES AT CENTERRA METROPOLITAN DISTRICT NO. 2

STATEMENT OF NET POSITION

As of December 31, 2017

	<u>Governmental Activities</u>	
	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
Cash and Investments	\$ 377,936	\$ 381,207
Accounts Receivable	1,990	948
Property Taxes Receivable	844,279	-
	<u>1,224,205</u>	<u>382,155</u>
<b>LIABILITIES</b>		
Accounts Payable	11,020	948
Accrued Interest	25,699	9,885
Noncurrent Liabilities		
Due within One Year	251,463	15,000
Due in More Than One Year	11,383,537	3,935,000
	<u>11,671,719</u>	<u>3,960,833</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred Property Taxes	844,279	-
	<u>844,279</u>	<u>-</u>
<b>NET POSITION</b>		
Net Investment in Capital Assets	-	-
Restricted for Emergencies	8,242	5,000
Restricted for Debt Service	368,906	381,207
Unrestricted	(11,668,941)	(3,964,885)
	<u>(11,668,941)</u>	<u>(3,964,885)</u>
	<u>\$ (11,291,793)</u>	<u>\$ (3,578,678)</u>
<b>TOTAL NET POSITION</b>		

See the accompanying independent auditors' report.

THE LAKES AT CENTERRA METROPOLITAN DISTRICT NO. 2

STATEMENT OF ACTIVITIES  
Year Ended December 31, 2017

FUNCTIONS/PROGRAMS	Expenses	Program Revenues		Net (Expense) Revenue Changes in Net Position	
		Capital Grants and Contributions	Charges for Services	Governmental Activities	
				2017	2016
<b>PRIMARY GOVERNMENT</b>					
<b>Governmental Activities</b>					
General Government	\$ 350,562	\$ -	\$ 226	\$ (350,336)	\$ (348,589)
Interest on Long-Term Debt	191,404	-	-	(191,404)	(27,808)
Total Governmental Activities	<u>\$ 541,966</u>	<u>\$ -</u>	<u>\$ 226</u>	(541,740)	(376,397)
<b>GENERAL REVENUES</b>					
Interest				215	58
Property Taxes				282,374	-
Specific Ownership Taxes				26,246	-
Special Item					
Transfer to District No. 1				<u>(7,480,210)</u>	<u>(3,202,339)</u>
TOTAL GENERAL REVENUES				<u>(7,171,375)</u>	<u>(3,202,281)</u>
CHANGE IN NET POSITION				(7,713,115)	(3,578,678)
NET POSITION, Beginning				<u>(3,578,678)</u>	-
NET POSITION, Ending				<u>\$ (11,291,793)</u>	<u>\$ (3,578,678)</u>

See the accompanying independent auditors' report.

THE LAKES AT CENTERRA METROPOLITAN DISTRICT NO. 2

BALANCE SHEET  
GOVERNMENTAL FUNDS  
As of December 31, 2017

	GENERAL FUND	DEBT SERVICE FUND	TOTAL GOVERNMENTAL FUNDS	
			2017	2016
<b>ASSETS</b>				
Cash and Investments	\$ -	\$ 377,936	\$ 377,936	\$ 381,207
Accounts Receivable	1,770	220	1,990	948
Property Taxes Receivable	180,917	663,362	844,279	-
<b>TOTAL ASSETS</b>	<b>\$ 182,687</b>	<b>\$ 1,041,518</b>	<b>\$ 1,224,205</b>	<b>\$ 382,155</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND EQUITY</b>				
<b>LIABILITIES</b>				
Due to Other Government	\$ 1,770	\$ 9,250	11,020	948
<b>TOTAL LIABILITIES</b>	<b>1,770</b>	<b>9,250</b>	<b>11,020</b>	<b>948</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Deferred Property Taxes	180,917	663,362	844,279	-
<b>FUND EQUITY</b>				
Fund Balance				
Restricted for Emergencies	8,242	-	8,242	5,000
Restricted for Debt Service	-	368,906	368,906	381,207
Unassigned	(8,242)	-	(8,242)	(5,000)
<b>TOTAL FUND EQUITY</b>	<b>-</b>	<b>368,906</b>	<b>368,906</b>	<b>381,207</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND EQUITY</b>	<b>\$ 182,687</b>	<b>\$ 1,041,518</b>		

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

Long-term liabilities are not due and payable in the current period and are not reported in the funds. These include notes payable (\$3,935,000), bonds payable (\$7,700,000) and accrued interest payable (\$25,699).

