

**LARKRIDGE METROPOLITAN
DISTRICT NO. 2
Adams County, Colorado**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
YEAR ENDED DECEMBER 31, 2018**

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Dazzio & Associates, PC

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities and each major fund of the Larkridge Metropolitan District No. 2 as of and for the year December 31, 2018, 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.

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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 Larkridge Metropolitan District No. 2, as of December 31, 2018, and the respective changes in financial position and the budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the 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 statements in an appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Larkridge Metropolitan District No. 2's basic financial statements. The supplementary information and the other information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information 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. Such 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 other information 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 them.

Duggio & Associates, P.C.

April 24, 2019

BASIC FINANCIAL STATEMENTS

LARKRIDGE METROPOLITAN DISTRICT NO. 2
STATEMENT OF NET POSITION
DECEMBER 31, 2018

	Governmental Activities
ASSETS	
Cash and Investments	\$ 30,303
Cash and Investments - Restricted	448,199
Receivable - County Treasurer	2,207
Property Tax Receivable	14,941
Accounts Receivable	5,611
Prepaid Expenses	2,858
Capital Assets, Net:	
Construction in Progress	2,574,836
Total Assets	3,078,955
LIABILITIES	
Accounts Payable	10,564
Accrued Loan Interest Payable	8,008
Noncurrent Liabilities:	
Due Within One Year	145,000
Due in More Than One Year	9,771,366
Total Liabilities	9,934,938
DEFERRED INFLOWS OF RESOURCES	
Property Tax Revenue	14,941
Total Deferred Inflows of Resources	14,941
NET POSITION	
Restricted:	
Emergency Reserves	2,900
Debt Service	442,772
Unrestricted	(7,316,596)
Total Net Position	\$ (6,870,924)

See accompanying Notes to Basic Financial Statements.

**LARKRIDGE METROPOLITAN DISTRICT NO. 2
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2018**

		Program Revenues			Net Revenues (Expenses) and Change in Net Position
Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	
FUNCTIONS/PROGRAMS					
Primary Government:					
Governmental Activities:					
General Government	\$ 91,666	\$ -	\$ 81,833	\$ -	\$ (9,833)
Interest and Related Costs on Long-Term Debt	2,193,857	-	191,954	-	(2,001,903)
Total Governmental Activities	\$ 2,285,523	\$ -	\$ 273,787	\$ -	(2,011,736)
 GENERAL REVENUES					
					22,677
					26,535
					10,044
					59,256
 CHANGE IN NET POSITION					(1,952,480)
					(4,918,444)
 NET POSITION - END OF YEAR					\$ (6,870,924)

See accompanying Notes to Basic Financial Statements.

**LARKRIDGE METROPOLITAN DISTRICT NO. 2
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2018**

	General	Debt Service	Capital Projects	Total Governmental Funds
ASSETS				
Cash and Investments	\$ 30,303	\$ -	\$ -	\$ 30,303
Cash and Investments - Restricted	2,900	445,299	-	448,199
Receivable - County Treasurer	660	1,547	-	2,207
Property Taxes Receivable	2,359	12,582	-	14,941
Accounts Receivable	1,677	3,934	-	5,611
Prepaid Expense	2,858	-	-	2,858
	\$ 40,757	\$ 463,362	\$ -	\$ 504,119
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
LIABILITIES				
Accounts Payable	\$ 10,564	\$ -	\$ -	\$ 10,564
Total Liabilities	10,564	-	-	10,564
DEFERRED INFLOWS OF RESOURCES				
Property Tax Revenue	2,359	12,582	-	14,941
Total Deferred Inflows of Resources	2,359	12,582	-	14,941
FUND BALANCES				
Nonspendable:				
Prepaid Expenses	2,858	-	-	2,858
Restricted For:				
Emergency Reserves	2,900	-	-	2,900
Debt Service	-	450,780	-	450,780
Unassigned	22,076	-	-	22,076
Total Fund Balances	27,834	450,780	-	478,614
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 40,757	\$ 463,362	\$ -	
Amounts reported for governmental activities in the statement of net position are different because:				
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.				2,574,836
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.				
Loan Payable				(3,550,000)
Accrued Loan Interest Payable				(8,008)
Developer Advance Payable				(3,064,831)
Accrued Interest on Developer advance				(3,301,535)
Net Position of Governmental Activities				\$ (6,870,924)

See accompanying Notes to Basic Financial Statements.

