

**St. Vrain Lakes Metropolitan District No. 2
Weld County, Colorado**

FINANCIAL STATEMENTS

With Independent Auditor's Report

December 31, 2018

St. Vrain Lakes Metropolitan District No. 2

BASIC FINANCIAL STATEMENTS

December 31, 2018

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INDEPENDENT AUDITOR'S REPORT

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

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of St. Vrain Lakes Metropolitan District No. 2, as of December 31, 2018, and the respective changes in financial position thereof, and the budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statement in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information as listed in the table of contents is presented for purposes of legal compliance and additional analysis and is not a required part of the basic financial statements.

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

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

Fiscal Focus Partners, LLC

Greenwood Village, Colorado
October 22, 2019

St. Vrain Lakes Metropolitan District No. 2
STATEMENT OF NET POSITION (DEFICIT)
December 31, 2018

	Governmental Activities
ASSETS	
Cash and investments	\$ 688
Cash and investments - Restricted	7,146,216
Receivable - County Treasurer	1,203
Due St. Vrain Lakes Metropolitan District No. 3	11,512
Due St. Vrain Lakes Metropolitan District No. 4	7,444
Property taxes receivable	257,526
Total assets	7,424,589
LIABILITIES	
Due St. Vrain Lakes Metropolitan District No. 1	965
Accrued interest payable	138,662
Long-term liabilities	
Due in more than one year	44,003,489
Total liabilities	44,143,116
DEFERRED INFLOWS OF RESOURCES	
Property tax revenue	257,526
Total deferred inflows of resources	257,526
NET POSITION (DEFICIT)	
Restricted for:	
Emergency reserves	1,530
Debt service	7,133,898
Capital projects	32,200
Unrestricted	(44,143,681)
Total net position (deficit)	\$ (36,976,053)

The accompanying Notes to the Financial Statements are an integral part of these statements.

St. Vrain Lakes Metropolitan District No. 2

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2018

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenue</u>			<u>Net (Expense)</u>
		<u>Charges for</u>	<u>Operating</u>	<u>Capital Grants</u>	<u>Revenue and</u>
		<u>Services</u>	<u>Grants and</u>	<u>and</u>	<u>Changes in</u>
			<u>Contributions</u>	<u>Contributions</u>	<u>Net Position</u>
					<u>Governmental</u>
					<u>Activities</u>
Primary government					
General government	\$ (50,981)	\$ -	\$ -	\$ -	\$ (50,981)
Interest on long-term debt and related costs	(2,350,854)	-	-	-	(2,350,854)
Total governmental activities	<u>\$ (2,401,835)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(2,401,835)</u>
General revenues:					
Property taxes					204,928
Specific ownership taxes					15,802
Transfer from St. Vrain Metropolitan District No. 3					408,115
Transfer from St. Vrain Metropolitan District No. 4					276,101
Miscellaneous income					1,200
Interest income					100,212
Total general revenues					<u>1,006,358</u>
Change in net position					(1,395,477)
Net position (deficit) - beginning					(35,580,576)
Net position (deficit) - ending					<u>\$ (36,976,053)</u>

The accompanying Notes to the Financial Statements are an integral part of these statements.

