

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

BASIC FINANCIAL STATEMENTS

December 31, 2019

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FINANCIAL SECTION



JOHN CUTLER & ASSOCIATES

Board of Directors
The Lakes at Centerra Metropolitan District No. 2
Loveland, Colorado

INDEPENDENT AUDITORS' REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of The Lakes at Centerra Metropolitan District No. 2, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of The Lakes at Centerra Metropolitan District No. 2, as of December 31, 2019, and the respective changes in financial position, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on page 17 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The individual fund schedule is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the individual fund schedules are fairly stated in all material respects in relation to the financial statements as a whole.

John Cutler & Associates, LLC

July 29, 2020

BASIC FINANCIAL STATEMENTS

THE LAKES AT CENTERRA METROPOLITAN DISTRICT NO. 2

STATEMENT OF NET POSITION

As of December 31, 2019

| | <u>Governmental Activities</u> | |
|--------------------------------------|--------------------------------|------------------------|
| | <u>2019</u> | <u>2018</u> |
| ASSETS | | |
| Cash and Investments | \$ 3,266,041 | \$ 3,904,641 |
| Accounts Receivable | 6,811 | 9,718 |
| Property Taxes Receivable | 1,021,250 | 931,784 |
| | <u>4,294,102</u> | <u>4,846,143</u> |
| LIABILITIES | | |
| Accounts Payable | 11,845 | 1,261 |
| Accrued Interest | 151,184 | 372,763 |
| Noncurrent Liabilities | | |
| Due within One Year | - | - |
| Due in More Than One Year | 33,208,874 | 33,214,116 |
| | <u>33,371,903</u> | <u>33,588,140</u> |
| DEFERRED INFLOWS OF RESOURCES | | |
| Deferred Property Taxes | 1,021,250 | 931,784 |
| NET POSITION | | |
| Restricted for Emergencies | 32,500 | 31,000 |
| Restricted for Debt Service | 3,261,007 | 3,913,098 |
| Unrestricted | <u>(33,392,558)</u> | <u>(33,617,879)</u> |
| | <u>\$ (30,099,051)</u> | <u>\$ (29,673,781)</u> |

See the accompanying independent auditors' report.

THE LAKES AT CENTERRA METROPOLITAN DISTRICT NO. 2

STATEMENT OF ACTIVITIES

Year Ended December 31, 2019

| FUNCTIONS/PROGRAMS | Expenses | Program Revenues | | Net (Expense) Revenue Changes in Net Position Governmental Activities | |
|--------------------------------|---------------------|-------------------------------------|-------------------------|---|------------------------|
| | | Capital Grants and Contributions | Charges for Services | 2019 | 2018 |
| PRIMARY GOVERNMENT | | | | | |
| Governmental Activities | | | | | |
| General Government | \$ 230,264 | \$ - | \$ 1,902 | \$ (228,362) | \$ (1,048,368) |
| Interest on Long-Term Debt | 1,280,771 | - | - | (1,280,771) | (1,543,824) |
| Total Governmental Activities | <u>\$ 1,511,035</u> | <u>\$ -</u> | <u>\$ 1,902</u> | (1,509,133) | (2,592,192) |
| GENERAL REVENUES | | | | | |
| Interest | | | | 82,927 | 102,606 |
| Property Taxes | | | | 920,329 | 842,408 |
| Specific Ownership Taxes | | | | 80,607 | 73,317 |
| Special Item | | | | | |
| Transfer to District No. 1 | | | | - | (16,808,127) |
| TOTAL GENERAL REVENUES | | | | <u>1,083,863</u> | <u>(15,789,796)</u> |
| CHANGE IN NET POSITION | | | | (425,270) | (18,381,988) |
| NET POSITION, Beginning | | | | <u>(29,673,781)</u> | <u>(11,291,793)</u> |
| NET POSITION, Ending | | | | <u>\$ (30,099,051)</u> | <u>\$ (29,673,781)</u> |

See the accompanying independent auditors' report.