LARKRIDGE METROPOLITAN DISTRICT NO. 2
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2018

	General	Debt Service	Capital Projects	Total Governmental Funds
REVENUES				
Property Taxes	\$ 6,778	\$ 15,899	\$ -	\$ 22,677
Property Taxes from TDA	81,833	191,954	-	273,787
Specific Ownership Taxes	7,932	18,603	-	26,535
Net Investment Income	109	9,935	-	10,044
Total Revenues	<u>96,652</u>	<u>236,391</u>	<u>-</u>	<u>333,043</u>
EXPENDITURES				
Current:				
Accounting	26,558	-	-	26,558
Audit	5,000	-	-	5,000
County Treasurer's Fee	103	242	-	345
District Management	19,232	-	-	19,232
Dues and Subscriptions	371	-	-	371
Election	1,136	-	-	1,136
Insurance and Bonds	2,488	-	-	2,488
Legal	31,944	-	-	31,944
Miscellaneous	459	418	-	877
Engineering	-	-	4,375	4,375
Capital Outlay	-	-	2,574,836	2,574,836
Debt Service:				
Loan Non-Use Fees	-	10,139	-	10,139
Principal Payment - Loan	-	140,000	-	140,000
Interest Expense - Loan	-	99,891	-	99,891
Total Expenditures	<u>87,291</u>	<u>250,690</u>	<u>2,579,211</u>	<u>2,917,192</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	9,361	(14,299)	(2,579,211)	(2,584,149)
OTHER FINANCING SOURCES (USES)				
Repay Developer Advance	(100,000)	-	-	(100,000)
Developer Advance	-	-	2,574,836	2,574,836
Transfer (to)/from Other Fund	(4,375)	-	4,375	-
Total Other Financing Sources (Uses)	<u>(104,375)</u>	<u>-</u>	<u>2,579,211</u>	<u>2,474,836</u>
NET CHANGE IN FUND BALANCES	(95,014)	(14,299)	-	(109,313)
Fund Balances - Beginning of Year	122,848	465,079	-	587,927
FUND BALANCES - END OF YEAR	<u>\$ 27,834</u>	<u>\$ 450,780</u>	<u>\$ -</u>	<u>\$ 478,614</u>

See accompanying Notes to Basic Financial Statements.

**LARKRIDGE METROPOLITAN DISTRICT NO. 2
RECONCILIATION OF THE STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF THE GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2018**

Net change in fund balances - Total governmental funds \$ (109,313)

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

Governmental funds report capital outlays as expenditures. In the statement of activities, capital outlay is not reported as an expenditure. However, the statement of activities will report as depreciation expense the allocation of the cost of any depreciable asset over the estimated useful life of the asset. During the current period, there were no depreciable assets. Therefore, this is the amount of capital outlay in the current period.

Capital Outlay (2,574,836)

The issuance of long-term debt (e.g., bonds, loans, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Current Year Principal Payment	140,000
Current Year Repayment of Developer Advance	100,000
Developer Advance	2,574,836

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Accrued Interest on Developer Advance - Change in Liability	(2,083,483)
Accrued Interest on Loan - Change in Liability	316

Change in Net Position of Governmental Activities \$ (1,952,480)

**LARKRIDGE METROPOLITAN DISTRICT NO. 2
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL
YEAR ENDED DECEMBER 31, 2018**

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Property Taxes	\$ 6,778	\$ 6,778	\$ 6,778	\$ -
Property Taxes from TDA	82,460	82,460	81,833	(627)
Specific Ownership Taxes	9,816	9,816	7,932	(1,884)
Interest Income	-	-	109	109
Total Revenues	<u>99,054</u>	<u>99,054</u>	<u>96,652</u>	<u>(2,402)</u>
EXPENDITURES				
Current:				
Accounting	25,000	25,000	26,558	(1,558)
Audit	5,000	5,000	5,000	-
County Treasurer's Fee	102	102	103	(1)
District Management	10,000	10,000	19,232	(9,232)
Dues and Subscriptions	400	400	371	29
Election	1,000	1,000	1,136	(136)
Insurance and Bonds	2,900	2,900	2,488	412
Legal	20,000	20,000	31,944	(11,944)
Miscellaneous	1,400	1,400	459	941
Contingency	10,198	34,198	-	34,198
Total Expenditures	<u>76,000</u>	<u>100,000</u>	<u>87,291</u>	<u>12,709</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	23,054	(946)	9,361	10,307
OTHER FINANCING SOURCES (USES)				
Repay Developer Advance	(50,000)	(100,000)	(100,000)	-
Transfer to Other Funds	-	-	(4,375)	(4,375)
Total Other Financing Sources (Uses)	<u>(50,000)</u>	<u>(100,000)</u>	<u>(104,375)</u>	<u>(4,375)</u>
NET CHANGE IN FUND BALANCES	(26,946)	(100,946)	(95,014)	5,932
Fund Balance - Beginning of Year	<u>59,378</u>	<u>122,848</u>	<u>122,848</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ 32,432</u>	<u>\$ 21,902</u>	<u>\$ 27,834</u>	<u>\$ 5,932</u>

See accompanying Notes to Basic Financial Statements.