St. Vrain Lakes Metropolitan District No. 2

**BALANCE SHEET
GOVERNMENTAL FUNDS**

December 31, 2018

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and investments	\$ 688	\$ -	\$ -	\$ 688
Cash and investments - Restricted	-	7,146,216	-	7,146,216
Receivable - County Treasurer	277	926	-	1,203
Due St. Vrain Lakes Metropolitan District No. 3	-	11,512	-	11,512
Due St. Vrain Lakes Metropolitan District No. 4	-	7,444	-	7,444
Due from other funds	-	-	32,200	32,200
Property taxes receivable	59,431	198,095	-	257,526
Total assets	<u>60,396</u>	<u>7,364,193</u>	<u>32,200</u>	<u>7,456,789</u>
LIABILITIES				
Due from other funds	-	32,200	-	32,200
Due St. Vrain Lakes Metropolitan District No. 1	965	-	-	965
Total liabilities	<u>965</u>	<u>32,200</u>	<u>-</u>	<u>33,165</u>
DEFERRED INFLOWS OF RESOURCES				
Property tax revenue	59,431	198,095	-	257,526
Total deferred inflows of resources	<u>59,431</u>	<u>198,095</u>	<u>-</u>	<u>257,526</u>
FUND BALANCES				
Restricted for:				
Emergencies	1,530	-	-	1,530
Debt service	-	7,133,898	-	7,133,898
Capital projects	-	-	32,200	32,200
Unassigned	(1,530)	-	-	(1,530)
Total fund balances	<u>-</u>	<u>7,133,898</u>	<u>32,200</u>	<u>7,166,098</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 60,396</u>	<u>\$ 7,364,193</u>	<u>\$ 32,200</u>	

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

Long-term liabilities, including bonds payable and accrued interest, are not due and payable in the current period and therefore are not reported in the funds.

Bonds payable	(43,290,746)
Accrued interest on 2017A and 2017B bonds	(712,743)
Accrued interest payable	(138,662)
Net position (deficit) of governmental activities	<u>\$ (36,976,053)</u>

The accompanying Notes to the Financial Statements are an integral part of these statements.

St. Vrain Lakes Metropolitan District No. 2
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2018

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
Revenues				
Property taxes	\$ 47,293	\$ 157,635	\$ -	\$ 204,928
Specific ownership taxes	3,639	12,163	-	15,802
Transfer from St. Vrain Metropolitan District No. 3	-	408,115	-	408,115
Transfer from St. Vrain Metropolitan District No. 4	-	276,101	-	276,101
Investment earnings	49	100,163	-	100,212
Miscellaneous income	-	-	1,200	1,200
Total revenues	<u>50,981</u>	<u>954,177</u>	<u>1,200</u>	<u>1,006,358</u>
Expenditures				
General				
Payment to Firestone	15,156	-	-	15,156
Transfer to St. Vrain Metropolitan District No. 1	35,115	-	-	35,115
Treasurer's fees	710	2,365	-	3,075
Debt service				
Bond interest	-	1,608,473	-	1,608,473
Total expenditures	<u>50,981</u>	<u>1,610,838</u>	<u>-</u>	<u>1,661,819</u>
Excess of revenues over (under) expenditures	<u>-</u>	<u>(656,661)</u>	<u>1,200</u>	<u>(655,461)</u>
Fund balances - beginning	<u>-</u>	<u>7,790,559</u>	<u>31,000</u>	<u>7,821,559</u>
Fund balances - ending	<u>\$ -</u>	<u>\$ 7,133,898</u>	<u>\$ 32,200</u>	<u>\$ 7,166,098</u>

The accompanying Notes to the Financial Statements are an integral part of these statements.

St. Vrain Lakes Metropolitan District No. 2

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

For the Year Ended December 31, 2018

Net change in fund balances - governmental funds: \$ (655,461)

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

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

Accrued bond interest payable - Change in liability (740,016)

Change in net position (deficit) of governmental activities \$ (1,395,477)

The accompanying Notes to the Financial Statements are an integral part of these statements.

St. Vrain Lakes Metropolitan District No. 2

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

For the Year Ended December 31, 2018

	Original and Final Budget Amounts	Actual Amounts	Variance with Final Budget - Positive (Negative)
REVENUES			
Property taxes	\$ 47,293	\$ 47,293	\$ -
Specific ownership taxes	4,256	3,639	(617)
Interest and other income	50	49	(1)
Total revenues	<u>51,599</u>	<u>50,981</u>	<u>(618)</u>
EXPENDITURES			
Payment to Firestone	14,259	15,157	(898)
Transfer to St. Vrain Metropolitan District No. 1	36,845	35,114	1,731
Treasurer's fees	495	710	(215)
Contingency	-	-	-
Total expenditures	<u>51,599</u>	<u>50,981</u>	<u>618</u>
Net change in fund balances	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances - beginning	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The accompanying Notes to the Financial Statements are an integral part of these statements.

