

# **WATERSTONE METROPOLITAN DISTRICT NO. 2**

**AURORA  
ARAPAHOE COUNTY, COLORADO**



**ANNUAL FINANCIAL STATEMENTS**

**December 31, 2018**

## Table of Contents

STATEMENT OF NET POSITION .....	1
STATEMENT OF ACTIVITIES .....	2
BALANCE SHEET – GOVERNMENTAL FUNDS .....	3
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES .....	4
GENERAL FUND .....	5
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL	5
NOTES TO FINANCIAL STATEMENTS .....	6
SUPPLEMENTARY INFORMATION .....	14
DEBT SERVICE FUND – SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL .....	15
CAPITAL PROJECTS FUND – SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL .....	16
OTHER SUPPLEMENTARY INFORMATION .....	17
CHANGE IN TOTAL OVERLAPPING MILL LEVY .....	18

## INDEPENDENT AUDITOR'S REPORT

November 4, 2019

To the Board of Directors  
Waterstone Metropolitan District No. 2

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major funds of Waterstone Metropolitan District No. 2 as of and for the year ended 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 and 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 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.

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of governmental activities and the major funds of Waterstone Metropolitan District No. 2, as of December 31, 2018 and the respective changes in financial position and the budgetary comparison for the General Fund, Reserve Fund and Debt 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 an opinion on the financial statements that collectively comprise Waterstone Metropolitan District No. 2's financial statements as a whole. The supplementary information section is presented for purposes of additional analysis and is not a required part of the financial statements.

The Supplementary information, as listed in the table of contents, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

B F Boyner CPA PC

**Certified Public Accountants  
Lakewood, CO**

WATERSTONE METROPOLITAN DISTRICT NO. 2  
**STATEMENT OF NET POSITION**  
December 31, 2018

	<b>Governmental Activities</b>
<b>ASSETS</b>	
Cash and investments	\$ 1,325
Cash and investments – restricted	-
Accounts receivable – specific ownership taxes	-
Property taxes receivable	-
Prepaid expenses	2,013
Capital assets, net	-
<b>Total Assets</b>	<b>\$ 3,338</b>
<b>LIABILITIES</b>	
Accounts payable and accrued liabilities	\$ -
Accrued interest payable	-
<b>Total Liabilities</b>	<b>-</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Property tax revenue	-
<b>NET POSITION</b>	
Restricted:	
Emergency reserves	600
Debt service	-
Capital projects	-
Non-spendable	2,013
Unassigned:	725
<b>Total Net Position</b>	<b>\$ 3,338</b>

These financial statements should be read only in connection with  
the accompanying notes to the financial statements.



WATERSTONE METROPOLITAN DISTRICT NO. 2  
**BALANCE SHEET – GOVERNMENTAL FUNDS**  
December 31, 2018

	General	Debt Service	Capital Projects	Total Government Funds
<b>ASSETS</b>				
Cash and investments	\$ 1,325	\$ -	\$ -	\$ 1,325
Cash and investments - Restricted	-	-	-	-
Property taxes receivable	-	-	-	-
Prepaid expenses	2,013	-	-	2,013
<b>TOTAL ASSETS</b>	<b>\$ 3,338</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 3,338</b>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities	-	-	-	-
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Property tax revenue	-	-	-	-
<b>TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>FUND BALANCES</b>				
Restricted:				
Emergencies (TABOR)	600	-	-	600
Debt service	-	-	-	-
Capital projects	-	-	-	-
Non-spendable	2,013	-	-	2,013
Unrestricted	725	-	-	725
Total Fund Balances	3,338	-	-	3,338
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<b>\$ 3,338</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 3,338</b>

These financial statements should be read only in connection with  
the accompanying notes to the financial statements.