LARKRIDGE METROPOLITAN DISTRICT NO. 2
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 1 DEFINITION OF REPORTING ENTITY

Larkridge Metropolitan District No. 2 (the District), a quasi-municipal corporation and political subdivision of the State of Colorado, was organized by order and decree of the District Court for Adams County on May 18, 2004, and is governed pursuant to provisions of the Colorado Special District Act (Title 32, Article 1, Colorado Revised Statutes). The District's service area is located in Thornton, Colorado. The District was established to provide water, storm sewer and sanitary sewer, streets and traffic and safety protection, parks and recreation, transportation, mosquito control and other powers.

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

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

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Government-Wide and Fund Financial Statements

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

The statement of net position reports all financial and capital resources of the District. The difference between the assets, deferred outflow of resources, liabilities, and deferred inflow of resources of the District is reported as net position.

LARKRIDGE METROPOLITAN DISTRICT NO. 2
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government-Wide and Fund Financial Statements (Continued)

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.

Separate financial statements are provided for the governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met. Depreciation, if any, is computed and recorded as an operating expense. Expenditures for capital assets are shown as increases in assets and redemption of bonds, loans, notes and developer advances are recorded as a reduction in liabilities.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The major sources of revenue susceptible to accrual are property taxes and specific ownership taxes. All other revenue items are considered to be measurable and available only when cash is received by the District. The District has determined that Developer advances are not considered as revenue susceptible to accrual. Expenditures, other than interest on long-term obligations, are recorded when the liability is incurred or the long-term obligation due.

The District reports the following major governmental funds:

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

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

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

LARKRIDGE METROPOLITAN DISTRICT NO. 2
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budgets

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

The District has amended its annual budget for the year ended December 31, 2018.

Pooled Cash and Investments

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

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business type activities columns in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

Capital assets which are anticipated to be conveyed to other governmental entities are recorded as construction in progress, and are not included in the calculation of net investment in capital assets.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable.

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 taxpayer's election, in February and June.

LARKRIDGE METROPOLITAN DISTRICT NO. 2
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property Taxes (Continued)

Delinquent taxpayers are notified in August and generally sales of the tax liens on delinquent properties are held in November or December. The County Treasurer remits the taxes collected monthly to the District. Property taxes, net of estimated uncollectible taxes, are recorded initially as deferred inflow of resources in the year they are levied and measurable. The property tax revenues are recorded as revenue in the year they are available or collected.

Deferred Inflows of Resources

In addition to liabilities, the statement of net position and the fund balance sheet reports 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 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. Accordingly, the item, *deferred property tax revenue*, is deferred and recognized as an inflow of resources in the period that the amount becomes available.

Equity

Net Position

For government-wide presentation purposes 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.

Fund Balance

Fund balance for governmental funds should be reported in classifications that comprise a hierarchy based on the extent to which the government is bound to honor constraints on the specific purposes for which spending can occur. Governmental funds report up to five classifications of fund balance: nonspendable, restricted, committed, assigned, and unassigned. Because circumstances differ among governments, not every government or every governmental fund will present all of these components. The following classifications describe the relative strength of the spending constraints:

Nonspendable Fund Balance – The portion of fund balance that cannot be spent because it is either not in spendable form (such as prepaid amounts or inventory) or legally or contractually required to be maintained intact.

Restricted Fund Balance – The portion of fund balance that is constrained to being used for a specific purpose by external parties (such as bondholders), constitutional provisions, or enabling legislation.

Committed Fund Balance – The portion of fund balance that can only be used for specific purposes pursuant to constraints imposed by 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.

**LARKRIDGE METROPOLITAN DISTRICT NO. 2
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Equity (Continued)

Fund Balance (Continued)

Assigned Fund Balance – The portion of fund balance that is constrained by the government’s intent to be used for specific purposes, but is neither restricted nor committed. Intent is expressed by the Board of Directors to be used for a specific purpose. Constraints imposed on the use of assigned amounts are more easily removed or modified than those imposed on amounts that are classified as committed.

Unassigned Fund Balance – The residual portion of fund balance that does not meet any of the criteria described above.

