

**Serratoga Falls Metropolitan District No. 2
Financial Statements
December 31, 2018
with Independent Auditors' Report**

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Serratoga Falls Metropolitan District No. 2
Larimer County, Colorado

We have audited the accompanying financial statements of the governmental activities and each major fund of the Serratoga Falls Metropolitan District No. 2 (the "District") as of and for the year ended December 31, 2018, which collectively comprise the District's basic financial statements as listed in the table of contents and the related notes to the financial statements.

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 of 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 Serratoga Falls Metropolitan District No. 2 as of December 31, 2018 and the respective changes in financial position and the respective budgetary comparison for the General Fund for the year then ended in conformity 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 management's discussion and analysis on pages v through ix 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 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.

Supplementary 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 budgetary comparison schedule on page 21 and the Historical Assessed Values on page 22 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The individual budgetary comparison schedule 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 individual fund budgetary schedule is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Historical Assessed Values have 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 assurance on them.

Crady, Puca & Associates

Aurora, Colorado
June 20, 2019

Management's Discussion and Analysis

Management's Discussion and Analysis

As management of the Serratoga Falls Metropolitan District No. 2 "the District", we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended December 31, 2018. The district is a quasi municipal corporation and political subdivision of the State of Colorado.

Financial Highlights

Financial highlights for 2018 Include:

- Refinance of the districts debt resulting in a gain of \$25,000
- Restatement to recognize assets donated to the District in 2016. See note 4.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, 3) notes to the financial statements.

Government-wide financial statements

The government-wide financials are designed to provide readers with a broad overview of the District's finances in a manner similar to a private sector business. The statement of net position presents information on all District assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference between the four reported as net position. Over time, changes in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. The statement of activities presents information showing how the District's net position changed during the fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in this statement for items that will only result in cash flows in future periods.

The governmental activities of the District are primarily the collection of property taxes and the issuance of debt to plan for, design, finance, acquire, construct, install, relocate and/or redevelop certain public improvements including, but not limited to, streets, safety protection, security, water, sewer, storm drainage, transportation, fire protection, and park and recreation improvements. The district is authorized to impose fees, rate, tolls, charges and penalties for services or facilities provided by the district.

The government-wide financial statements can be found on page 2 and 3 of this report.

Fund financial statements

A fund is a grouping of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The district currently reports the following funds: General Fund and Debt Service Fund.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental fund financial statements focus on near-term inflows and outflows of expendable resources, as well as on balances of expendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both expenditures and changes in net position provide a column to facilitate this comparison.

Information is presented separately in the Governmental Funds Balance Sheet and in the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance for the General Fund and the Debt Service Fund.

The basic governmental fund financial statements can be found on pages 5-8 of this report.

Notes to the financial statements

The notes provide additional information that is integral to a full understanding of the data provided in the basic financial statements. The notes to the financial statements can be found on pages 9-20 of this report.

Supplementary and Other Information

Supplementary information is contained on pages 21 and provides additional insight into how the District's actual debt service compared to the budgeted debt service. A table of historical assessed values, mill levy, and tax collections is presented on page 22 to provide insight on property tax collections.

Government-wide financial analysis

A condensed comparative Statement of Net Position is shown in figure 1. Total current assets increased by 22.4% or \$46,055 primarily due to an increase in cash and property taxes receivable. Total liabilities decreased by \$27,298 or 3.0% primarily due to retirement of debt. Total Net Position decreased by \$8,173 or 2.4% due to an increase of general government expenses.

Serratoga Falls Metropolitan District No. 2
Condensed, Comparative Statement of Net Position
December 31,

	2018	2017 Unaudited Restated
Assets		
Current and Other Assets	\$ 251,671	\$ 205,616
Capital Assets, not being depreciated	1,083,086	1,149,288
Total Assets	<u>1,334,757</u>	<u>1,354,904</u>
Liabilities		
Current Liabilities	123,214	122,115
Long-term Liabilities	750,000	778,397
Total Liabilities	<u>873,214</u>	<u>900,512</u>
Deferred Inflows of Resources		
Unavailable Property Tax	127,303	111,979
Total Deferred Inflows of Resources	<u>127,303</u>	<u>111,979</u>
Net position		
Net investments in Capital Assets	333,086	370,891
Restricted	6,844	7,785
Unrestricted	(5,690)	(36,263)
Total Net Position	<u>\$ 334,240</u>	<u>\$ 342,413</u>

Figure 1

A condensed, comparative change in net position is presented in figure 2. Revenues decreased 2.7% or \$7,150 primarily due to a decrease in assessed property values. Expenses increased by 2.7% or \$7,673. The increase is primarily due to the one-time legal costs associated with refinancing the District's debt.