WATERSTONE METROPOLITAN DISTRICT NO. 2  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
12-Month Period Ended December 31, 2018

	General	Debt Service	Capital Projects	Total Government Funds
<b>REVENUES</b>				
Property taxes	\$ -	\$ -	\$ -	\$ -
Specific ownership taxes	-	-	-	-
Net investment income	-	-	-	-
Other	-	-	-	-
Total revenues	-	-	-	-
<b>EXPENDITURES</b>				
General and administration	12,812	-	-	12,812
Other district expenses	-	-	-	-
Debt service	-	-	-	-
Public infrastructure acquisitions	-	-	-	-
Total Expenditures	12,812	-	-	-
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	( 12,812)	-	-	( 12,812)
<b>OTHER FINANCING SOURCES (USES)</b>				
Developers advances	16,150	-	-	16,150
<b>EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES</b>	3,338	-	-	3,338
<b>FIND BALANCES – BEGINNING OF YEAR</b>	-	-	-	-
<b>FUND BALANCES – END OF YEAR</b>	<u>\$ 3,338</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,338</u>

These financial statements should be read only in connection with  
the accompanying notes to the financial statements.

WATERSTONE METROPOLITAN DISTRICT NO. 2  
**GENERAL FUND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND**  
**BALANCES – BUDGET AND ACTUAL**  
12-Month Period Ended December 31, 2018

	Original Budget	Actual Amounts	Positive / (Negative) Variance with Original Budget
<b>REVENUES</b>			
1. Property taxes	\$ -	\$ -	\$ -
2. Specific ownership taxes	-	-	-
3. Net investment income	-	-	-
<b>Total revenues</b>	<u>-</u>	<u>-</u>	<u>-</u>
<b>EXPENDITURES</b>			
4. General and administration	42,150	12,812	29,338
5. Other district expenses	-	-	-
6. Election expenses	1,500	-	-
<b>Total expenditures</b>	<u>43,650</u>	<u>12,812</u>	<u>29,338</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>43,650</u>	<u>12,812</u>	<u>29,338</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
9. Developer Advances	43,650	16,150	( 27,500)
<b>Total other financing sources (uses)</b>	<u>43,650</u>	<u>16,150</u>	<u>( 27,500)</u>
<b>EXCESS OF REVENUES AND OTHER FINANCIAL SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES</b>	<u>-</u>	<u>3,338</u>	<u>3,338</u>
<b>FUND BALANCE – BEGINNING OF YEAR</b>	<u>-</u>	<u>-</u>	<u>-</u>
<b>FUND BALANCE – END OF YEAR</b>	<u>\$ -</u>	<u>\$ 3,338</u>	<u>\$ 3,338</u>

These financial statements should be read only in connection with  
the accompanying notes to the financial statements.

WATERSTONE METROPOLITAN DISTRICT NO. 2  
**NOTES TO FINANCIAL STATEMENTS**  
12-Month Period Ended December 31, 2018

**NOTE 1 – DEFINITION OF REPORTING ENTITY**

Waterstone Metropolitan District No. 2 (District), a quasi-municipal corporation and political subdivision of the State of Colorado, was organized on November 28, 2005, and is governed pursuant to provisions of the Colorado Special District Act (Title 32). The District operates under a service plan approved by City of Aurora (City) in August 2005. The District's service area is located in Arapahoe County, Colorado entirely within the boundaries of the City. The District was established to provide financing for the design, acquisition, construction and installation of streets, traffic and safety controls, park and recreation, sanitary sewer, storm drainage and other improvements (Public Improvements) within and without the District boundaries that benefit the taxpayers and inhabitants of the District. The District was also established to (1) maintain various open spaces within the District (not otherwise owned and maintained by the City), (2) maintain perimeter fencing, and (3) provide covenant enforcement and architectural review services.

The District currently encompasses one 0.2-acre parcel of land located approximately ¼-mile east of South Gun Club Road between East Alameda Avenue and East Mississippi Avenue. Per the District's Service Plan, the District may expand the District's boundaries to include certain additional undeveloped land parcels with an approximate size of 79.56 acres.

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 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 organizations 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 significant accounting policies of the District are 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.

The statement of net position reports all financial and capital resources of the District. The difference between the sum of assets and deferred inflows and the sum of liabilities and deferred outflows of the District is reported as net position.

These notes are an integral part of the accompanying financial statements.

The statement of activities demonstrates the degree to which the direct and indirect expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for 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.

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. Expenditures, other than interest on long-term obligations, are recorded when the liability is incurred or the long-term obligation is 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.