If more than one classification of fund balance is available for use when an expenditure is incurred, it is the District’s practice to use the most restrictive classification first.

NOTE 3 CASH AND INVESTMENTS

Cash and investments as of December 31, 2018, are classified in the accompanying financial statements as follows:

Cash and Investments	\$ 30,303
Cash and Investments - Restricted	448,199
Total Cash and Investments	\$ 478,502

Cash and investments as of December 31, 2018, consist of the following:

Deposits with Financial Institutions	\$ 134,676
Investments	343,826
Total Cash and Investments	\$ 478,502

Deposits with Financial Institutions

The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulators. Amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is determined by the PDPA. PDPA allows the institution to create a single collateral pool for all public funds.

The pool for all the uninsured public deposits as a group is to be maintained by another institution or held in trust. The market value of the collateral must be at least 102% of the aggregate uninsured deposits.

**LARKRIDGE METROPOLITAN DISTRICT NO. 2
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 3 CASH AND INVESTMENTS (CONTINUED)

Deposits with Financial Institutions (Continued)

The State Commissioners for banks and financial services are required by statute to monitor the naming of eligible depositories and reporting of the uninsured deposits and assets maintained in the collateral pools.

At December 31, 2018, the District's cash deposits had a bank balance of \$145,182 and a carrying balance of \$134,676.

Investments

The District has adopted a formal investment policy that follows state statutes regarding investments.

The District generally limits its concentration of investments to those noted with an asterisk (*) below, which are believed to have minimal credit risk, minimal interest rate risk, and no foreign currency risk. Additionally, the District is not subject to concentration risk or investment custodial risk disclosure requirements for investments that are in the possession of another party.

Colorado revised statutes limit investment maturities to five years or less unless formally approved by the Board of Directors. Such actions are generally associated with a debt service reserve or sinking fund requirements.

Colorado statutes specify investment instruments meeting defined rating and risk criteria in which local governments may invest which include:

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

As of December 31, 2018, the District had the following investments:

<u>Investment</u>	<u>Maturity</u>	<u>Amount</u>
Colorado Surplus Asset Fund Trust (CSAFE)	Weighted Average Under 60 Days	<u>\$ 343,826</u>

LARKRIDGE METROPOLITAN DISTRICT NO. 2
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 3 CASH AND INVESTMENTS (CONTINUED)

CSAFE

The District invested in the Colorado Surplus Asset Fund Trust (CSAFE) (the Trust), which is an investment vehicle established by state statute for local government entities to pool surplus assets. The State Securities Commissioner administers and enforces all State statutes governing the Trust. The Trust is similar to a money market fund, with each share valued at \$1.00. CSAFE may invest in U.S. Treasury securities, repurchase agreements collateralized by U.S. Treasury securities, certain money market funds and highest rated commercial paper. A designated custodial bank serves as custodian for CSAFE's portfolio pursuant to a custodian agreement. The custodian acts as safekeeping agent for CSAFE's investment portfolio and provides services as the depository in connection with direct investments and withdrawals. The custodian's internal records segregate investments owned by CSAFE. CSAFE is rated AAAM by Standard & Poor's. CSAFE records its investments at amortized cost and the District records its investments in CSAFE at net asset value as determined by amortized cost. There are no unfunded commitments, the redemption frequency is daily and there is no redemption notice period.

NOTE 4 CAPITAL ASSETS

An analysis of the changes in capital assets for the year ended December 31, 2018 follows:

	Balance December 31, 2017	Additions	Retirements/ Reclassifications	Balance December 31, 2018
<u>Governmental Activities:</u>				
Capital Assets, Not Being Depreciated				
Construction in Progress	\$ -	\$ 2,574,836	\$ -	\$ 2,574,836

NOTE 5 LONG-TERM OBLIGATIONS

The following is an analysis of changes in the District's long-term obligations for the year ended December 31, 2018:

	Balance at December 31, 2017	Additions	Retirement of Long-Term Obligations	Balance at December 31, 2018	Due Within One Year
Loan - 2014	\$ 3,690,000	\$ -	\$ 140,000	\$ 3,550,000	\$ 145,000
Facilities Acquisition and Reimbursement Agreement	589,995	2,574,836	100,000	3,064,831	-
Accrued Interest	1,218,052	2,083,483	-	3,301,535	-
Total	<u>\$ 5,498,047</u>	<u>\$ 4,658,319</u>	<u>\$ 240,000</u>	<u>\$ 9,916,366</u>	<u>\$ 145,000</u>

LARKRIDGE METROPOLITAN DISTRICT NO. 2
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 5 LONG-TERM OBLIGATIONS (CONTINUED)