Serratoga Falls Metropolitan District No. 2
Condensed, Comparative Change in Net Position
For the year ended December 31,

	2018	2017 Unaudited Restated
Revenue:		
Charges for services	\$ 115,500	\$ 120,500
Property and specific ownership taxes	121,704	129,836
Other Revenues	21,985	16,003
Total Revenues	<u>259,189</u>	<u>266,339</u>
Expenditures:		
General Government	173,988	182,401
Debt issuance	15,500	-
Interest	36,672	36,086
Depreciation	66,202	66,202
Total Expenditures	<u>292,362</u>	<u>284,689</u>
Deficiency before special item	(33,173)	(18,350)
Special Item	25,000	-
Change in Net Position	<u>(8,173)</u>	<u>(18,350)</u>
Net Position, beginning of year	(802,852)	(854,727)
Prior period restatement	1,145,265	1,215,490
Net Position, beginning of year as restated	<u>342,413</u>	<u>360,763</u>
Net Position, end of year	<u>\$ 334,240</u>	<u>\$ 342,413</u>

Figure 2

Financial Analysis of the District's Funds

The district uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. This information is useful for assessing the District's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

General fund revenues were \$206,603 in 2018 remaining relatively consistent compared to \$206,941 in 2017. General fund expenditures were \$172,845 in 2018 remaining relatively consistent compared to \$172,168 in 2017.

As of the end of 2018, the District's general fund reported an ending fund balance of \$16,341 an increase of \$32,817. These amounts are reported as restricted for emergencies and unassigned.

Budget to Actual Variances

The General Fund budget was amended in September 2018 to account for projected increases in maintenance and utility costs. The ending fund balance finished the year \$7,083 ahead of budget due to projected increases being lower than anticipated. The Debt Service budget was amended in September 2018 to account for the debt refinancing. The ending fund balance finished the year \$91 under budget due a decrease in the transfer from the general fund.

Capital Assets

In the current year it was determined that the District owned assets which had not been previously reflected. After a prior period adjustment, the District's total capital assets were \$1,083,086 at the end of 2018. Additional information of the District's capital assets can be found starting on page 16 of this report.

Significant Debt Activity

In July 2018, the board approved refinancing the District debt. Refinancing the District's debt resulted in a gain of \$25,000 and a structured payment. The structured payment will enable the district to slowly decrease the landscaping fees imposed on each lot. Further detail of long-term debt can be found starting on page 16 of this report.

Sources of Revenue

The district has two major sources of revenue, property taxes and landscaping fees. The 2018 assessed values increased for 2019 tax collections. This allowed the board to approve a \$100 per lot decrease in the landscaping fees for collection in 2019.

Requests for information

This financial report is designed to provide a general overview of the District. Questions concerning any of the information in this report or requests for additional information should be addressed to Centennial Consulting Group, 2619 Canton Court, Suite A, Fort Collins, CO, 80525 or by email at serratogafalls@ccgcolorado.com.



Government-wide Financial Statements

Government-wide Financial Statements

Statement of Net Position

Serratoga Falls Metropolitan District No. 2

Statement of Net Position

December 31, 2018

Assets	
Cash and Investments	\$ 118,888
Restricted Cash and Investments	646
Accounts Receivable	1,216
Due from County Treasurer	831
Property Tax Receivable	127,303
Prepaid Expenses	2,787
Capital Assets:	
Non-depreciable	222,455
Depreciable, net	860,631
Total Assets	<u>1,334,757</u>
Liabilities	
Accounts Payable and Unearned Revenues	107,381
Interest Payable	15,833
Notes Payable:	
Due within one year	22,682
Due in more than one year	727,318
Total Liabilities	<u>873,214</u>
Deferred Inflows of Resources	
Unavailable Property Tax	127,303
Total Deferred Inflows of Resources	<u>127,303</u>
Net position	
Net Investment in Capital Assets	333,086
Restricted	
Debt Service	646
Emergencies	6,198
Unrestricted	(5,690)
Total Net Position	<u>\$ 334,240</u>

Statement of Activities

Serratoga Falls Metropolitan District No. 2
Statement of Activities
For the year ended December 31, 2018

Expenditures

Governmental Activities:

Administrative	\$ 25,565
Management	12,105
Legal	31,846
Landscape Maintenance and Utilities	102,230
Treasurer's Fees	2,242
Interest on Long-term Debt	36,672
Debt Issuance Costs	15,500
Depreciation	<u>66,202</u>
Total Expenditures	<u>292,362</u>

Program Revenues

Charges for Service:

Landscaping Fees	83,000
Development Fees	<u>32,500</u>
Total Program Revenue	<u>115,500</u>

Net Program Income (Expense) (176,862)

General Revenues

Property Taxes	112,093
Specific Ownership Taxes	9,724
Other Income	<u>21,872</u>
Total General Revenues	<u>143,689</u>