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

### **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 funds for the ensuing year. The appropriation is at the total fund expenditures 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.

These notes are an integral part of the accompanying financial statements.

## **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.

Investments are carried at fair value.

## **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. 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.

On November 1, 2005, District voters authorized the District to assess property taxes up to \$5,000,000 annually, without limitation to rate, to pay the District's operations, maintenance and other expenses. Additionally, the District voters approved a revenue change to allow the District to retain and spend all revenue, other than ad valorem taxes, in excess of TABOR spending, revenue raising or other limitations.

Property taxes, net of estimated uncollectible taxes, are recorded initially as deferred inflow of resources in the year they are levied and measurable. The unearned property tax revenues are recorded as revenue in the year they are available or collected.

## **Specific Ownership Taxes**

Specific ownership taxes are set by the State and collected by the County Treasurer, primarily on vehicle licensing within the County as a whole. The specific ownership taxes are allocated by the County Treasurer to all taxing entities within the County. Specific ownership tax is allocated proportionally between each fund based on the ratio of property tax revenue collected for each fund compared to total property revenue collected by the District.

In 2018, the District received no specific ownership tax allocations from the County Treasurer.

## **Deferred Outflows of Resources and Deferred Inflows of Resources**

A deferred inflow of resources is an acquisition of net position by a government that is applicable to a future reporting period and a deferred outflow of resources is a consumption of net position by a government that is applicable to a future reporting period. Both deferred inflows and outflows are reported in the statement of net position but are not recognized in the financial statement as revenues and expenses until the period(s) to which they relate. Deferred inflows of resources in the governmental fund financial statements of the District for the 12-month period ended December 31, 2018 are comprised of property taxes due from Arapahoe County that will not be collected within 60 days of the end of the current calendar year. Deferred inflows of resources in the government-

These notes are an integral part of the accompanying financial statements.

wide financial statements represents property taxes for which an enforceable legal claim to assets exists, but for which the levy pertains to the subsequent year.

## Equity

### Net Position

For government-wide presentation purposes when both restricted and unrestricted resources are available for use, it is the government'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: non-spendable, 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:

- **Non-spendable fund balance** – The portion of a fund balance that cannot be spent because it is either not in spendable form (such as prepaid amounts) or legally or contractually required to be maintained intact.
- **Restricted fund balance** – The portion of a 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 a 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.
- **Assigned fund balance** – The portion of a 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 a 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 policy 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:

Statement of net position:	
Cash and investments – unrestricted	\$ 1,325
Cash and investments – restricted	-
<b>Total cash and investments</b>	<b>\$ 1,325</b>

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

Deposits with financial institutions	\$ 1,325
Investments	-
<b>Total cash and investments</b>	<b>\$ 1,325</b>

#### 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.

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 \$1,325 and a carrying balance of \$1,325.

### NOTE 4 – LONG-TERM DEBT

The District is in the development stage and has not yet issued any debt.

#### Debt Authorization

##### Debt Authorization – Service Plan

The District's Service Plan authorizes the District to issue up to \$50 million in debt over a term not to exceed 40 years. The repayment of the District's debt can exceed 40 years if the majority of the District's Board are residents of the District and the District's Board has voted in favor of refunding a part or all of the District's debt (which must result in a net present value savings).

The District's Service Plan also establishes a Maximum Mill levy the District is permitted to impose on taxable property within the District for the payment of debt. As long as the District's total outstanding debt exceeds 50% of the assessed valuation of all taxable property within the District, the Maximum Debt Mill Levy is 50 mills, as adjusted by the State of Colorado for changes in the ratio of taxable valuation to assessed valuation of real property since

These notes are an integral part of the accompanying financial statements.

January 1, 2005. As of January 1, 2005, the ratio was 7.96%. The ratio for 2018 was 7.20%, which caused the District's Maximum Mill Levy for debt service for 2018 to be 55.278.

### Debt Authorization – TABOR

On November 1, 2005, the District's electors authorized the issuance of indebtedness in an amount not to exceed \$680,000,000 for infrastructure improvements and operations at an effective interest rate not to exceed 18% and \$75,000,000 for refunding the District's debt. The District's electors also authorized the District to (1) increase property tax revenue up to \$615,000,000 per year to repay any of the District's debt obligations with the City, a regional authority or any other governmental entity and (2) implement a phased-in multi-year tax increase up to a maximum of \$75,000,000 per year.