The details of the District's long-term obligations are as follows:

Loan Agreement – 2014

On December 15, 2014, the District issued a \$4,010,000 Limited Tax (Convertible to Unlimited Tax) Refunding Improvement Loan and a \$2,000,000 Limited Tax (Convertible to Unlimited Tax) Advancing Improvement Loan (hereinafter, collectively, the "2014 Refunding Loan"). The 2014 Refunding Loan is due on December 15, 2024, and bears interest at a fixed rate of 2.67% for the first five years and 65.000001% of USSW5 (as defined in the 2014 Loan Agreement) plus 1.625% thereafter. The District drew an initial \$4,010,000 of loan proceeds in 2014.

The \$2,000,000 Advancing Improvement Loan is issued under a promissory note, and as of December 31, 2017, no funds have been advanced. The interest rate on this promissory note is the sum of (a) 65.000001% of the One-Month LIBOR plus (b) 1.625 stated as a percentage. A Non-Use Fee of 0.5% per annum is payable in arrears on June 1 and December 1 each year on the unfunded advanced amount available. Advances under the promissory note are subject to specific requirements as outlined in the loan agreement. The 2014 Refunding Loan may be prepaid in whole or in part on any date without penalty or premium.

The 2014 Refunding Loan is secured by the Pledged Revenue and all monies and earnings thereon held in the funds or accounts created under the terms of the loan agreement. Pledged Revenue consists of revenues derived from the imposition of the Required Mill Levy, net of any costs of collection, whether received pursuant to the Tax Increment Sharing Agreement with the Thornton Development Authority, the portion of the specific ownership tax collected as a result of the imposition of the Required Mill Levy, and any other legally available funds, which the District determines, in its sole discretion, to apply to the payment of principal and/or interest on the 2014 Refunding or replenishment of the Reserve Fund.

The District is required to impose a mill levy at the rate necessary to generate ad valorem property tax revenue which will be sufficient to generate an amount equal to the Estimated Debt Requirements (as defined in the 2014 Loan Agreement) for the next succeeding year and to replenish the Reserve Fund to the Reserve Requirement. The loans and interest are payable from the net revenue of a maximum debt mill levy of 50.000 mills, which may be adjusted for changes in the method of calculated assessed valuation in the State.

Loan proceeds were used to pay off the balance of the 2007 Loan, fund certain project costs, pay related costs and expenses and, together with monies in the funds and accounts relating to the 2007 Loan, fund the Reserve Fund in the amount of the Reserve Requirement.

LARKRIDGE METROPOLITAN DISTRICT NO. 2
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 5 LONG-TERM OBLIGATIONS (CONTINUED)

Loan Agreement – 2014 (Continued)

The District's long-term obligations, excluding Developer advances, will mature as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 145,000	\$ 96,101	\$ 241,101
2020	150,000	92,429	242,429
2021	155,000	88,116	243,116
2022	160,000	83,920	243,920
2023	165,000	79,588	244,588
2024	<u>2,775,000</u>	<u>75,328</u>	<u>2,850,328</u>
Total	<u>\$ 3,550,000</u>	<u>\$ 515,482</u>	<u>\$ 4,065,482</u>

Authorized Debt

On May 4, 2004, a majority of the qualified electors of the District authorized the issuance of indebtedness in an amount not to exceed \$35,085,000 at an interest rate not to exceed 12% per annum. On May 6, 2008, a majority of the qualified electors of the District authorized the issuance of additional indebtedness in an amount not to exceed \$136,000,000 at an interest rate not to exceed 18% per annum. On May 8, 2012, a majority of the qualified electors of the District authorized the issuance of additional indebtedness in an amount not to exceed \$136,000,000 at an interest rate not to exceed 18% per annum. On November 6, 2018, a majority of the qualified electors of the District authorized the issuance of additional indebtedness in an amount not to exceed \$322,000,000 at an interest rate not to exceed 18% per annum. At December 31, 2018, the District had authorized but unissued indebtedness in the following amounts allocated for the following purposes:

