

Serenity Ridge Metropolitan District No. 2

Year Ended December 31, 2020
with
Independent Auditor's Report

Serenity Ridge Metropolitan District No. 2

Year Ended December 31, 2020
(See Independent Auditor's Report)

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Independent Auditor's Report

Board of Directors
Serenity Metropolitan District No. 2
Arapahoe County, Colorado

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Serenity Metropolitan District No. 2 (the "District") as of and for the year ended December 31, 2020, 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; 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States. 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 the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

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 Serenity Metropolitan District No. 2 as of December 31, 2020, and the respective changes in financial position and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States.

Other Matters

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's financial statements as a whole. The supplementary information as listed in the table of contents is presented for the purposes of legal compliance and additional analysis and is not a required part of the financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 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. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Sincerely,



Wipfli LLP
Lakewood, Colorado
July 19, 2021

Serenity Ridge Metropolitan District No. 2

**BALANCE SHEET/STATEMENT OF NET POSITION
GOVERNMENTAL FUNDS
December 31, 2020**

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
ASSETS						
Cash and investments	\$ 234,822	\$ -	\$ -	\$ 234,822	\$ -	\$ 234,822
Cash and investments - restricted	6,200	2,312,171	91,057	2,409,428	-	2,409,428
Receivable - county treasurer	975	5,518	-	6,493	-	6,493
Property taxes receivable	209,398	1,185,020	-	1,394,418	-	1,394,418
Accounts receivable	37,100	1,108	-	38,208	-	38,208
Capital assets, construction in progress	-	-	-	-	7,137,939	7,137,939
Total Assets	\$ 488,495	\$ 3,503,817	\$ 91,057	\$ 4,083,369	\$ 7,137,939	\$ 11,221,308
DEFERRED OUTFLOWS OF RESOURCES						
Deferred loss on refunding	-	-	-	-	49,122	49,122
Total Deferred Outflows of Resources	-	-	-	-	49,122	49,122
Total Assets and Deferred Outflows of Resources	\$ 488,495	\$ 3,503,817	\$ 91,057	\$ 4,083,369		
LIABILITIES						
Accrued interest	\$ -	\$ -	\$ -	\$ -	59,955	59,955
Long-term liabilities:						
Due within one year	-	-	-	-	205,000	205,000
Due in more than one year	-	-	-	-	16,562,703	16,562,703
Developer advances payable	-	-	-	-	956,678	956,678
Developer advances interest payable	-	-	-	-	45,377	45,377
Total Liabilities	-	-	-	-	17,829,713	17,829,713
DEFERRED INFLOWS OF RESOURCES						
Deferred property taxes	209,398	1,185,020	-	1,394,418	-	1,394,418
Total Deferred Inflows of Resources	209,398	1,185,020	-	1,394,418	-	1,394,418
FUND BALANCES/NET POSITION						
Fund Balances:						
Restricted:						
Emergencies	6,200	-	-	6,200	(6,200)	-
Debt service	-	2,318,797	-	2,318,797	(2,318,797)	-
Capital projects	-	-	91,057	91,057	(91,057)	-
Unassigned	272,897	-	-	272,897	(272,897)	-
Total Fund Balances	279,097	2,318,797	91,057	2,688,951	(2,688,951)	-
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 488,495	\$ 3,503,817	\$ 91,057	\$ 4,083,369		
Net Position:						
Net investment in capital assets					(10,631,819)	(10,631,819)
Restricted for:						
Emergencies					6,200	6,200
Debt service					2,258,842	2,258,842
Capital projects					91,057	91,057
Unrestricted					322,019	322,019
Total Net Position					\$ (7,953,701)	\$ (7,953,701)

The notes to the financial statements are an integral part of these statements.