THE LAKES AT CENTERRA METROPOLITAN DISTRICT NO. 2

BALANCE SHEET
GOVERNMENTAL FUNDS
As of December 31, 2019

| | GENERAL FUND | DEBT SERVICE FUND | TOTAL GOVERNMENTAL FUNDS | |
|--|-------------------|-------------------------|--------------------------------|---------------------|
| | | | 2019 | 2018 |
| ASSETS | | | | |
| Cash and Investments | \$ - | \$ 3,266,041 | \$ 3,266,041 | \$ 3,904,641 |
| Accounts Receivable | 1,457 | 5,354 | 6,811 | 9,718 |
| Property Taxes Receivable | 218,841 | 802,409 | 1,021,250 | 931,784 |
| TOTAL ASSETS | \$ 220,298 | \$ 4,073,804 | \$ 4,294,102 | \$ 4,846,143 |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND EQUITY | | | | |
| LIABILITIES | | | | |
| Due to Other Government | \$ 1,457 | \$ 10,388 | 11,845 | 1,261 |
| TOTAL LIABILITIES | 1,457 | 10,388 | 11,845 | 1,261 |
| DEFERRED INFLOWS OF RESOURCES | | | | |
| Deferred Property Taxes | 218,841 | 802,409 | 1,021,250 | 931,784 |
| FUND EQUITY | | | | |
| Fund Balance | | | | |
| Restricted for Emergencies | - | - | - | 31,000 |
| Restricted for Debt Service | - | 3,261,007 | 3,261,007 | 3,913,098 |
| Unassigned | - | - | - | (31,000) |
| TOTAL FUND EQUITY | - | 3,261,007 | 3,261,007 | 3,913,098 |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND EQUITY | \$ 220,298 | \$ 4,073,804 | | |

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

Long-term liabilities are not due and payable in the current period and are not reported in the funds. These include bonds payable (\$33,208,874) and accrued interest payable (\$151,184).

| | | |
|---|------------------------|------------------------|
| | (33,360,058) | (33,586,879) |
| Net Position of governmental activities | <u>\$ (30,099,051)</u> | <u>\$ (29,673,781)</u> |

See the accompanying independent auditors' report.

THE LAKES AT CENTERRA METROPOLITAN DISTRICT NO. 2

STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
Year Ended December 31, 2019

| | GENERAL FUND | DEBT SERVICE FUND | TOTAL GOVERNMENTAL FUNDS | |
|--|-----------------|-------------------------|--------------------------------|--------------|
| | | | 2019 | 2018 |
| REVENUES | | | | |
| Taxes | \$ 214,491 | \$ 786,445 | \$ 1,000,936 | \$ 915,725 |
| Service Fees | - | 1,902 | 1,902 | 1,880 |
| Interest and Other Income | 547 | 82,380 | 82,927 | 102,606 |
| TOTAL REVENUES | 215,038 | 870,727 | 1,085,765 | 1,020,211 |
| EXPENDITURES | | | | |
| Current | | | | |
| General Government | 215,038 | 20,468 | 235,506 | 209,772 |
| Debt Issuance Costs | - | - | - | 840,476 |
| Debt Service | | | | |
| Principal | - | - | - | 11,635,000 |
| Interest | - | 1,502,350 | 1,502,350 | 1,196,760 |
| TOTAL EXPENDITURES | 215,038 | 1,522,818 | 1,737,856 | 13,882,008 |
| EXCESS OF REVENUES (UNDER) EXPENSES | - | (652,091) | (652,091) | (12,861,797) |
| OTHER FINANCING SOURCES | | | | |
| Loan Proceeds | - | - | - | 33,214,116 |
| Transfer to District No. 1 | - | - | - | (16,808,127) |
| TOTAL OTHER FINANCING SOURCES | - | - | - | 16,405,989 |
| NET CHANGE IN FUND BALANCES | - | (652,091) | (652,091) | 3,544,192 |
| FUND BALANCES, Beginning | - | 3,913,098 | 3,913,098 | 368,906 |
| FUND BALANCES, Ending | \$ - | \$ 3,261,007 | \$ 3,261,007 | \$ 3,913,098 |

See the accompanying independent auditors' report.