St. Vrain Lakes Metropolitan District No. 2

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

Note 1 – Definition of Reporting Entity

St. Vrain Lakes Metropolitan District No. 2 (the District) is a quasi-municipal corporation and political subdivision of the State of Colorado organized on November 29, 2006. The District was organized as part of a service plan establishing the District, St. Vrain Lakes Metropolitan District No. 1 (“District No. 1”), St. Vrain Lakes Metropolitan District No. 3 (“District No. 3”), and St. Vrain Lakes Metropolitan District No. 4 (“District No. 4”). The District, District No. 1, District No. 3, and District No. 4 are collectively referred to as the “St. Vrain Districts”. District No. 1 is to be the service district and manages and oversees the permitted district activities. The District, District No. 3 and District No. 4 are the financing districts. The District was established to provide for the construction and financing of the public improvements for the use and benefit of the residents and property owners within the service area. The District is governed by an elected Board of Directors.

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

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

As of December 31, 2018 no component unit has been identified as reportable to the District, nor is the District a component unit of any other primary governmental entity.

Note 2 – Summary of Significant Accounting Policies

A. Government-Wide and Fund Financial Statements

The government-wide financial statements include the statement of net position and 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.

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

St. Vrain Lakes Metropolitan District No. 2

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2018

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 customer or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

B. 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. Property taxes are recognized as revenues in the year for which they are levied.

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 revenue to be 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. However, debt service expenditures are recorded only when payment is due. Property taxes associated with the current fiscal period are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Other revenue items are considered to be measurable and available only when the District receives the cash.

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 reported 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.

St. Vrain Lakes Metropolitan District No. 2

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2018

The capital project fund is used to account for financial resources to be used for the acquisition and construction of capital facilities and other assets.

C. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires District 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 amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

D. Budgetary Information

In accordance with the State Budget Law of Colorado, the District's Board of Directors holds public hearings in the fall of each year to approve the budget and appropriate the funds for the ensuing year. The appropriation is at the total fund expenditures level and lapses at year end. The District's Board of Directors can modify the budget 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.

E. 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 minimum number of bank accounts. Cash in excess of immediate operating requirements is pooled for deposit and investment flexibility.

F. 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 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.

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

St. Vrain Lakes Metropolitan District No. 2

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2018

G. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position sometimes reports 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 and so will not be recognized as an outflow of resources (expense/expenditure) until that time. The District has no items that qualify for reporting in this category as of December 31, 2018.

In addition to liabilities, the statement of net position sometimes reports a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The District has one item that qualifies for reporting in this category. Accordingly, the item, *deferred property tax revenue*, is deferred and recognized as an inflow of resources in the period that the amount becomes available.

H. Fund Balances

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

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

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

Committed fund balance – The portion of fund balance constrained for specific purposes according to limitations imposed by the District's highest level of decision making authority, the Board of Directors prior to the end of the current fiscal year. The constraint may be removed or changed only through formal action of the Board of Directors.

Assigned fund balance – The portion of fund balance that is constrained by the government's intent to be used for specific purposes, but is neither restricted nor committed. Intent is expressed by the Board of Directors to be used for a specific

St. Vrain Lakes Metropolitan District No. 2

**NOTES TO FINANCIAL STATEMENTS
(continued)**

December 31, 2018

purpose. Constraints imposed on the use of assigned amounts are more easily removed or modified than those imposed on amounts that are classified as committed.

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

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	\$ 688
Cash and investments-Restricted	<u>7,146,216</u>
Total cash and investments	<u><u>\$ 7,146,904</u></u>

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

Investments	<u><u>\$ 7,146,904</u></u>
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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 equal to 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 had no cash deposits.

St. Vrain Lakes Metropolitan District No. 2

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2018

Investments

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

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

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

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

Fair Value Measurement and Application

Certain investments are measured at fair value within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. The District's investments are not required to be categorized within the fair value hierarchy. Colotrust is valued using the net asset value method (NAV) per share and MSILF Treasury Fund's value is calculated using the amortized cost method.