Serenity Ridge Metropolitan District No. 2

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES/STATEMENT OF ACTIVITIES
GOVERNMENTAL FUNDS**

For the Year Ended December 31, 2020

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
EXPENDITURES						
Treasurer's fees	\$ 2,862	\$ 16,195	\$ -	\$ 19,057	\$ -	\$ 19,057
Bond principal	-	150,000	-	150,000	(150,000)	-
Bond interest	-	726,206	-	726,206	138,820	865,026
Paying agent fees	-	6,000	-	6,000	-	6,000
Capital improvements	-	-	4,405,578	4,405,578	(4,405,578)	-
Transfer to District No. 1	106,200	-	-	106,200	-	106,200
Developer advance interest	-	-	-	-	45,377	45,377
Total Expenditures	<u>109,062</u>	<u>898,401</u>	<u>4,405,578</u>	<u>5,413,041</u>	<u>(4,371,381)</u>	<u>1,041,660</u>
GENERAL REVENUES						
Property taxes	190,561	1,081,389	-	1,271,950	-	1,271,950
Specific ownership taxes	14,124	79,928	-	94,052	-	94,052
Interest income	1,114	14,148	17,890	33,152	-	33,152
Transfer from District No. 1	-	6,000	-	6,000	-	6,000
Total General Revenues	<u>205,799</u>	<u>1,181,465</u>	<u>17,890</u>	<u>1,405,154</u>	<u>-</u>	<u>1,405,154</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	96,737	283,064	(4,387,688)	(4,007,887)	4,007,887	-
OTHER FINANCING SOURCES (USES)						
Developer advance proceeds	-	-	4,405,578	4,405,578	(4,405,578)	-
Repayment of developer advances	-	-	(3,448,900)	(3,448,900)	3,448,900	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>956,678</u>	<u>956,678</u>	<u>(956,678)</u>	<u>-</u>
NET CHANGES IN FUND BALANCES	96,737	283,064	(3,431,010)	(3,051,209)	3,051,209	-
CHANGE IN NET POSITION					363,494	363,494
FUND BALANCES/NET POSITION:						
BEGINNING OF YEAR	<u>182,360</u>	<u>2,035,733</u>	<u>3,522,067</u>	<u>5,740,160</u>	<u>(14,057,355)</u>	<u>(8,317,195)</u>
END OF YEAR	<u>\$ 279,097</u>	<u>\$ 2,318,797</u>	<u>\$ 91,057</u>	<u>\$ 2,688,951</u>	<u>\$ (10,642,652)</u>	<u>\$ (7,953,701)</u>

The notes to the financial statements are an integral part of these statements.

Serenity Ridge Metropolitan District No. 2

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

For the Year Ended December 31, 2020

	Original / Final		Variance
	<u>Budget</u>	<u>Actual</u>	Favorable <u>(Unfavorable)</u>
REVENUES			
Property taxes	\$ 199,316	\$ 190,561	\$ (8,755)
Specific ownership taxes	10,000	14,124	4,124
Interest income	<u>150</u>	<u>1,114</u>	<u>964</u>
Total Revenues	<u>209,466</u>	<u>205,799</u>	<u>(3,667)</u>
EXPENDITURES			
Transfer to District No. 1	300,000	106,200	193,800
Treasurer's fees	2,990	2,862	128
Emergency reserve	<u>6,284</u>	<u>-</u>	<u>6,284</u>
Total Expenditures	<u>309,274</u>	<u>109,062</u>	<u>200,212</u>
NET CHANGE IN FUND BALANCE	(99,808)	96,737	196,545
FUND BALANCE:			
BEGINNING OF YEAR	<u>167,095</u>	<u>182,360</u>	<u>15,265</u>
END OF YEAR	<u>\$ 67,287</u>	<u>\$ 279,097</u>	<u>\$ 211,810</u>

The notes to the financial statements are an integral part of these statements.

SERENITY RIDGE METROPOLITAN DISTRICT NO. 2

NOTES TO FINANCIAL STATEMENTS December 31, 2020

NOTE 1 – DEFINITION OF REPORTING ENTITY

Definition of Reporting Entity

Serenity Ridge Metropolitan District No. 2 (the “District” or “District No. 2”), a quasi-municipal corporation, was organized on February 2, 2004 and is governed pursuant to provisions of the Colorado Special District Act. The District’s service area is located in Arapahoe County, Colorado. The District was created in conjunction with Serenity Ridge Metropolitan District No. 1 (“District No. 1” and, together with District No. 2, the “Districts”) as part of a common plan to serve the needs of the Serenity Ridge development.

Pursuant to the Districts’ Consolidated Service Plan approved by the City Council of the City of Aurora, Colorado on August 4, 2003 (“Service Plan”), the Districts intend to provide in a cooperative manner, certain essential public-purpose services and facilities for the use and benefit of their property owners, inhabitants and taxpayers, all in accordance with the laws of the State of Colorado. The types of services and facilities that the Districts have the power to provide include water, streets, traffic and safety controls, parks, open space and recreation, sanitary sewer, and drainage and storm water improvements. (See Note 5, Acquisition Agreement).

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

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Presentation

The accompanying financial statements are presented per GASB Statement No. 34 – Special Purpose Governments.

SERENITY RIDGE METROPOLITAN DISTRICT NO. 2

NOTES TO FINANCIAL STATEMENTS December 31, 2020

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 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 period. The material sources of revenue subject to accrual are property taxes and interest. Expenditures, other than interest on long-term obligations, are recorded when the liability is incurred or the long-term obligation is paid.