	(11,660,699)	(3,959,885)
Net Position of governmental activities	<u>\$ (11,291,793)</u>	<u>\$ (3,578,678)</u>

See the accompanying independent auditors' report.

THE LAKES AT CENTERRA METROPOLITAN DISTRICT NO. 2

STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
Year Ended December 31, 2017

	GENERAL FUND	DEBT SERVICE FUND	TOTAL GOVERNMENTAL FUNDS	
			2017	2016
REVENUES				
Taxes	\$ 274,544	\$ 34,076	\$ 308,620	\$ 153,989
Service Fees	-	226	226	-
Interest and Other Income	191	24	215	58
<b>TOTAL REVENUES</b>	<b>274,735</b>	<b>34,326</b>	<b>309,061</b>	<b>154,047</b>
EXPENDITURES				
Current				
General Government	274,735	47,327	322,062	160,178
Debt Issuance Costs	-	28,500	28,500	342,400
Debt Service				
Principal	-	15,000	15,000	-
Interest	-	175,590	175,590	17,923
<b>TOTAL EXPENDITURES</b>	<b>274,735</b>	<b>266,417</b>	<b>541,152</b>	<b>520,501</b>
<b>EXCESS OF REVENUES (UNDER) EXPENSES</b>	<b>-</b>	<b>(232,091)</b>	<b>(232,091)</b>	<b>(366,454)</b>
OTHER FINANCING SOURCES				
Loan Proceeds	-	7,700,000	7,700,000	3,950,000
Transfer to District No. 1	-	(7,480,210)	(7,480,210)	(3,202,339)
<b>TOTAL OTHER FINANCING SOURCES</b>	<b>-</b>	<b>219,790</b>	<b>219,790</b>	<b>747,661</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>-</b>	<b>(12,301)</b>	<b>(12,301)</b>	<b>381,207</b>
FUND BALANCES, Beginning	-	381,207	381,207	-
FUND BALANCES, Ending	\$ -	\$ 368,906	\$ 368,906	\$ 381,207

See the accompanying independent auditors' report.

THE LAKES AT CENTERRA METROPOLITAN DISTRICT NO. 2

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
Year Ended December 31, 2017

Amounts Reported for Governmental Activities in the Statement of Activities  
are Different Because:

Net Changes in Fund Balances - Total Governmental Funds	\$ (12,301)
Debt proceeds are reported as financing sources in the governmental funds and increase fund balance. In the government-wide financial statements, however, issuing debt increases long-term liabilities in the statement of net position and does not effect the statement of activities.	(7,700,000)
Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This amount includes note principal payment \$15,000 and the increase in accrued interest (\$15,814).	<u>(814)</u>
Change in Net Position of Governmental Activities	<u><u>\$ (7,713,115)</u></u>

See the accompanying independent auditors' report.

THE LAKES AT CENTERRA METROPOLITAN DISTRICT NO. 2

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Lakes at Centerra Metropolitan District No. 2 (the “District”) was formed to provide public services and improvements within and without its boundaries. The District is governed by a five-member Board of Directors (the “Board”) elected by the constituents.

The accounting policies of the District conform to generally accepted accounting principles (“GAAP”) as applicable to governments. The following is a summary of the more significant policies:

**Reporting Entity**

In accordance with governmental accounting standards, the District has considered the possibility of inclusion of additional entities in its financial statements.

The definition of the reporting entity is based primarily on financial accountability. The District is financially accountable for organizations that make up its legal entity. It is also financially accountable for legally separate organizations if the District officials appoint a voting majority of the organization’s governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the District. The District may also be financially accountable for organizations that are fiscally dependent upon it.