Special Item

Gain on Debt Retirement	<u>25,000</u>
Change in Net Position	(8,173)

Net Position, beginning of year, originally reported	(802,852)
Prior period adjustment	<u>1,145,265</u>
Net Position, beginning of year, restated	<u>342,413</u>
Net Position, end of year	<u><u>\$ 334,240</u></u>

Fund Financial Statements

Balance Sheet – Governmental Funds

Serratoga Falls Metropolitan District No. 2
Balance Sheet - Governmental Funds
December 31, 2018

	General Fund	Debt Service	Total
Assets			
Cash and Investments	\$ 118,888	\$ -	\$ 118,888
Restricted Cash and Investments	-	646	646
Accounts Receivable	1,216	-	1,216
Due from County Treasurer	831	-	831
Property Tax Receivable	65,134	62,169	127,303
Prepaid Expenses	2,787	-	2,787
Total Assets	<u>\$ 188,856</u>	<u>\$ 62,815</u>	<u>\$ 251,671</u>
Liabilities			
Accounts Payable	\$ 88,681	\$ -	\$ 88,681
Construction and Landscape Deposits	18,700	-	18,700
Total Liabilities	<u>107,381</u>	<u>-</u>	<u>107,381</u>
Deferred Inflows of Resources			
Unavailable Property Tax	65,134	62,169	127,303
Total Deferred Inflows of Resources	<u>65,134</u>	<u>62,169</u>	<u>127,303</u>
Fund Balance			
Nonspendable:			
Prepaid Expenses	2,787	-	2,787
Restricted:			
Debt Service	-	646	646
Emergencies	6,198	-	6,198
Unassigned	7,356	-	7,356
Total Fund Balance	<u>16,341</u>	<u>646</u>	<u>16,987</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	<u>\$ 188,856</u>	<u>\$ 62,815</u>	<u>\$ 251,671</u>

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

Total fund balance - governmental funds 16,987

Capital Assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 1,083,086

Long-term liabilities are not due and payable in the current period and therefore, are not reported in the funds. (765,833)

\$ 334,240

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds

Serratoga Falls Metropolitan District No. 2
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds

For the year ended December 31, 2018

	General Fund	Debt Service	Total
Revenues			
Property Tax	\$ 59,394	\$ 52,586	\$ 111,980
Specific Ownership Tax	9,724	-	9,724
Landscaping Fees	83,000	-	83,000
Development Fees	32,500	-	32,500
Other Revenues	21,985	-	21,985
Total Revenues	206,603	52,586	259,189
Expenditures			
General Government:			
Administrative	25,475	90	25,565
Management and Accounting	12,105	-	12,105
Legal	31,846	-	31,846
Landscape Maintenance and Utilities	102,230	-	102,230
Treasurer's Fees	1,189	1,053	2,242
Debt Service:			
Principal	-	753,599	753,599
Interest	-	35,524	35,524
Debt Issuance	-	15,500	15,500
Total Expenditures	172,845	805,766	978,611
Excess (Deficiency) of Revenues over Expenditures	33,758	(753,180)	(719,422)
Other Financing Sources (Uses)			
Proceeds of Note Issuance	-	750,000	750,000
Transfers In/(Out)	(941)	941	-
Total Other Financing Sources (Uses)	(941)	750,941	750,000
Net Changes in Fund Balance	32,817	(2,239)	30,578
Fund Balances, beginning, as originally reported	(12,453)	2,885	(9,568)
Prior period adjustment	(4,023)	-	(4,023)
Fund Balances, beginning, restated	(16,476)	2,885	(13,591)
Fund Balances, ending	\$ 16,341	\$ 646	\$ 16,987

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of the Governmental Funds to the Statement of Activities

Serratoga Falls Metropolitan District No. 2

Reconciliation of the Statement of Revenues, Expenditure and Changes in Fund Balance of the Governmental Fund to the Statement of Activities

For the year ended December 31, 2018

	Total Governmental Funds
Net change in fund balance of the governmental funds	\$ 30,578
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>	
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeds capital outlay in the current year.</p>	(66,202)
<p>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal on long-term debt consumes the current financial resources of governmental funds. This amount is the net effect of these differences in the treatment of long-term debt.</p>	27,451
Change in net position of governmental activities	<u>\$ (8,173)</u>

Statement of Revenues, Expenditures and Changes in Fund Balances – Actual and Budget
– General Fund

Serratoga Falls Metropolitan District No. 2
Statement of Revenues, Expenditures and Changes in Fund Balances
Actual and Budget - General Fund
For the year ended December 31, 2018