The government reports the following major governmental funds:

General Fund – The General Fund is the general operating fund of the District. It is used to account for all financial resources not accounted for and reported in another fund.

Debt Service Fund – The Debt Service Fund is used to account for the accumulation of resources that are restricted, committed or assigned to expenditures for principal, interest and other debt related costs.

Capital Projects Fund – The Capital Projects Fund is used for the acquisition and construction of capital equipment and facilities.

Fund Balances

The District follows GASB Statement No. 54, “Fund Balance Reporting and Governmental Fund Type Definitions.” This statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government’s fund balances more transparent. In the fund financial statements 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.

SERENITY RIDGE METROPOLITAN DISTRICT NO. 2

**NOTES TO FINANCIAL STATEMENTS
December 31, 2020**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 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.

Budgets

In accordance with the State Budget Law, 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 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.

Cash

The District follows the practice of pooling cash 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.

SERENITY RIDGE METROPOLITAN DISTRICT NO. 2

NOTES TO FINANCIAL STATEMENTS
December 31, 2020

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets

The District entered into the Letter Agreement Reimbursement for On-Site Improvements and Off-Site Improvements as described in Note 6. Construction in progress is reflected on the District's financial statements until they are conveyed to the City of Aurora upon completion.

Property Taxes

Property taxes are levied by the District 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 assess the property tax obligation of 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 at the taxpayer's election, in equal installments in February and June. Delinquent taxpayers are notified in August and the sales of the resultant tax liens on delinquent properties are generally 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 in the year they are levied and measurable. The deferred property tax revenues are recorded as revenue in the year they are available or collected.

Restricted Fund Balance

Emergency reserves have been provided for as required by Article X, Section 20 of the Constitution of the State of Colorado. \$6,200 of the General Fund balance has been restricted in compliance with this requirement.

The restricted fund balance in the Debt Service Fund in the amount of \$2,318,797 is restricted for the payment of the costs associated with the Series 2018A and 2018B bonds (See Note 5). The restricted fund balance in the Capital Projects Fund in the amount of \$91,057 is restricted for the payment of costs related to capital improvements within the District.

SERENITY RIDGE METROPOLITAN DISTRICT NO. 2

**NOTES TO FINANCIAL STATEMENTS
December 31, 2020**

NOTE 3 - CASH AND INVESTMENTS

Cash and investments as of December 31, 2020 are classified in the accompanying financial statement as follows:

Statement of net position:	
Cash and investments - unrestricted	\$ 234,822
Cash and investments - restricted	<u>2,409,428</u>
	<u>\$ 2,644,250</u>

Cash and investments as of December 31, 2020 consist of the following:

Investments	<u>\$ 2,644,250</u>
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Deposits

Deposits with Financial Institutions

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

The District had no amounts on deposit outstanding as of December 31, 2020.

Investments

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

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 unobservable inputs. Investments not measured at fair value and not categorized include COLOTRUST funds which are recorded at net asset value.

SERENITY RIDGE METROPOLITAN DISTRICT NO. 2

NOTES TO FINANCIAL STATEMENTS
December 31, 2020

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

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

Custodial And Concentration Of Credit Risk

None of the District's investments are subject to custodial or concentration of credit risk.

Interest Rate Risk

Colorado revised statutes limit investment maturities to five years or less unless formally approved by the Board of Directors.

As of December 31, 2020, the District had the following investments:

<u>Investment</u>	<u>Maturity</u>	<u>Fair Value</u>
COLOTRUST PLUS+	Weighted average Under 60 days	<u>\$ 2,644,250</u>

SERENITY RIDGE METROPOLITAN DISTRICT NO. 2

**NOTES TO FINANCIAL STATEMENTS
December 31, 2020**

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

COLOTRUST

As of December 31, 2020, the District had invested in the Colorado Local Government Liquid Asset Trust (COLOTRUST or the Trust), an investment vehicle established for local government entities in Colorado to pool surplus funds. The State Securities Commission administers and enforces all State statutes governing the Trust. The Trust operates similarly to a money market fund and each share is equal in value to \$1.00. COLOTRUST 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 COLOTRUST portfolios pursuant to a custodian agreement. The custodian acts as safekeeping agent for COLOTRUST investment portfolios and provides services as the depository in connection with direct investments and withdrawals. The custodian's internal records segregate investments owned by COLOTRUST. As of December 31, 2020, the District has \$2,644,250 invested in COLOTRUST PLUS+. COLOTRUST is rated AAAM by Standard & Poors. COLOTRUST records its investments at fair value and the District records its investment in COLOTRUST at net asset value as determined by fair value. There are no unfunded commitments, the redemption frequency is daily, and there is no redemption notice period.