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

Investment	Amount
Colorado Liquid Asset Trust (Colotrust)	\$ 1,268,749
MSILF Treasury	<u>5,878,155</u>
Total investments	<u><u>\$ 7,146,904</u></u>

St. Vrain Lakes Metropolitan District No. 2

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2018

Colotrust

During 2018, the District invested in the Colorado Local Government Liquid Asset Trust (the Trust), an investment vehicle established for local government entities in Colorado to pool surplus funds. The State Securities Commissioner administers and enforces all State statutes governing the Trust. The Trust offers shares in two portfolios, Colotrust Prime and Colotrust Plus. Both portfolios may invest in U.S. Treasury securities and repurchase agreements collateralized by U.S. Treasury securities. Colotrust Plus may also invest in certain obligations of U.S. government agencies, highest rated commercial paper and repurchase agreements collateralized by certain obligations of U.S. government agencies. A designated custodial bank serves as custodian for the Trust's investment portfolios and provides services as the depository in connection with direct investments and withdrawals. The custodian's internal records segregate investments owned by the Trust. Colotrust is rated AAAM by Standard and Poor's. There are no unfunded commitments, the redemption frequency is daily and there is no redemption notice period.

Morgan Stanley Institutional Liquidity Funds Treasury Portfolio

During 2018, the District's funds that were included in the trust accounts at the UMB Bank were invested in the Morgan Stanley Institutional Liquidity Funds Treasury Portfolio. This fund is a money market fund and each share is equal in value to \$1.00. The fund is AAAM rated and invests exclusively in U.S. Treasury securities and repurchase agreements collateralized by U.S. Treasury securities. The maturity of the underlying securities is 30 days or less. As of December 31, 2018, the District has \$5,878,155 invested in the fund, all of which was restricted for the repayment of bond principal and interest.

Note 4 – Long-Term Debt

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

St. Vrain Lakes Metropolitan District No. 2

**NOTES TO FINANCIAL STATEMENTS
(continued)**

December 31, 2018

	Balance at December 31, 2017	Additions	Reductions	Balance at December 31, 2018	Due Within One Year
Governmental Activities:					
General Obligation Bonds:					
Series 2017A	\$ 32,760,000	\$ -	\$ -	\$ 32,760,000	\$ -
Series 2017B	3,247,000	-	-	3,247,000	-
Series 2017C	7,283,746	-	-	7,283,746	
Accrued interest Series 2017B	-	257,758	-	257,758	
Accrued interest Series 2017C	-	454,985	-	454,985	
	<u>\$ 43,290,746</u>	<u>\$ 712,743</u>	<u>\$ -</u>	<u>\$ 44,003,489</u>	<u>\$ -</u>

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

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

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

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

St. Vrain Lakes Metropolitan District No. 2

**NOTES TO FINANCIAL STATEMENTS
(continued)**

December 31, 2018

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

B. Debt Authorization

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

C. Debt Maturities

For the Series 2017A Bonds, debt maturities for the next five years and to maturity are as follows:

<u>Year Ended December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ -	\$ 1,663,938	\$ 1,663,938
2020	-	1,663,938	1,663,938
2021	-	1,663,938	1,663,938
2022	-	1,663,938	1,663,938
2023	-	1,663,938	1,663,938
2024-2028	2,075,000	8,210,189	10,285,189
2029-2033	4,735,000	7,362,438	12,097,438
2034-2038	6,745,000	5,987,688	12,732,688
2039-2043	9,330,000	4,025,688	13,355,688
2044-2047	9,875,000	1,302,513	11,177,513
Total	<u>\$ 32,760,000</u>	<u>\$ 35,208,206</u>	<u>\$ 67,968,206</u>

St. Vrain Lakes Metropolitan District No. 2

**NOTES TO FINANCIAL STATEMENTS
(continued)**

December 31, 2018

Note 5 – Net Position

The District's net position consists of two components –restricted and unrestricted.