	<u>May 4, 2004</u> <u>Authorization</u>	<u>May 6, 2008</u> <u>Authorization</u>	<u>May 8, 2012</u> <u>Authorization</u>	<u>Reinstatement</u> <u>of May 4, 2004</u> <u>Authorization</u>	<u>November 6, 2018</u> <u>Authorization</u>	<u>2007 Loan</u>	<u>2014 Loan</u>	<u>Authorized</u> <u>But</u> <u>Unissued</u>
Street Improvements	\$ 5,254,772	\$ 15,000,000	\$ 15,000,000	\$ 500,000	\$ 23,000,000	\$ 668,533	\$ 2,891,075	\$ 55,195,164
Water	1,124,512	15,000,000	15,000,000	750,000	\$ 23,000,000	1,124,512	46,278	\$ 53,703,722
Sanitary Sewer	4,815,716	15,000,000	15,000,000	800,000	\$ 23,000,000	3,406,955	-	\$ 55,208,761
Park and Recreation	-	15,000,000	15,000,000	-	\$ 23,000,000	-	-	\$ 53,000,000
Transportation	-	15,000,000	15,000,000	-	\$ 23,000,000	-	-	\$ 53,000,000
Mosquito Control	-	15,000,000	15,000,000	-	\$ 23,000,000	-	-	\$ 53,000,000
Safety Protection	-	15,000,000	15,000,000	-	\$ 23,000,000	-	-	\$ 53,000,000
Fire Protection	-	-	-	-	\$ 23,000,000	-	-	\$ 23,000,000
Television Relay	-	-	-	-	\$ 23,000,000	-	-	\$ 23,000,000
Security	-	-	-	-	\$ 23,000,000	-	-	\$ 23,000,000
Operations	500,000	1,000,000	1,000,000	-	\$ 23,000,000	-	-	\$ 25,500,000
Refunding	11,695,000	15,000,000	15,000,000	-	\$ 23,000,000	-	3,072,647	\$ 61,622,353
IGA	11,695,000	15,000,000	15,000,000	-	\$ 23,000,000	-	-	\$ 64,695,000
Telephone, Satellite and Fiber Optics	-	-	-	-	\$ 23,000,000	-	-	\$ 23,000,000
Total	<u>\$ 35,085,000</u>	<u>\$ 136,000,000</u>	<u>\$ 136,000,000</u>	<u>\$ 2,050,000</u>	<u>\$ 322,000,000</u>	<u>\$ 5,200,000</u>	<u>\$ 6,010,000</u>	<u>\$ 619,925,000</u>

The District's Second Amended and Restated Service Plan (Service Plan) establishes a mill levy cap of 50.000 mills for debt service (the Maximum Debt Mill Levy). The Maximum Debt Mill Levy may be increased or decreased to reflect any change in law for calculating assessed valuation on property for taxation purposes.

**LARKRIDGE METROPOLITAN DISTRICT NO. 2
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 5 LONG-TERM OBLIGATIONS (CONTINUED)

Authorized Debt (Continued)

The District's Service Plan establishes a limit on the issuance of debt in the amount of \$23,000,000. Any increase in the debt limit will be considered a material modification of the District's Service Plan which would require approval from the City of Thornton.

In the future, the District may issue a portion 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 6 NET POSITION

The District has net position consisting of two components - restricted, and unrestricted.

Restricted net position consists of assets that are restricted for use either externally imposed by creditors, grantors, contributors, or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The District had a restricted net position as of December 31, 2018, as follows:

	Governmental Activities
Restricted Net Position:	
Emergencies	\$ 2,900
Debt Service	442,772
Total Restricted Net Position	\$ 445,672

The District's unrestricted net position as of December 31, 2018 is \$(7,316,596). This deficit amount is a result of the District being responsible for the repayment of both the loan issued and developer advances received for public improvements, which were conveyed to other governmental entities and which costs were removed from the District's financial records.

NOTE 7 DISTRICT AGREEMENTS

Tax Increment Sharing Agreement

The District has entered into the Tax Increment Sharing Agreement with the Thornton Development Authority (Authority), dated as of June 9, 2004, regarding the sharing of Tax Increment Revenues generated within the District. The Tax Increment Sharing Agreement provides that in consideration for the District providing public improvements and services, the Authority agrees that the portion of revenues which it receives as a result of ad valorem property tax increments, which are attributable to the District's current and future levy of ad valorem taxes on property within the Development and encompassed by the Urban Renewal Plan, shall be segregated upon receipt and shall be remitted by the Authority to the District within 45 days of the end of each quarter. The District will use such property tax revenue primarily to pay debt service on the Loan.