THE LAKES AT CENTERRA METROPOLITAN DISTRICT NO. 2

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
Year Ended December 31, 2019

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

| | |
|--|----------------------------|
| Net Changes in Fund Balances - Total Governmental Funds | \$ (652,091) |
| Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This amount includes amortization of bond premium \$5,242 and decrease in accrued interest \$221,579. | <u>226,821</u> |
| Change in Net Position of Governmental Activities | <u><u>\$ (425,270)</u></u> |

See the accompanying independent auditors' report.

THE LAKES AT CENTERRA METROPOLITAN DISTRICT NO. 2

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2019

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Reporting Entity

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

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

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

Government-Wide and Fund Financial Statements

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

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

THE LAKES AT CENTERRA METROPOLITAN DISTRICT NO. 2

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2019

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-Wide and Fund Financial Statements (Continued)

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *Economic Resources Measurement Focus* and the *Accrual Basis of Accounting*. Revenues are recorded when earned and expenses are recorded when the liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current *financial resources Measurement Focus* and the *Modified Accrual Basis of Accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

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

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

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

In the fund financial statements, the District reports the following major governmental funds:

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

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

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2019

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Investments

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

Investments are recorded at fair value.

Capital Assets

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

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized.

Property and equipment of the District is depreciated using the straight-line method over the estimated useful lives between fifteen and thirty years. For the year ended December 31, 2019, the District does not own any capital assets.

Long-Term Obligations

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

The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Deferred Inflows of Resources

In addition to liabilities, the Statement of Financial Position and Balance Sheets will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, Deferred Inflows of Resources, represents an acquisition of net position and fund balance that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

THE LAKES AT CENTERRA METROPOLITAN DISTRICT NO. 2

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2019

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Position

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

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

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

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

Net Position/Fund Balance Classification

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

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

- Nonspendable – This classification includes amounts that cannot be spent because they are either not in a spendable form (such as deposits and prepaid amounts) or are legally or contractually required to be maintained intact. The District has no nonspendable fund balance at December 31, 2019.
- Restricted – This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. The District has classified Emergency Reserves as being restricted because their use is restricted by State Statute for declared emergencies. The District has also classified the fund balance in the Debt Service Fund as restricted as it is restricted for the repayment of debt.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2019

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Position/Fund Balance Classification (Continued)

- Committed – This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Board. These amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The District did not have any committed resources as of December 31, 2019.
- Unassigned – This classification includes the residual fund balance for the General Fund. The Unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

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

Comparative Data

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

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting

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

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

THE LAKES AT CENTERRA METROPOLITAN DISTRICT NO. 2

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2019

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY(Continued)

Budgets and Budgetary Accounting (Continued)

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

NOTE 3: CASH AND INVESTMENTS

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Colorado Public Deposit Protection Act ("PDPA") requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulations. At December 31, 2017, State regulatory commissioners have indicated that all financial institutions holding deposits for the District are eligible public depositories.

Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral as determined by the PDPA. PDPA allows the financial institution to create a single collateral pool for all public funds held. The pool is to be maintained by another institution or held in trust for all the uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the uninsured deposits. The District has no policy regarding custodial credit risk for deposits.

At December 31, 2019, the District had no deposits with financial institutions.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2019

NOTE 3: CASH AND INVESTMENTS (Continued)

Investments

Interest Rate Risk

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

Credit Risk

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

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

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

Fair Value

The District categorizes its fair value measurements 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; Level 3 inputs are significant observable inputs. The District had no investments requiring fair value measurement as of December 31, 2019.

THE LAKES AT CENTERRA METROPOLITAN DISTRICT NO. 2

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019

NOTE 3: CASH AND INVESTMENTS (Continued)

Investments (Continued)

Local Government Investment Pool

The District had invested \$3,266,041 in the Colorado Government Liquid Asset Trust (ColoTrust) which has a credit rating of AAAM by Standard and Poor's. ColoTrust is an investment vehicle established for local government entities in Colorado to pool surplus funds and is regulated by the State Securities Commissioner. It operates similarly to a money market fund and each share is equal in value to \$1.00. Investments consist of U.S. Treasury and U.S. Agency securities, and repurchase agreements collateralized by U.S. Treasury and U.S. Agency securities. A designated custodial bank provides safekeeping and depository services in connection with the direct investment and withdrawal functions. Substantially all securities owned are held by the Federal Reserve Bank in the account maintained for the custodial bank. The custodian's internal records identify the investments owned by the entities.