Based on the application of these criteria, the District does not include additional organizations in its reporting entity.

**Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *Business-type activities*, which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of the 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*.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**Government-Wide and Fund Financial Statements** (Continued)

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 the liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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 collected 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.

Service fees, grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

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

In the fund financial statements, 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 District, except those required to be accounted for in another fund.

The *Debt Service Fund* accounts for the construction of public infrastructure and other capital improvements and the repayment of related debt within the District.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**Cash and Investments**

Cash equivalents include investments with original maturities of three months or less.

Investments are recorded at fair value.

**Capital Assets**

Capital assets, which include property and equipment, 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 and an estimated useful life in excess of one year. 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.

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.

Property and equipment of the District is depreciated using the straight-line method over the estimated useful lives between fifteen and thirty years. For the year ended December 31, 2017, the District does not own any capital assets.

**Long-Term Obligations**

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the governmental activities fund type Statement of Net Position.

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.

**Deferred Inflows of Resources**

In addition to liabilities, the Statement of Financial Position and Balance Sheets 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 and fund balance that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

THE LAKES AT CENTERRA METROPOLITAN DISTRICT NO. 2

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**Net Position**

The government-wide financial statements utilize a net position presentation. Net position components are investment in capital assets, restricted, or unrestricted.

*Net Investment in Capital Assets* includes the District's capital assets (net of accumulated depreciation) reduced by the outstanding balances of bonds that are attributable to the acquisition, construction, or improvement of those assets.

*Restricted Net Position* includes assets that have third-party (statutory, bond covenant, or granting agency) limitations on their use. The District typically uses restricted assets first, as appropriate opportunities arise, but reserves the right to selectively defer the use until a future project.

*Unrestricted Net Position* typically includes unrestricted liquid assets. The Board has the authority to revisit or alter this designation.

**Net Position/Fund Balance Classification**

In the government-wide financial statements, net position is restricted when constraints placed on the net position are externally imposed.

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- Nonspendable – This classification includes amounts that cannot be spent because they are either not in a spendable form (such as deposits and prepaid amounts) or are legally or contractually required to be maintained intact. The District has no nonspendable fund balance at December 31, 2017.
- Restricted – This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. The District has classified Emergency Reserves as being restricted because their use is restricted by State Statute for declared emergencies. The District has also classified the fund balance in the Debt Service Fund as restricted as it is restricted for the repayment of debt.

NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2017

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**Net Position/Fund Balance Classification** (Continued)

- Committed – This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Board. These amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.

The District did not have any committed resources as of December 31, 2017.

- Unassigned – This classification includes the residual fund balance for the General Fund. The Unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

The District would typically use restricted fund balances first, followed by committed resources, and then assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend Unassigned.

**Comparative Data**

Comparative total data for the prior year has been presented in the accompanying financial statements in order to provide an understanding of changes in the District's financial position and operations. However, complete comparative data in accordance with generally accepted accounting principles has not been presented since its inclusion would make the financial statements unduly complex and difficult to read. Data in these columns do not present financial position or results of operations in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

**NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**Budgets and Budgetary Accounting**

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

- On or before October 15th, District Management submits to the Board a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.

THE LAKES AT CENTERRA METROPOLITAN DISTRICT NO. 2

NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2017

**NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**(Continued)

**Budgets and Budgetary Accounting** (Continued)

- Public hearings are conducted to obtain public comments.
- Prior to December 31, the budget is legally enacted through passage of a resolution.
- District Management is authorized to transfer budgeted amounts between departments within any fund. However, any revisions that alter the total expenditures of any fund must be approved by the Board at a public hearing.
- Budgets are legally adopted for all funds of the District on a basis consistent with GAAP.
- Budgeted amounts in the financial statements are as originally adopted or as amended by the Board. All appropriations lapse at year end.

**NOTE 3: CASH AND INVESTMENTS**

A summary of deposits and investments as of December 31, 2017 follows:

Deposits \$ 377,936

**Deposits**

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. 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 regulations. At December 31, 2017, State regulatory commissioners have indicated that all financial institutions holding deposits for the District are eligible public depositories.

Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral as determined by the PDPA. PDPA allows the financial institution to create a single collateral pool for all public funds held. 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 uninsured deposits. The District has no policy regarding custodial credit risk for deposits.

NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2017

**NOTE 3: CASH AND INVESTMENTS** (Continued)

At December 31, 2017, the District had deposits with financial institutions with a carrying amount of \$377,936. The bank balances with the financial institutions were \$377,936. Of this amount \$250,000 was covered by federal depository insurance and \$127,936 was covered by collateral held by authorized escrow agents in the financial institutions name (PDPA).

**Investments**

Interest Rate Risk

The District adopted a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The District's investments must be consistent with the non-cash requirements of the District, except for liquid investments where the average duration may not exceed two years and the maximum duration may not exceed 5 years.

Credit Risk

Colorado statutes specify in which instruments the units of local government may invest which includes:

- Obligations of the United States and certain U.S. government agency securities
- Certain international agency securities
- General obligation and revenue bonds of U.S. local government entities
- Bankers' acceptances of certain banks
- Commercial paper
- Local government investment pools
- Written repurchase agreements collateralized by certain authorized securities
- Certain money market funds
- Guaranteed investment contracts

The above investments are authorized for all funds and fund types used by Colorado municipalities.

The District did not have any investments for the year ended December 31, 2017.

THE LAKES AT CENTERRA METROPOLITAN DISTRICT NO. 2

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

**NOTE 4: LONG-TERM DEBT**

Following is a summary of long-term debt transactions for the governmental activities for the year ended December 31, 2017:

	Balance <u>12/31/16</u>	<u>Additions</u>	<u>Payments</u>	Balance <u>12/31/17</u>	Due In <u>One Year</u>
2016A Loan	\$ 3,950,000	\$ -	\$ 15,000	\$ 3,935,000	\$ 30,000
2017A Loan	-	661,572	-	661,572	26,463
2017B Loan	-	<u>7,038,428</u>	-	<u>7,038,428</u>	<u>195,000</u>
<b>Total</b>	<b><u>\$ 3,950,000</u></b>	<b><u>\$ 7,700,000</u></b>	<b><u>\$ 15,000</u></b>	<b><u>\$ 11,635,000</u></b>	<b><u>\$ 251,463</u></b>

**Loans Payable**

On October 7, 2016, the District entered into a loan agreement (“Loan”) with U.S Bank National Association (“Lender”) to pay a portion of certain subordinate promissory notes issued by The Lakes at Centerra Metropolitan District No. 1 (“District No. 1”) to C R Development, Inc. and Centerra Investments, LLC for the advancement of funds and acquisition of public improvements benefitting the District (“Developer Obligations”).

Pursuant to the terms of the Loan, the Lender made an initial loan to the District in the principal amount of \$3,950,000 (“2016A Loan”) and agreed to extend additional loans to the District in the aggregate principal amount of up to \$16,0050,000 (the “Additional Loans”), subject to the terms of the Loan and a Custodial Agreement entered into with Lender, as Custodian. The District issued its Limited Tax General Obligation Note, Series 2016A (“2016A Note”) evidencing the District’s repayment obligation of the 2016A Loan. The interest rate on the 2016A Note is 2.97% per annum. Interest payments are due on June 1 and December 1 of each year. Principal payments are due on December 1 of each year beginning in 2017 with a balloon payment due on October 7, 2023.

Pursuant to the terms of the loan, the lender made additional loans to the District on July 24, 2017 and August 18, 2017. The District issued its Limited Tax General Obligation Note Series 2017A in the amount of \$661,572 (“2017A Loan”) and Limited Tax General Obligation Note Series 2017B in the amount of \$7,038,428 (“2017B Loan”). The interest rate on the 2011 Note is 2.765% per annum and the interest rate on the 2017B loan is 2.4375%. Interest payments are due on June 1 and December 1 of each year. Principal payments are due on December 1 of each year beginning in 2018 with a balloon payment due on October 7, 2023.