LARKRIDGE METROPOLITAN DISTRICT NO. 2
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 7 DISTRICT AGREEMENTS (CONTINUED)

Facilities Acquisition and Reimbursement Agreement

The District and Thornton 164, LLC (the Landowner) have entered into an Amended and Restated Facilities Acquisition and Reimbursement Agreement dated November 13, 2007, as further amended November 28, 2012 and June 13, 2017 (the Agreement). Pursuant to the Agreement, the Landowner has agreed to advance funds to the District for the construction of Project Improvements (as such term is defined in the Agreement). The District has agreed to reimburse the Landowner for funds advanced under the Agreement, together with simple interest thereon to be accrued at a rate which shall not exceed the current market rate as determined by an independent underwriter selected by the District at the time bonds are issued, from the proceeds of the bonds to the extent of the amounts advanced for the Project Improvements. The Landowner may design, construct and complete certain of the Improvements, pursuant to construction contract requirements in the Agreement. Subject to receipt of funding, the District agrees to make payment to the Landowner for costs verified by an independent engineer. As of December 31, 2018, outstanding advances under the Agreement totaled \$3,064,831 and accrued interest totaled \$3,301,535.

NOTE 8 RELATED PARTY

The Developer of the property which constitutes the District is Jordon Perlmutter & Co. Jordon Perlmutter & Co. has an interest in the landowner. The members of the Board of Directors are employees, owners, or are otherwise associated with Jordon Perlmutter & Co. and the landowner, and may have conflicts of interest in dealing with the District.

NOTE 9 INTERFUND AND OPERATING TRANSFERS

The General Fund transferred \$4,375 to the Capital Projects Fund to cover capital costs.

NOTE 10 RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; thefts of, damage to, or destruction of assets; errors or omissions; injuries to employees; or acts of God.

The District is a member of the Colorado Special Districts Property and Liability Pool (the Pool). The Pool is an organization created by intergovernmental agreement to provide property, liability, public officials' liability, boiler and machinery, and workers' compensation coverage to its members. Settled claims have not exceeded this coverage in any of the past three fiscal years.

LARKRIDGE METROPOLITAN DISTRICT NO. 2
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 10 RISK MANAGEMENT (CONTINUED)

The District pays annual premiums to the Pool for liability, property and public officials' liability coverage, and workers' compensation coverage. In the event aggregated losses incurred by the Pool exceed amounts recoverable from reinsurance contracts and funds accumulated by the Pool, the Pool may require additional contributions from the Pool members. Any excess funds which the Pool determines are not needed for purposes of the Pool may be returned to the members pursuant to a distribution formula.

NOTE 11 TAX, SPENDING, AND DEBT LIMITATIONS

Article X, Section 20 of the Colorado Constitution, commonly known as the Taxpayer's Bill of Rights (TABOR), contains tax, spending, revenue, and debt limitations 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.

On May 8, 2012 and November 6, 2018, a majority of the District's electors authorized the District to collect and spend or retain in a reserve the full amount of all currently levied taxes and fees of the District annually, without regard to any limitations under TABOR.

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.

NOTE 12 SUBSEQUENT EVENT

General Obligation - (Limited Tax Convertible to Unlimited Tax) Refunding and Improvement Bonds, Series 2019

On January 15, 2019, the District issued \$15,270,000 of General Obligation (Limited Tax Convertible to Unlimited Tax) Refunding and Improvement, Series 2019 ("Bonds"). Proceeds from the sale of the Bonds will be used to (i) refund the 2014 Loan; (ii) pay project costs; (iii) partially fund the Reserve Fund; (iv) fund a portion of the interest to accrue on the Bonds; and (v) pay costs of issuance of the Bonds.

LARKRIDGE METROPOLITAN DISTRICT NO. 2
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 12 SUBSEQUENT EVENT (CONTINUED)

General Obligation - (Limited Tax Convertible to Unlimited Tax) Refunding and Improvement Bonds, Series 2019 (Continued)

The Bonds bear interest at 5.25%, payable semi-annually on June 1 and December 1, beginning on June 1, 2019. Annual mandatory sinking fund redemption payments are due on December 1, beginning on December 1, 2024. The Bonds mature on December 1, 2048. The Bonds are secured by and payable solely from and to the extent of Pledged Revenue which is defined generally in the Indenture as: (a) moneys derived by the District from imposition of the Required Mill Levy, net of any costs of collection, whether received from the TDA pursuant to the TDA Cooperation Agreement, directly from the County Treasurer, or otherwise; (b) the portion of the Specific Ownership Tax which is collected as a result of imposition of the Required Mill Levy, net any costs of collection; and (c) any other legally available moneys which the District determines, in its absolute discretion, to transfer to the Trustee for application as Pledged Revenue.

The Bonds are further secured by the Reserve Fund which is to be funded upon issuance of the Bonds in the amount of the Required Reserve equal to \$1,275,213 and by the Surplus Fund. Prior to the Conversion Date, Pledged Revenue that is not needed to pay debt service on the Bonds in any year will be deposited to and held in the Surplus Fund, up to the Maximum Surplus Amount of \$1,527,000. Upon the Conversion Date, both the Reserve Fund and the Surplus Fund will be terminated and any moneys therein remitted to the District for application to any lawful purpose of the District.