The District's authorized but unissued indebtedness in the following amounts allocated for the following purposes is as follows:

	Authorized Nov. 2001 Election	Authorized Used	Total Voter- Authorized Debt
Street improvements	\$ 75,000,000	\$ -	\$ 75,000,000
Park and recreational facilities	75,000,000	-	75,000,000
Sanitary supply	75,000,000	-	75,000,000
Water supply	75,000,000	-	75,000,000
Public transportation system	75,000,000	-	75,000,000
Traffic and safety controls	75,000,000	-	75,000,000
Mosquito control	75,000,000	-	75,000,000
Intergovernmental Agreements	75,000,000	-	75,000,000
Multiple fiscal year contracts	75,000,000	-	75,000,000
General maintenance and operations	5,000,000	-	5,000,000
<b>Subtotal</b>	<b>680,000,000</b>	<b>-</b>	<b>680,000,000</b>
Refunding of debt	75,000,000	-	75,000,000
<b>Total</b>	<b>\$ 755,000,000</b>	<b>\$ -</b>	<b>\$ 755,000,000</b>

Per C.R.S 32-1-1101(2), the remaining, unused debt issuance authorization obtained from the District's electors will expire as follows:

- \$680 million will expire in November 2025 - 20 years after the original debt authorization election.
- If the District issues any general obligation debt before November 2025, the \$75 million of debt refunding authorization will expire when the District's current general obligation debt is paid down to a balance of \$400,000 or less. If the District issues no general obligation debt by November 2025, the \$75 million of debt refunding authorization will also expire by November 2025.

### NOTE 5 – NET POSITION

#### Restricted Net Position

The District's restricted net position as of December 31, 2018 in the general fund, debt service fund and capital projects fund totaled \$600, \$0 and \$0, respectively. The restricted net position within the general fund is due to spending restrictions established by TABOR. See Note 9 for further details.

These notes are an integral part of the accompanying financial statements.

## Non-Spendable Net Position

The District's non-spendable net position as of December 31, 2018 in the general fund, debt service fund and capital project fund totaled \$2,013, \$0, and \$0, respectively. These balances were created due to the District prepaying certain 2019 expenses in 2018.

## Unassigned Net Position

The District's unassigned net position as of December 31, 2018 totaled \$725.

## NOTE 6 – CONTINGENT OBLIGATIONS

On January 06, 2006, the District entered into an advance and reimbursement agreement with the Developer (as defined in Note 7) ("AR Agreement") pursuant to which the Developer acknowledged the advancement of certain funds to the District to pay for certain accounting and legal consultant's costs incurred on behalf of the District in connection with District operations, and the District's obligation to reimburse such amounts to the Developer, subject to available revenues (the "Developer Advances"). The District has neither registered nor filed a notice of claim of exemption regarding the AR Agreement with the Colorado Securities Commissioner, and the AR Agreement is not transferrable to third parties. The AR Agreement is subject to annual appropriation and is not multiple-fiscal year obligation for the purposes of Article X, Section 20 of the Colorado Constitution. Interest accrues on amounts advanced to the District at the rate of 7% per annum.

Developer Advances and District repayments under the AR Agreement are as follows:

	Principal	Accrued Interest	Total
Balance as of January 01, 2018	\$ 71,035	\$ 32,698	\$ 103,733
Amounts advanced to District	16,150	-	16,150
Repayments to Developer	-	-	-
Accrued interest	-	5,538	5,538
<b>Balance as of December 31, 2018</b>	<b>\$ 87,185</b>	<b>\$ 38,236</b>	<b>\$ 125,421</b>

## NOTE 7 – RELATED PARTIES

The owner and developer of all land within District is Murphy Creek Estates, LLC ("Developer"). All five directors serving on the District's board are owners, directors or close relatives of owners or directors of the Developer. Consequently, all five directors may have conflicts of interests in transactions occurring between the Developer and the District.