ColoTrust is not a 2a7-like external investment pool. The unit of account is each share held, and the value of the position would be the fair value of the pool's share price multiplied by the number of shares held. The government-investor does not "look through" the pool to report a pro rata share of the pool's investments, receivables, and payables. This investment is valued using Level 2 inputs.

Restricted Cash

At December 31, 2019, \$3,266,041 was restricted in the Debt Service Fund to comply with debt service requirements.

NOTE 4: LONG-TERM DEBT

Following is a summary of long-term debt transactions for the governmental activities for the year ended December 31, 2019:

| | <u>Balance</u> <u>12/31/18</u> | <u>Additions</u> | <u>Payments</u> | <u>Balance</u> <u>12/31/19</u> | <u>Due In</u> <u>One Year</u> |
|--------------|-----------------------------------|------------------|-----------------|-----------------------------------|----------------------------------|
| 2018A Loan | 29,035,000 | - | - | 29,035,000 | - |
| 2018B Loan | 4,090,000 | - | - | 4,090,000 | - |
| Premium | 89,116 | - | 5,242 | 83,874 | - |
| Total | \$ 33,214,116 | \$ - | \$ 5,242 | \$ 33,208,874 | \$ - |

THE LAKES AT CENTERRA METROPOLITAN DISTRICT NO. 2

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019

NOTE 4: LONG-TERM DEBT(Continued)

Loans Payable

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

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

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

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

Estimated future debt service requirements are as follows:

| <u>Year Ended</u> <u>December 31,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|--|----------------------|----------------------|---------------------|
| 2020 | \$ - | \$ 1,814,213 | \$ 1,814,213 |
| 2021 | - | 1,814,213 | 1,814,213 |
| 2022 | - | 1,814,213 | 1,814,213 |
| 2023 | 175,000 | 1,814,213 | 1,989,213 |
| 2024 | 310,000 | 1,806,119 | 2,116,119 |
| 2025 – 2029 | 2,565,000 | 8,744,875 | 11,309,875 |
| 2030 – 2034 | 3,955,000 | 7,960,594 | 11,915,594 |
| 2035 – 2039 | 5,640,000 | 6,782,631 | 12,422,631 |
| 2040 – 2044 | 7,910,000 | 5,084,950 | 12,994,950 |
| 2045 – 2049 | <u>\$ 12,570,000</u> | <u>1,964,850</u> | <u>14,534,850</u> |
| Total | <u>\$ 33,125,000</u> | <u>\$ 39,600,871</u> | <u>\$72,725,871</u> |

NOTE 5: RELATED PARTIES

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

THE LAKES AT CENTERRA METROPOLITAN DISTRICT NO. 2

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2019

NOTE 6: RISK MANAGEMENT

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

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

NOTE 7: DEBT AUTHORIZATION

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

As of December 31, 2019, the amount of debt authorized but unissued was \$16,785,884. The District intends to issue over time a part or all of the remaining authorized but unissued general obligation debt for purposes of providing public improvements to support development as it occurs within the District's service area.

NOTE 8: COMMITMENTS AND CONTINGENCIES

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

The District has established an emergency reserve, representing 3% of fiscal year spending (excluding debt service), as required by the Amendment. At December 31, 2019, the emergency reserve of \$31,000 was recorded as a restriction of fund balance in the General Fund.

NOTE 9: DEFICIT NET POSITION

As of December 31, 2019, the District had a government-wide net position deficit of \$30,099,051. This deficit was created as the District used funding from the Developer to construct capital assets. The District expect to eliminate the deficit net position as the District pays down its debt.

THE LAKES AT CENTERRA METROPOLITAN DISTRICT NO. 2

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2019

NOTE 10: *SUBSEQUENT EVENTS*

Potential subsequent events were considered through July 29, 2020. It was determined that the following event is required to be disclosed through this date.