THE LAKES AT CENTERRA METROPOLITAN DISTRICT NO. 2

NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2017

**NOTE 4: LONG-TERM DEBT** (Continued)

Estimated future debt service requirements are as follows:

Year Ended <u>December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 251,463	\$ 308,382	\$ 559,845
2019	416,463	301,993	718,456
2020	436,463	291,610	728,073
2021	446,463	279,993	726,456
2022	461,463	268,391	729,854
2023	<u>9,622,685</u>	<u>219,100</u>	<u>9,841,785</u>
Total	<b><u>\$ 11,635,000</u></b>	<b><u>\$ 1,669,469</u></b>	<b><u>\$13,304,469</u></b>

The 2016A, 2017A, and 2017B Loans, and any Additional Loans issued in the future are secured by and payable from certain pledged revenues consisting of monies derived from the following sources, net of any costs of collection: (1) all property tax revenues derived from the imposition of a required mill levy by the District and The Lakes at Centerra Metropolitan District No. 3 (“District No. 3”) as set forth in the Loan; (2) specific ownership tax revenues remitted to the District and District No. 3 as a result of the imposition of the required mill levy; and (3) any other legally available monies which the Board determines in its sole discretion to apply as pledged revenue.

In addition to the 2016A, the 2017A, and 2017B Loans, the District, District No. 1, and District No. 3 entered into a Subordinate Pledge Agreement, dated October 7, 2016, for the purpose of providing a source of repayment by the District and District No. 3 for existing and future Developer Obligations, on a basis subordinate to the District and District No. 3’s repayment obligations of the loans.

**NOTE 5: RELATED PARTIES**

All of the members of the Board are employees of McWhinney Real Estate Services, Inc. manager of CR Development, and may be investors and/or owners in C R Development.

THE LAKES AT CENTERRA METROPOLITAN DISTRICT NO. 2

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

**NOTE 6: RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; injuries to employees; and natural disasters. The District participates in the Colorado Special Districts Property and Liability Insurance Pool (the "Pool"). The Pool insures property and liability exposures through contributions made by member districts. The District does not maintain an equity interest in the self-insurance pool. The District funds its pool contributions, outside insurance purchases, deductibles, and uninsured losses through the General Fund.

Settled claims resulting from these risks have not exceeded commercial or District coverages in any of the past three years.

**NOTE 7: DEBT AUTHORIZATION**

The District's Service Plan includes a debt authorization limit of \$50,000,000.

As of December 31, 2017, the amount of debt authorized but unissued was \$38,365,000. The District intends to issue over time a part or all of the remaining authorized but unissued general obligation debt for purposes of providing public improvements to support development as it occurs within the District's service area.

**NOTE 8: COMMITMENTS AND CONTINGENCIES**

TABOR Amendment - Colorado voters passed an amendment to the State Constitution, Article X, Section 20, which has several limitations, including revenue raising, spending abilities, and other specific requirements of state and local government. The Amendment is complex and subject to judicial interpretation. The District believes it is in compliance with the requirements of the Amendment.

The District has established an emergency reserve, representing 3% of fiscal year spending (excluding debt service), as required by the Amendment. At December 31, 2017, the emergency reserve of \$8,242 was recorded as a restriction of fund balance in the General Fund.

**NOTE 9: DEFICIT NET POSITION**

As of December 31, 2017, the District had a government-wide net position deficit of \$11,291,793. This deficit was created as the District used funding from the Developer to construct capital assets. The District expect to eliminate the deficit net position as the District pays down its debt.

THE LAKES AT CENTERRA METROPOLITAN DISTRICT NO. 2

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

**NOTE 10: SUBSEQUENT EVENT**

On March 14, 2018, the District issued Limited Tax General Obligation Refunding and Improvement Bonds Series 2018A in the amount of \$29,035,000 and Subordinate Limited Tax General Obligation Bonds, Series 2018B in the amount of \$4,090,000.

Proceeds of the 2018A bonds were used to refund the District's outstanding limited tax general obligation debt, fund the Senior Reserve Fund, pay capitalized interest on the 2018A bonds, and pay the cost of issuing the 2018A bonds.