During the year ended December 31, 2018, the Developer advanced funds to the District under the AR Agreement totaling \$16,150. As of December 31, 2018, the balance owed by the District to the Developer under the AR Agreement totaled \$125,421.

These notes are an integral part of the accompanying financial statements.

## **NOTE 8 – RISK MANAGEMENT**

Except as provided in the Colorado Governmental Immunity Act, the District may be 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 (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.

The District pays annual premiums to the Pool for liability, property and public officials' liability. 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 9 – TAX, SPENDING AND DEBT LIMITATIONS**

Article X, Section 20 of the Colorado Constitution—referred to 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 November 1, 2005, District voters authorized the District to assess property taxes at no more than \$5,000,000 annually, without limitation to rate, to pay the District's operations, maintenance and other expenses. Additionally, the District voters approved a revenue change to allow the District to retain and spend all revenue, other than ad valorem taxes, in excess of TABOR spending, revenue raising or other limitations.

TABOR requires local governments to establish Emergency Reserves. These reserves must be at least 3% of Fiscal Year Spending (excluding bonded debt service). TABOR prohibits the District from using its emergency reserves to compensate for economic conditions and revenue shortfalls.

TABOR is complex and subject to legal interpretation. Many of the provisions, including the interpretation of how to calculate Fiscal Year Spending limits, may require judicial interpretation.

These notes are an integral part of the accompanying financial statements.

## SUPPLEMENTARY INFORMATION

WATERSTONE METROPOLITAN DISTRICT NO. 2  
**DEBT SERVICE FUND –**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCES – BUDGET AND ACTUAL**  
12-Month Period Ended December 31, 2018

	Original Budget	Actual Amounts	Positive / (Negative) Variance with Original Budget
<b>REVENUES</b>			
Property taxes	\$ -	\$ -	\$ -
Specific ownership taxes	-	-	-
Net investment income	-	-	-
<b>Total revenues</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>EXPENDITURES</b>			
Debt service	-	-	-
<b>Total expenditures</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers from (to) other funds	-	-	-
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>EXCESS OF REVENUES AND OTHER FINANCIAL SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>FUND BALANCE – BEGINNING OF YEAR</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>FUND BALANCE – END OF YEAR</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

WATERSTONE METROPOLITAN DISTRICT NO. 2  
**CAPITAL PROJECTS FUND –**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCES – BUDGET AND ACTUAL**  
12-Month Period Ended December 31, 2018

	Original Budget	Actual Amounts	Positive / (Negative) Variance with Original Budget
<b>REVENUES</b>			
Net investment income	\$ -	\$ -	\$ -
Other	-	-	-
Total revenues	-	-	-
<b>EXPENDITURES</b>			
Management and legal fees	-	-	-
Major capital projects	-	-	-
Total expenditures	-	-	-
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>			
	-	-	-
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers from (to) other funds	-	-	-
Total other financing sources (uses)	-	-	-
<b>EXCESS OF REVENUES AND OTHER FINANCIAL SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES</b>			
	-	-	-
<b>FUND BALANCE – BEGINNING OF YEAR</b>			
	-	-	-
<b>FUND BALANCE – END OF YEAR</b>			
	\$ -	\$ -	\$ -

## OTHER SUPPLEMENTARY INFORMATION

WATERSTONE METROPOLITAN DISTRICT NO. 2  
**CHANGE IN TOTAL OVERLAPPING MILL LEVY**  
 December 31, 2018

	2018 Mill Levy **	2019 Mill Levy *	Change
Waterstone Metropolitan District No. 2	0.000	0.000	-
Aurora School District #28J	82.014	82.014	-
Sable Altura Fire District Bonds	17.000	17.000	-
Arapahoe County	12.817	13.301	0.484
City of Aurora	8.605	8.605	-
Arapahoe Library District	5.853	5.845	( 0.008)
Developmental Disability	1.000	1.000	-
Urban Drainage and Flood Control	0.500	0.726	0.226
Urban Drainage and Flood Control – South Platte	0.057	0.094	0.037
RTD	0.000	0.000	-
<b>Total Mill Levy</b>	<b>127.846</b>	<b>128.585</b>	<b>0.739</b>

\* -- For property tax collections in 2019

\*\* -- For property tax collections in 2018