\$7,852,521 of the proceeds were used to repay the developer for principal and interest on developer advances.

SUPPLEMENTARY INFORMATION

**LARKRIDGE METROPOLITAN DISTRICT NO. 2
DEBT SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL
YEAR ENDED DECEMBER 31, 2018**

	Original and Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Property Taxes	\$ 15,899	\$ 15,899	\$ -
Property Taxes from TDA	193,403	191,954	(1,449)
Specific Ownership Taxes	23,023	18,603	(4,420)
Net Investment Income	5,230	9,935	4,705
Total Revenues	<u>237,555</u>	<u>236,391</u>	<u>(1,164)</u>
EXPENDITURES			
County Treasurer's Fees	238	242	(4)
Loan Interest - Series 2014	99,892	99,891	1
Loan Principal - Series 2014	140,000	140,000	-
Miscellaneous	1,000	418	582
Loan Non-Use Fees	10,000	10,139	(139)
Contingency	4,870	-	4,870
Total Expenditures	<u>256,000</u>	<u>250,690</u>	<u>5,310</u>
NET CHANGE IN FUND BALANCES	(18,445)	(14,299)	4,146
Fund Balance - Beginning of Year	<u>462,269</u>	<u>465,079</u>	<u>2,810</u>
FUND BALANCE - END OF YEAR	<u>\$ 443,824</u>	<u>\$ 450,780</u>	<u>\$ 6,956</u>

**LARKRIDGE METROPOLITAN DISTRICT NO. 2
CAPITAL PROJECTS FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL
YEAR ENDED DECEMBER 31, 2018**

	Original and Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Total Revenues	\$ -	\$ -	\$ -
EXPENDITURES			
Engineering	-	4,375	(4,375)
Capital Outlay	3,200,000	2,574,836	625,164
Total Expenditures	3,200,000	2,579,211	620,789
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(3,200,000)	(2,579,211)	620,789
OTHER FINANCING SOURCES (USES)			
Transfer from Other Fund	-	4,375	4,375
Developer Advance	3,200,000	2,574,836	(625,164)
Total Other Financing Sources (Uses)	3,200,000	2,579,211	(620,789)
FUND BALANCES - BEGINNING OF YEAR	-	-	-
FUND BALANCES - END OF YEAR	\$ -	\$ -	\$ -

OTHER INFORMATION

**LARKRIDGE METROPOLITAN DISTRICT NO. 2
SCHEDULE OF DEBT SERVICE REQUIREMENTS TO MATURITY
DECEMBER 31, 2018**

\$4,010,000 Refunding and Improvement Loan
Series 2014

Interest rate - 2.67% for first 5 years, 65.000001% of USSW5 *
plus 1.625, stated as a percentage thereafter

Dated December 15, 2014

Interest payable June 1 and December 1

Principal due December 1

<u>Year Ended December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 145,000	\$ 96,101	\$ 241,101
2020	150,000	92,429	242,429
2021	155,000	88,116	243,116
2022	160,000	83,920	243,920
2023	165,000	79,588	244,588
2024	2,775,000	75,328	2,850,328
Total	<u>\$ 3,550,000</u>	<u>\$ 515,482</u>	<u>\$ 4,065,482</u>

* as defined in the 2014 Loan Agreement

LARKRIDGE METROPOLITAN DISTRICT NO. 2
SUMMARY OF ASSESSED VALUATION, MILL LEVY, AND PROPERTY TAXES COLLECTED
DECEMBER 31, 2018

Year Ended December 31,	Prior Year Gross Assessed Valuation for Current Year Property Tax Levy	Prior Year Net Assessed Valuation for Current Year Property Tax Levy	Mills Levied		Total Property Taxes		Percentage Collected to Levied
			General	Debt Service	Levied	Collected	
2014	\$ 7,259,690	\$ 533,150	13.750	32.250	\$ 24,524	\$ 24,525	100.00 %
2015	7,206,280	533,390	13.750	32.250	24,535	24,519	99.93
2016	6,838,120	506,140	13.750	32.250	23,282	23,282	100.00
2017	6,309,020	475,910	13.750	32.250	21,892	21,892	100.00
2018	6,535,380	492,980	13.750	32.250	22,677	22,677	100.00
Estimated for the year ending December 31, 2019	\$ 7,885,200	\$ 314,560	7.500	40.000	\$ 14,941		