Proceeds of the 2018B bonds were used to finance and reimburse the costs of public improvements necessary for development within the Pledge Districts and pay the costs of issuing the 2018B bonds.

The bonds carry interest rates ranging from 4.625% to 7.625%. Interest payments on the bonds are due semi-annually on June 1 and December 1 beginning in June 2018. Principal payments are due annually on December 1 beginning in December 2023 through 2047.

**REQUIRED SUPPLEMENTAL INFORMATION**

THE LAKES AT CENTERRA METROPOLITAN DISTRICT NO. 2

GENERAL FUND  
 BUDGETARY COMPARISON SCHEDULE  
 Year Ended December 31, 2017

	2017		VARIANCE Positive (Negative)	2016 ACTUAL
	ORIGINAL AND FINAL BUDGET	ACTUAL		
REVENUES				
Interest and Other Income	\$ 10,000	\$ 191	\$ (9,809)	\$ 58
Taxes	267,904	274,544	6,640	153,989
<b>TOTAL REVENUES</b>	<b>277,904</b>	<b>274,735</b>	<b>(3,169)</b>	<b>154,047</b>
EXPENDITURES				
Current				
General Government				
Treasurer Fees	5,008	5,027	(19)	2,852
Payment for Services to District No. 1	262,896	269,708	(6,812)	151,195
Contingency	10,000	-	10,000	-
<b>TOTAL EXPENDITURES</b>	<b>277,904</b>	<b>274,735</b>	<b>3,169</b>	<b>154,047</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
FUND BALANCE, Beginning	-	-	-	-
FUND BALANCE, Ending	\$ -	\$ -	\$ -	\$ -

See the accompanying independent auditors' report.

**INDIVIDUAL FUND SCHEDULE**

THE LAKES AT CENTERRA METROPOLITAN DISTRICT NO. 2

DEBT SERVICE FUND  
BUDGETARY COMPARISON SCHEDULE  
Year Ended December 31, 2017

	2017			VARIANCE	2016 ACTUAL
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	Positive (Negative)	
REVENUES					
Interest and Other Income	\$ 10,000	\$ 100,050	\$ 24	\$ (100,026)	\$ -
Taxes	33,251	33,827	34,076	249	-
Service Fees	222	225	226	1	-
<b>TOTAL REVENUES</b>	<b>43,473</b>	<b>134,102</b>	<b>34,326</b>	<b>(99,776)</b>	<b>-</b>
EXPENDITURES					
Current					
Debt Service Fees	42,125	37,286	46,703	(9,417)	6,131
Treasurer Fees	622	623	624	(1)	-
Contingency	10,000	100,000	-	100,000	-
Debt Issuance Costs	10,000	36,750	28,500	8,250	342,400
Debt Service					
Principal	15,000	15,000	15,000	-	-
Interest	132,431	183,444	175,590	7,854	17,923
<b>TOTAL EXPENDITURES</b>	<b>210,178</b>	<b>373,103</b>	<b>266,417</b>	<b>106,686</b>	<b>366,454</b>
<b>CHANGE IN FUND BALANCE</b>	<b>(166,705)</b>	<b>(239,001)</b>	<b>(232,091)</b>	<b>6,910</b>	<b>(366,454)</b>
OTHER FINANCING SOURCES					
Loan Proceeds	2,680,000	7,700,000	7,700,000	-	3,950,000
Transfer to District No. 1	(2,670,000)	(7,477,210)	(7,480,210)	(3,000)	(3,202,339)
<b>TOTAL OTHER FINANCING SOURCES</b>	<b>10,000</b>	<b>222,790</b>	<b>219,790</b>	<b>(3,000)</b>	<b>747,661</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>(156,705)</b>	<b>(16,211)</b>	<b>(12,301)</b>	<b>3,910</b>	<b>381,207</b>
FUND BALANCE, Beginning	377,737	381,207	381,207	-	-
FUND BALANCE, Ending	\$ 221,032	\$ 364,996	\$ 368,906	\$ 3,910	\$ 381,207

See the accompanying independent auditors' report.