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Property Tax	\$ 59,397	\$ 59,397	\$ 59,507	\$ 110
Specific Ownership Tax	7,838	9,529	9,724	195
Landscaping Fees	83,000	83,000	83,000	-
Development Fees	15,000	32,500	32,500	-
Other Revenues	8,300	22,500	21,872	(628)
Total Revenues	173,535	206,926	206,603	(323)
Expenditures				
Administrative	17,320	22,818	24,355	
Management	12,000	12,000	12,105	(105)
Legal	20,000	31,388	31,846	(458)
Audits	-	1,120	1,120	-
Treasurer's Fees	1,188	1,189	1,189	-
Landscape Maintenance and Utilities	86,287	115,663	102,230	13,433
Contingency	27,041	-	-	-
Total Expenditures	163,836	184,178	172,845	12,870
Excess (Deficiency) of Revenues over Expenditures	9,699	22,748	33,758	11,010
Other Financing Sources (Uses)				
Transfers Out	-	(1,035)	(941)	94
Total Other Financing Sources (Uses)	-	(1,035)	(941)	94
Net Changes in Fund Balance	9,699	21,713	32,817	11,104
Fund Balance, beginning, restated	(9,699)	(12,455)	(16,476)	(4,021)
Fund Balance, ending	\$ -	\$ 9,258	\$ 16,341	\$ 7,083

Notes to The Financial Statements

Note 1: Summary of Significant Accounting Policies

The accounting policies of the District conform to generally accepted accounting principles (GAAP) as applicable to governments. The Governmental Accounting Standard Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of significant policies consistently applied in the preparation of the financial statements.

Reporting Entity

Serratoga Falls Metropolitan District No. 2 (the "District") is a quasi-municipal corporation organized and operated pursuant to provisions set forth in the Colorado Special District Act. The District along with Serratoga Falls Districts 1 and 3 were originally established in 2006 to provide public services and improvements for the Districts and surrounding area within its boundaries with District 1 as the operating district and District 2 and 3 as the financing districts in Larimer County, Colorado.

In April 2016, the District amended and restated in part, the Original Service Plan with an Amended and Restated Service Plan. A separate Amended and Restated Service Plan was submitted for Serratoga Falls Metropolitan Districts Nos. 1 and 3. It is intended that the District will provide a part or all of the operations and maintenance services for the existing Public Improvements constructed for the use and benefit of all anticipated inhabitants and taxpayers of the District. The primary purpose of the District will be to finance, operate and maintain the Public Improvements, as specifically authorized herein or in an intergovernmental agreement with the Town of Timnath. The District is governed by a five-member Board of Directors (the "Board") elected or appointed by the constituents. The District has no employees and all operations and administrative functions are contracted.

The District complies with GASB, Statement No. 61, *"The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34"* and GASB Statement No. 39, *"Determining Whether Certain Organizations Are Component Units"*. These statements establish standards for defining and reporting on the financial reporting entity. It defines component units as legally separate entities for which the officials of the primary government are financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The District has no component units as defined by the GASB.

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

Basis of Presentation

While separate government-wide and fund financial statements are presented, they are interrelated. The government-wide financial statements (i.e. the statement of net position and the statement of activities) report information on all of the governmental activities of the District which are financed primarily by property taxes, assessments, and charges for services.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by general and program revenues. Direct expenses are those that are clearly identifiable within a specific function or program. Program revenues include 1) fees or charges to citizens and other governmental entities that receive or directly benefit from services provided by a given function or program, and 2) grants, contributions and other revenues that are restricted to use in the operational

[Note 1: Summary of Significant Accounting Policies - continued](#)

or capital requirements of a specific function or program. Other revenues not directly related to a particular function or program, if any, are reported separately as general revenues. The District does not have proprietary or fiduciary funds.

The fund financial statements provide information about the government's funds.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current *financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

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 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 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 available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. The exceptions to this general rule are that principal and interest on general long-term debt and expenditures related to compensated absences are recognized when due. General capital asset acquisitions are reported as expenditures in governmental funds.

The District reports the following governmental funds:

General Fund – is the District's primary operating fund used to account for collections and payments of operating resources not accounted for in another fund.

Debt Service Fund – is the District's fund used to account for collections and payments of the District's debt resources.

Assets:

Cash and Investments

Investments held in the local government investment pool are reported at net asset value as allowed under US GAAP.

District management may at times follow the practice of pooling cash and investments of all funds to maximize investment earnings. Except when required by regulations or other agreements, all cash is deposited to and disbursed from a minimum number of bank accounts. Cash in excess of immediate operating requirements may be pooled for deposit and investment flexibility. As applicable, investment earnings are allocated periodically to the participating funds based upon each fund's average equity balance in the total cash.

Note 1: Summary of Significant Accounting Policies - continued

Fair Value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The District categorizes its 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 market prices in active markets for identical assets; level 2 inputs are significant other observable inputs; and level 3 inputs are significant unobservable inputs. At December 31, 2018, the District did not hold any investments required to be reported under fair value.