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

	Governmental Activities
Emergency reserve	\$ 1,530
Debt service	7,133,898
Capital projects	32,200
Total restricted net position	<u>\$ 7,167,628</u>

As of December 31, 2018, the District has unrestricted net position (deficit) of \$(44,143,681). The deficit is due to the District being responsible for debt for the financing of capital assets that are held by other governments.

Note 6 – District Agreements

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

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

Mill Levy Policy Agreement

On November 9, 2016, the District entered into the Mill Levy Policy and Pledge Agreement, as amended and restated, to establish an equitable allocation of the costs of providing and maintaining the public improvements throughout the development. The Mill Levy Agreement stipulates that any revenue collected by any of District Nos. 2, 3, and 4 from their respective debt service mill levies and specific ownership taxes

St. Vrain Lakes Metropolitan District No. 2

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2018

which are not pledged for debt service purposes for their own obligations shall be pledged to District No. 1 for the payment of debt obligations of District No. 1.

District Operating Services Agreement

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

Intergovernmental Agreement with the Town of Firestone

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

Note 7 – Related Party

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

Note 8 – Risk Management

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

The District is a member of the Colorado Special Districts Property and Liability Pool ("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, public officials' liability and workers compensation coverage. In the event aggregated losses incurred by the Pool exceed amounts recoverable from reinsurance contracts and funds accumulated by the Pool, the Pool may require additional contributions from the Pool

St. Vrain Lakes Metropolitan District No. 2

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2018

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 Limitation

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.

TABOR requires local governments to establish Emergency Reserves. These reserves must be at least 3% of Fiscal Year Spending (excluding bonded debt service). Local governments are not allowed to use the emergency reserves to compensate for economic conditions, revenue shortfalls, or salary and benefit increases.

The District's management believes it is in compliance with the provisions of TABOR. However, TABOR is complex and subject to interpretation. Many of the provisions, including the interpretation of how to calculate Fiscal Year Spending limits will require judicial interpretation.

On November 7, 2006, a majority of the District's electors authorized the District to collect and spend or retain in a reserve all currently levied taxes and fees of the District without regard to any limitations under Article X, Section 20 of the Colorado Constitution.

Note 10 – Colorado Local Government Audit Law

Colorado Revised Statutes require that local governments submit annual calendar year-end audited financial statements by July 31, or September 30 if granted an extension, of the following year. The District was not in compliance with this statutory requirement for the year ended December 31, 2018.

SUPPLEMENTAL INFORMATION

St. Vrain Lakes Metropolitan District No. 2

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - DEBT SERVICE FUND**

For the Year Ended December 31, 2018

	Original and Final Budget Amounts	Actual Amounts	Variance with Final Budget - Positive (Negative)
REVENUES			
Property taxes	\$ 157,635	\$ 157,635	\$ -
Specific ownership taxes	14,188	12,163	(2,025)
Transfer from St. Vrain Metropolitan District No. 3	411,003	408,115	(2,888)
Transfer from St. Vrain Metropolitan District No. 4	278,319	276,101	(2,218)
Investment earnings	501	100,163	99,662
Total revenues	<u>861,646</u>	<u>954,177</u>	<u>92,531</u>
EXPENDITURES			
Paying agent fees	2,000	-	2,000
Treasurer's fees	2,365	2,365	-
Interest	1,771,475	1,608,473	163,002
Total expenditures	<u>1,775,840</u>	<u>1,610,838</u>	<u>165,002</u>
Excess of expenditures over (under) revenues	(914,194)	(656,661)	257,533
Fund balances - beginning	<u>9,476,254</u>	<u>7,790,559</u>	<u>(1,685,695)</u>
Fund balances - ending	<u>\$ 8,562,060</u>	<u>\$ 7,133,898</u>	<u>\$ (1,428,162)</u>

St. Vrain Lakes Metropolitan District No. 2

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

For the Year Ended December 31, 2018

	Original and Final Budget Amounts	Actual Amounts	Variance with Final Budget - Positive (Negative)
REVENUES			
Miscellaneous income	\$ -	\$ 1,200	\$ 1,200
Total revenues	<u>\$ -</u>	<u>\$ 1,200</u>	<u>\$ 1,200</u>
EXPENDITURES	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	<u>-</u>	<u>1,200</u>	<u>1,200</u>
Fund balances - beginning	<u>-</u>	<u>31,000</u>	<u>31,000</u>
Fund balances - ending	<u><u>\$ -</u></u>	<u><u>\$ 32,200</u></u>	<u><u>\$ 32,200</u></u>