Covid-19

As a result of the coronavirus pandemic (COVID-19), economic uncertainties may have economic implications on the financial position, results of operations and cash flows of the District. The duration of these uncertainties and the ultimate financial effects cannot be estimated at this time.

REQUIRED SUPPLEMENTAL INFORMATION

THE LAKES AT CENTERRA METROPOLITAN DISTRICT NO. 2

GENERAL FUND
 BUDGETARY COMPARISON SCHEDULE
 Year Ended December 31, 2019

| | ORIGINAL AND FINAL BUDGET | ACTUAL | VARIANCE Positive (Negative) | 2018 ACTUAL |
|--|---------------------------------|---------|------------------------------------|----------------|
| REVENUES | | | | |
| Interest and Other Income | \$ 10,000 | \$ 547 | \$ (9,453) | \$ 285 |
| Taxes | 213,649 | 214,491 | 842 | 196,227 |
| TOTAL REVENUES | 223,649 | 215,038 | (8,611) | 196,512 |
| EXPENDITURES | | | | |
| Current | | | | |
| General Government | | | | |
| Treasurer Fees | 3,993 | 4,473 | (480) | 3,616 |
| Payment for Services to District No. 1 | 209,656 | 210,565 | (909) | 192,896 |
| Contingency | 10,000 | - | 10,000 | - |
| TOTAL EXPENDITURES | 223,649 | 215,038 | 8,611 | 196,512 |
| NET CHANGE IN FUND BALANCE | - | - | - | - |
| FUND BALANCE, Beginning | - | - | - | - |
| FUND BALANCE, Ending | \$ - | \$ - | \$ - | \$ - |

See the accompanying independent auditors' report.

INDIVIDUAL FUND SCHEDULE

THE LAKES AT CENTERRA METROPOLITAN DISTRICT NO. 2

DEBT SERVICE FUND
 BUDGETARY COMPARISON SCHEDULE
 Year Ended December 31, 2019

| | 2019 | | VARIANCE Positive (Negative) | 2018 ACTUAL |
|---|---------------------------------|------------------|------------------------------------|---------------------|
| | ORIGINAL AND FINAL BUDGET | ACTUAL | | |
| REVENUES | | | | |
| Interest and Other Income | \$ 55,000 | \$ 82,380 | \$ 27,380 | \$ 102,321 |
| Taxes | 783,360 | 786,445 | 3,085 | 719,498 |
| Service Fees | 1,872 | 1,902 | 30 | 1,880 |
| TOTAL REVENUES | 840,232 | 870,727 | 30,495 | 823,699 |
| EXPENDITURES | | | | |
| Current | | | | |
| Debt Service Fees | - | 6,000 | (6,000) | - |
| Treasurer Fees | 14,642 | 14,468 | 174 | 13,260 |
| Contingency | 10,000 | - | 10,000 | - |
| Debt Issuance Costs | - | - | - | 840,476 |
| Debt Service | | | | |
| Principal | - | - | - | 11,635,000 |
| Interest | 1,502,350 | 1,502,350 | - | 1,196,760 |
| TOTAL EXPENDITURES | 1,526,992 | 1,522,818 | 4,174 | 13,685,496 |
| EXCESS OF REVENUES OVER (UNDER) EXPENDITURES | (686,760) | (652,091) | 34,669 | (12,861,797) |
| OTHER FINANCING SOURCES | | | | |
| Loan Proceeds | - | - | - | 33,214,116 |
| Transfer to District No. 1 | - | - | - | (16,808,127) |
| TOTAL OTHER FINANCING SOURCES | - | - | - | 16,405,989 |
| NET CHANGE IN FUND BALANCE | (686,760) | (652,091) | 34,669 | 3,544,192 |
| FUND BALANCE, Beginning | 3,921,316 | 3,913,098 | (8,218) | 368,906 |
| FUND BALANCE, Ending | \$ 3,234,556 | \$ 3,261,007 | \$ 26,451 | \$ 3,913,098 |

See the accompanying independent auditors' report.