Accounts Receivable

Accounts receivable consist of unpaid landscaping fees and late charges as of December 31, 2018. The District considers all receivables collectible as of December 31, 2018.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of the prepaid item is recorded as an expenditure when consumed rather than when purchased.

Property Taxes

Property taxes are levied annually and attach as an enforceable lien on property as of January 1. At the option of the taxpayer, property taxes may be paid in full or in two equal installments. The first of such installment is to be paid as of February 28 and the second installment is to be paid no later than June 15. If elected to be paid in full, the amount is to be paid no later than April 30. If payments are not made timely, delinquent interest accrues. If the taxes are not paid within subsequent statutory periods, the property tax lien will be sold at public auction. The County bills and collects the property taxes and remits collections to the District on a monthly basis. No provision has been made for uncollected taxes, as all taxes are deemed collectible.

Property 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. These amounts are recorded as revenue in the subsequent year when they are available or collected.

Capital Assets

Capital assets, which include land and landscaping, are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the District as assets with an initial cost of \$5,000 or more and an estimated useful life in excess of one year. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at the estimated fair value at the date of donation. Capital expenditures for projects are capitalized as constructed.

Normal maintenance and repairs that do not add value to assets or materially extend the life of the assets are not capitalized. Improvements are capitalized and depreciated over the remaining lives of the capital assets. Depreciation is reported as a current charge in the statement of activities.

Capital assets are depreciated using the straight-line method over the estimated useful life of 15 years.

Note 1: Summary of Significant Accounting Policies - continued

Liabilities:

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities.

Deferred Outflows/Inflows of Resources:

Deferred Outflows of Resources

In addition to assets, the statement of net 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. In the current year, the District did not have any items in this reporting category.

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 District has one item that qualifies for reporting in this category, unavailable property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amount becomes available.

Net Position

Net position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. Net position is reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors, laws or regulations of other governments.

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted-net position and unrestricted-net position in the government-wide financial statements, a flow assumption must be made about the order in which resources are considered to be applied. It is the District's policy to consider restricted-net position to have been depleted before unrestricted-net position is applied.

Fund Balance Classification

In the fund financial statements, governmental funds report aggregate amounts for five classes of fund balances on the constraints imposed on the use of these resources. The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not spendable in form which include items such as prepaid items or inventories; or (b) legally or contractually required to be maintained intact.

The spendable portion of the fund balance comprises the remaining four classifications: restricted, committed, assigned, and unassigned.

Restricted fund balance. This classification reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Serratoga Falls Metropolitan District No. 2
Notes to the Financial Statements
December 31, 2018

[Note 1: Summary of Significant Accounting Policies - continued](#)

Committed fund balance. These amounts can only be used for specific purposes pursuant to constraints imposed by formal resolutions of the District's Board of Directors, the District's highest level of decision-making authority. Those committed amounts cannot be used for any other purpose unless the District's Board of Directors removes the specified use by taking the same type of action imposing the commitment.

Assigned fund balance. This classification reflects the amounts constrained by the District's intent to be used for specific purposes, but are neither restricted nor committed. The intended use may be expressed by the Board or other individual's authorized to assign funds to be used for a specific purpose. Unlike commitments, assignments are generally only temporary and do not require a formal action to remove the assignment.

Unassigned fund balance. This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

When both restricted and unrestricted resources are available for use, it is the District's policy to use externally restricted resources first, then unrestricted resources – committed, assigned, and unassigned-in order as needed.

Transfers

During 2018, the District made a transfer from the general fund to the debt service fund in the amount of \$941 to provide support for debt service fund payments.

Use of Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

[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:

- As required by State statutes, budgets are legally adopted for all funds of the District on a basis consistent with GAAP.
- 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.
- Public hearings are conducted to obtain taxpayer comments.
- Prior to December 15, the budget is legally enacted through passage of a resolution.

Appropriations are adopted at total fund expenditure level. District Management is authorized to transfer budgeted amounts within any fund. However, any revisions that alter the total expenditures of any fund must be approved by the Board. The budget is only amended in conformity with Colorado Revised Statutes which allows the District to amend the budget and adopt a supplementary appropriation if money for a specific purpose, other than ad valorem taxes, becomes available to meet a contingency. The level of

Serratoga Falls Metropolitan District No. 2
Notes to the Financial Statements
December 31, 2018

[Note 2: Stewardship, Compliance and Accountability– continued](#)

control in the budget at which expenditures exceeded appropriations is at the fund level. All appropriations lapse at year end.