St. Vrain Lakes Metropolitan District No. 2

**SUMMARY OF ASSESSED VALUATION,
MILL LEVY, AND PROPERTY TAXES COLLECTED**

December 31, 2018

Year ended December 31,	Prior Year Assessed Valuation for Current Year Property Tax Levy	Mills Levied			Total Property Taxes		Percent Collected to Levied
		General	Debt Service	Contractual	Levied	Collected	
2015	\$ 5,029,220	15.000	50.000	-	\$ 326,899	\$ 326,902	100.00%
2016	\$ 3,358,080	0.000	65.000	-	\$ 218,275	\$ 218,276	100.00%
2017	\$ 1,367,540	15.000	50.000	-	\$ 88,890	\$ 88,889	100.00%
2018	\$ 2,851,720	16.584	55.277	-	\$ 204,927	\$ 204,928	100.00%

Estimated for
calendar year ending
December 31,

2019	\$	3,583,683	11.584	55.277	5.000	\$ 257,526	
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Note:

Property taxes collected in any one year include collection of delinquent property taxes levied and /or abatements from valuations in prior years. Information received from the County Treasurer does not permit identification of specific year of levy.

CONTINUING DISCLOSURE ANNUAL FINANCIAL INFORMATION
(UNAUDITED)

ST. VRAIN LAKES METROPOLITAN DISTRICT NO. 2
2018 Assessed Valuation of Classes of Property in the District
December 31, 2018

<u>Property Class</u>	<u>Total Assessed Valuation</u>	<u>Percent of Assessed Valuation</u>
Residential	\$2,345,300	59.13%
Commercial	188,750	4.76%
Vacant	1,021,760	25.76%
Oil & Gas	131,070	3.30%
State Assessed	218,820	5.52%
Agricultural	60,370	1.52%
Total	<u><u>\$3,966,070</u></u>	<u><u>100.00%</u></u>

ST. VRAIN LAKES METROPOLITAN DISTRICT NO. 2
Ten Largest Owners of Taxable Property in the District
2018

Owner	2018 Assessed Valuation	% of Total Assessed Valuation ⁽¹⁾
1 BAREFOOT RESIDENTIAL LLC	\$ 558,200	14.07%
2 BAREFOOT LLC	468,580	11.81%
3 KERR MCGEE GATHERING LLC	199,710	5.04%
4 CALATLANTIC GROUP INC	128,870	3.25%
5 KB HOME COLORADO INC	120,120	3.03%
6 ANADARKO WATTENBERG OIL COMPLEX LLC	94,080	2.37%
7 RICHMOND HOMES OF COLORADO INC	60,600	1.53%
8 RICHMOND AMERICAN HOMES OF COLORADO INC	44,190	1.11%
9 KERR-MCGEE OIL & GAS ONSHORE LP	35,800	0.90%
10 PRIVATE HOMEOWNER NO. 1	35,290	0.89%
Total	\$ 1,745,440	44.00%

(1) Source: Weld County Assessor's Office

ST. VRAIN LAKES METROPOLITAN DISTRICT NO. 2
Selected Debt Ratios of the District
December 31, 2018

	<u>2017 A Senior Bonds Only</u>	<u>2017 A Senior Bonds and 2017B Subordinate Bonds Combined</u>
District Debt	\$ 32,760,000	\$ 36,007,000
2018 Assessed Valuation	\$ 3,966,070	\$ 3,966,070
Ratio of Direct Debt to 2018 Assessed Valuation	826.0%	907.9%
2018 Statutory "Actual" Value	\$ 38,164,085	\$ 38,164,085
Ratio of Direct Debt to 2018 Statutory "Actual" Value	85.8%	94.3%