TABOR Amendment – Revenue Spending Limitation Amendment

In November 1992, Colorado voters amended Article X of the Colorado Constitution by adding Section 20 commonly known as the Taxpayer's Bill of Rights (“TABOR”). TABOR contains revenue, spending, tax and debt limitations that apply to the State of Colorado and local governments. Spending and revenue limits are determined 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 also requires local governments to establish emergency reserves to be used for declared emergencies only. Emergencies, as defined by TABOR, exclude economic conditions, revenue shortfalls, or salary or fringe benefit increases. These reserves must be at least 3% of Fiscal Year Spending excluding bonded debt service, federal grants and sales of assets. The District has reserved a portion of its December 31, 2018 year-end fund balance in the General Fund for emergencies as required under TABOR of \$6,198 which is the approximate required reserve at December 31, 2018.

The District’s management believes it is in compliance with the provisions of TABOR, as it is currently understood. However, TABOR is complex and subject to interpretation. Many of the provisions may not become fully understood without judicial review.

[Note 3: Cash and Investments](#)

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

Cash and Investments	\$ 118,888
Restricted Cash and Investments	646
Total	<u>\$ 119,534</u>

The following is a summary of deposits and investment held by the District at December 31, 2018:

<u>Type</u>	<u>Ratings per Standard & Poor’s</u>	<u>Fair Value December 31, 2018</u>
Deposits with Financial Institutions		\$ 18,832
ColoTrust Plus+	AAAm	100,702
Total		<u>\$ 119,534</u>

Cash Deposits

The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. State regulators determine eligibility. Amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is determined by the PDPA. PDPA allows the institution to create a single collateral pool for all public funds. The pool is to be maintained by another institution or held in trust for all the uninsured public deposits as a group. The market value of the collateral must be at a minimum of 102% of the aggregate uninsured deposits.

Serratoga Falls Metropolitan District No. 2
Notes to the Financial Statements
December 31, 2018

[Note 3: Cash and Investments– continued](#)

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

Investments

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

As of December 31, 2018, the District invested in the Colorado Local Governmental Liquid Asset Trust (COLOTRUST), a local government investment vehicle established for local governmental entities in Colorado to pool surplus funds. COLOTRUST offers two investment options: COLOTRUST PRIME and COLOTRUST PLUS+. As an investment pool, COLOTRUST operates under the Colorado Revised Statutes (24-75-701) and is overseen by the Colorado Securities Commissioner. COLOTRUST limits its investments to those allowed by State statutes. Purchases and redemptions are available daily at a net asset value (NAV) of \$1.00. A designated custodial bank provides safekeeping and depository services to COLOTRUST in connection with the direct investment and withdrawal function of COLOTRUST. The custodian's internal records identify the investments owned by participating governments. COLOTRUST PLUS+ records its investment at fair value and the District records its investment in COLOTRUST PLUS+ using the net asset value method. There are no unfunded commitments and there is no redemption notice period.

Custodial Credit Risk: At December 31, 2018, all of the District's deposits and investments were insured by the Federal Deposit Insurance Corporation or held in eligible public depositories as required by PDPA.

Interest Rate Risk: Colorado Revised Statutes (CRS) limit investment maturities to five years or less unless formally approved by the Board. In accordance with CRS, the District manages its exposure to declines in fair value by limiting the weighted average maturity of its investments.

Credit Risk: Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. The District follows the general provisions of the Colorado Revised Statutes (CRS) which limits the District's exposure to credit risk. CRS specify investment instruments meeting defined rating and risk criteria in which local governmental entities may invest. The allowed investments may include but are not limited to the following:

- Certain money market funds
- Certain certificates of deposit
- Local government investment pools

Serratoga Falls Metropolitan District No. 2
Notes to the Financial Statements
December 31, 2018

Note 4: Capital Assets

Capital asset activity for the year ended December 31, 2018 was as follows:

	Beginning Balance Restated	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 222,455	\$ -	\$ -	\$ 222,455
Total capital assets, not being depreciated	222,455	-	-	222,455
Capital assets being depreciated:				
Landscaping	993,035	-	-	993,035
Less Accumulated Depreciation for:				
Landscaping	(66,202)	(66,202)	-	(132,404)
Total capital assets being depreciated, net	926,833	(66,202)	-	860,631
Capital assets, net	\$ 1,149,288	\$(66,202)	\$ -	\$ 1,083,086

Note 5: Long-term Obligations

Changes in long-term obligation for the year ended December 31, 2018 are as follows:

Note	Beginning Balance	Additions	Deletions	Ending Balance	Due within One Year
Series 2016A	\$ 778,397	\$ -	\$ (778,397)	\$ -	\$ -
Series 2018	-	750,000	-	750,000	22,682
	\$ 778,397	\$ 750,000	\$ (778,397)	\$ 750,000	\$ 22,682

General Obligation Limited Tax Note, Series 2016A (“Series 2016A”):

In August 2016, the District assumed debt through the issuance of its Series 2016A note in the principal amount of \$807,500 which bore an annual interest rate of 4.5%. The Series 2016A note had a final maturity date of August 1, 2041 and required annual principal and interest payments which were payable annually beginning on August 1, 2017. Interest was calculated on the basis of a 360-day year. The Series 2016A note had no prepayment penalties. The Series 2016A Note was refunded in August 2018.

General Obligation Limited Tax Notes, Series 2018 (“Series 2018”):

On August 1, 2018, the District issued General Obligation Limited Tax Notes, Series 2018 for the purpose of achieving a current refunding of the Series 2016A note and paying the costs of issuance of the Series 2018 notes. The Series 2018 notes mature August 1, 2038 bearing an index rate with 5 year reset periods. Index Rate means the rate of interest to be borne by the 2018 Notes, computed as follows: (i) 5.0% commencing on the issuance date of the 2018 Notes until August 1, 2023; (ii) from August 1, 2023 until the next Reset Date, the Prime Rate as published in the Wall Street Journal (Western edition), plus 0.25%, provided, however, the Index Rate shall not be below 4.0%, nor above 7.0%, and shall not increase more than 1.0% on any Reset Date. Reset Date means August 1, 2023, then as follows: August 1, 2028 and August 1, 2033. Interest is to be calculated on the basis of a 360-day year.

Serratoga Falls Metropolitan District No. 2
Notes to the Financial Statements
December 31, 2018

[Note 5: Long-term obligations– continued](#)

The Series 2018 notes are limited obligation notes secured by pledged revenue which includes (i) debt service mill levy of 40 mills subject to adjustment and (ii) any other legally available amounts designated by the District. Interest payments are due August 1; commencing August 1, 2019. The Series 2018 Notes may be prepaid on any date without penalty at the option on of the District.

Debt service requirements to maturity, based on the current interest rate, for the Series 2018 notes are as follows:

Year Ending December 31,	Principal	Interest	Total
2019	\$ 22,682	\$ 37,500	\$ 60,182
2020	23,816	36,366	60,182
2021	25,007	35,175	60,182
2022	26,257	33,925	60,182
2023	27,570	32,612	60,182
2024-2028	159,959	140,951	300,910
2029-2033	204,153	96,757	300,910
2034-2038	260,556	40,354	300,910
Total	\$ 750,000	\$453,640	\$ 1,203,640

As of December 31, 2018, the District had total authorized debt of \$200,000,000 of which \$1,557,500 has been issued, leaving an authorized but unissued balance of \$198,442,500. Per the District’s Service Plan, the District may not issue debt in excess of \$2,000,000 without approval of the Town.

[Note 6: Risk Management](#)

The District is exposed to various risks of loss related to general liability, torts, theft of, damage to, and destruction of assets, and errors and omissions. The District has elected to participate in the Colorado Special Districts Property and Liability Pool (“the Pool”). The Pool 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 official’s liability, 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. During the year ended December 31, 2018, the Pool has made no distributions nor required additional contributions from the District.

Serratoga Falls Metropolitan District No. 2
Notes to the Financial Statements
December 31, 2018

Note 7: Intergovernmental and Other Agreements

In May 2016, the District entered into an agreement with Serratoga Falls District No.1 to pay a percentage of shared costs for Pump House. Pump House costs include the operation and maintenance costs of all pumps in the Pump House and the Kitchell Reservoir agricultural pump and pipeline except for the initial costs related to the purchase and installation of a third non-potable water pump expected to be installed in the future.

The percentage of the Pump House Costs paid by District 2 shall be determined as follows: the volume of non-potable water used by the District 2 System divided by the total amount of non-potable water used by the Serratoga Falls Subdivision for a period beginning on January 1 and ending on December 31 of the same calendar year ("Allocation Percentage"). The Allocation Percentage shall be used to allocate the Pump House Costs for the following calendar year. All non-potable water use must be metered. District 1 shall track and record all water use. The District is currently the only user of the non-potable water system and bears 100% of the costs.

District 1 has entered into a Recreational Lease Agreement with the Kitchel Reservoir Company under which District 1 is permitted to construct and maintain certain recreational amenities at the Kitchel Reservoir for the benefit of the homeowners within the Serratoga Falls Subdivision. Under the IGA, the District may access the recreational amenities at the Kitchel Reservoir upon payment to District 1 of 14.44% of the annual lease price. For 2018, the District did not exercise its option.

Water Lease Agreement

In April 2016, the District and Serratoga Falls, LLC entered into a Water Lease Agreement ("Water Lease") under which the District leased 50 acre-feet of non-potable water from Serratoga Falls, LLC from its non-potable water rights portfolio. The term of the Water Lease is initially for 30 years and the District has the option to extend the term for up to six 10 year renewal terms, with such extension being automatic unless the District provides written notice to Serratoga Falls, LLC that the District does not wish to extend. Under the Water Lease, there are no payments required. The consideration for the Water Lease was the resolution of prior disagreements related to the ownership and maintenance of public improvements, district boundaries, water use and covenant control.

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

Explanation of differences between the Governmental Fund Balance Sheet and the Government-Wide Statement of Net Position

The governmental funds balance sheet includes reconciliation between fund balance- total governmental funds and net position-governmental activities as reported in the government-wide statement of net position. Explanation of the reconciling items is as follows:

Capital assets of \$1,215,490, less accumulated depreciation of \$132,404 or a net book value of \$1,083,086 are not financial resources and therefore are not reported in the funds.

Long-term liabilities are not due and payable in the current period and; therefore, are not reported in the funds. Notes payable amounted to \$750,000 and Interest payable amounted to 15,833 for a total of \$765,833.

Explanation of Difference between the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-Wide Statement of Activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net position of governmental activities as reported in the government-wide statement of activities. Explanation of the reconciling items is as follows:

Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. Depreciation expense was \$66,202.

The issuance of long-term debt (e.g. notes payable) 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. The details of this difference are as follows:

Note issuances	\$ (750,000)
Principal payments on notes	753,397
Change in accrued interest	(946)
Gain on debt retirement	25,000
Net adjustment	<u>\$ 27,451</u>

Serratoga Falls Metropolitan District No. 2
Notes to the Financial Statements
December 31, 2018

Note 9: Prior Period Restatements

The accompanying financial statements reflect adjustments resulting from a restatement of beginning fund balance of the general fund and of the net position of the statement of net position as of December 31, 2018, as follows:

- (a) The fund balance of the general fund was reduced by (\$4,023) to recognize an October 2017 utility invoice recorded in 2018. The District did not properly accrue the utility invoice in the correct period.
- (b) Net position was increased in the current year by \$1,149,288 to recognize assets donated to the District during the year ended December 31, 2016 which were inadvertently not recorded at the time of donation. The estimated net book value of the assets at December 31, 2016 was \$1,215,490. The current year adjustment represents the net book value of the capital assets at December 31, 2017 after accumulated depreciation of \$132,404, of which \$66,202 was recorded as expense in the current year.

The net result of both restatements on net position is a change in the government-wide net position of \$1,145,265.

Supplementary Information

Schedule of Revenues, Expenditures and Changes in Fund Balances – Actual and Budget – Debt Service Fund

Serratoga Falls Metropolitan District No. 2
Schedule of Revenues, Expenditures and Changes in Fund Balances
Actual and Budget - Debt Service
For the year ended December 31, 2018

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Property Tax	\$ 52,582	\$ 52,582	\$ 52,586	\$ 4
Total Revenues	52,582	52,582	52,586	4
Expenditures				
Treasurer's Fees	1,052	1,052	1,053	(1)
Bank Fees	-	90	90	-
Audit	5,293	-	-	-
Debt Issuance- legal	-	15,500	15,500	-
Principal	11,209	753,599	753,599	-
Interest	35,028	35,524	35,524	-
Total Expenditures	52,582	805,765	805,766	(1)
Excess (Deficiency) of Revenues over Expenditures	-	(753,183)	(753,180)	3
Other Financing Sources (Uses)				
Proceeds of Note Issuance		750,000	750,000	-
Transfers In	-	1,035	941	(94)
Total Other Financing Sources (Uses)	-	751,035	750,941	(94)
Net Changes in Fund Balance	-	(2,148)	(2,239)	(91)
Fund Balance, beginning	-	2,885	2,885	-
Fund Balance, ending	\$ -	\$ 737	\$ 646	\$ (91)

Serratoga Falls Metropolitan District No. 2
Notes to the Financial Statements
December 31, 2018

Other Information

Historical Assessed Values, Mill Levy and Tax Collections

Serratoga Falls Metropolitan District No. 2
Historical Assessed Values, Mill Levy and Tax Collections

Assessment Year	2015	2016	2017	2018
Assessed Value	\$ 2,294,202	\$ 2,375,874	\$ 2,103,298	\$ 2,391,119
General Operation Levy	50.000	25.000	28.240	27.240
General Operations Taxes	114,710	59,397	59,397	65,134
Debt Service Levy	-	25.000	25.000	26.000
Debt Service Taxes	-	59,397	52,582	62,169
Collection Year	2016	2017	2018	2019
Total Levy	<u>\$ 114,710</u>	<u>\$ 118,794</u>	<u>\$ 111,979</u>	<u>\$ 127,303</u>

All taxes collected in subsequent year of assessment. No taxes were delinquent as of December 31, 2018.