NOTE 4 – CAPITAL ASSETS

An analysis of the changes in capital assets for the year ended December 31, 2020 is as follows:

<u>Governmental Type Activities:</u>	<u>Balance 1/1/2020</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12/31/2020</u>
<u>Capital assets not being depreciated:</u>				
Construction in progress	<u>\$ 2,732,361</u>	<u>\$ 4,405,578</u>	<u>\$ -</u>	<u>\$ 7,137,939</u>
Government type assets, net	<u>\$ 2,732,361</u>	<u>\$ 4,405,578</u>	<u>\$ -</u>	<u>\$ 7,137,939</u>

Upon completion and acceptance, the fixed assets will be conveyed by the District to other local governments.

SERENITY RIDGE METROPOLITAN DISTRICT NO. 2

NOTES TO FINANCIAL STATEMENTS
December 31, 2020

NOTE 5 – LONG TERM DEBT

General Obligation Refunding & Improvement Bonds, Series 2018A and 2018B

Series 2018A Senior Term Bonds

On February 16, 2018, the District issued \$14,655,000 General Obligation (Limited Tax Convertible to Unlimited Tax) Refunding & Improvement Bonds, Series 2018A (2018A Bonds), with interest rates and due dates as follows:

\$2,790,000	4.500% Senior Term Bond due December 1, 2018 – December 1, 2028
\$5,140,000	5.125% Senior Term Bond due December 1, 2029 – December 1, 2037
\$6,725,000	5.125% Senior Term Bond due December 1, 2038 – December 1, 2043

Interest is payable semi-annually on June 1 and December 1 each year commencing June 1, 2018.

The 2018A Bonds are limited tax (convertible to unlimited tax) general obligations of the District secured by the senior Pledged Revenue, consisting of the funds derived by the District from the following sources, net of any costs of collection: (i) the Senior Required Mill Levy, (ii) the Capital Fees, (iii) the Specific Ownership Tax which is collected as a result of imposition of the Senior Required Mill Levy; and (iv) any other legally available funds the District determines to transfer for application as Senior Pledged Revenue. The District has covenanted to levy an ad valorem mill levy upon all taxable property of the District in an amount sufficient to pay the principal of and interest on the Bonds as the same become due and payable, and if necessary, an amount sufficient to replenish the Senior Reserve Fund to the amount of the Senior Required Reserve, but not in excess of 51.000 mills less the amount of the Operations Mill Levy, and for so long as the Senior Surplus Fund is less than the Maximum Surplus Amount, not less than 51.000 mills less the amount of the Operations Mill Levy. The Senior Required Reserve Fund which is required to be \$1,182,331 had a balance of \$1,182,719 at December 31, 2020. The Senior Surplus Fund also secures the payment of the 2018A Bonds. Available Senior Pledged Revenue, if any, is to be accumulated in the Senior Surplus Fund up to the maximum amount of \$1,465,500. At December 31, 2020, the Senior Surplus Fund totaled \$589,113.

The 2018A Bonds were issued with a premium of \$132,709 and are subject to redemption prior to maturity, at the option of the District, as a whole or in integral multiples of \$1,000, in any order of maturity and in whole or partial maturities, on December 1, 2023, and on any date thereafter, upon payment of par and accrued interest, and a redemption premium of a percentage of the principal amount so redeemed, as follows:

<u>Date of Redemption</u>	<u>Redemption Premium</u>
December 1, 2023 to November 30, 2024	3.00%
December 1, 2024 to November 30, 2025	2.00%
December 1, 2025 to November 30, 2026	1.00%
December 1, 2026 and thereafter	0.00%

SERENITY RIDGE METROPOLITAN DISTRICT NO. 2

NOTES TO FINANCIAL STATEMENTS
December 31, 2020

NOTE 5 – LONG TERM DEBT (CONTINUED)

The 2018A Bonds maturing on December 1, 2028 are also subject to mandatory sinking fund redemption, in part, by lot, upon payment of par and accrued interest, without redemption premium, on December 1 in the years and amounts set forth below:

<u>Year of Redemption</u>	<u>Redemption Amount</u>
2021	\$ 205,000
2022	260,000
2023	270,000
2024	305,000
2025	315,000
2026	350,000
2027	365,000
2028	405,000
	<hr/>
	\$ 2,475,000
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The 2018A Bonds maturing on December 1, 2037 are also subject to mandatory sinking fund redemption, in part, by lot, upon payment of par and accrued interest, without redemption premium, on December 1 in the years and amounts set forth below:

<u>Year of Redemption</u>	<u>Redemption Amount</u>
2029	\$ 420,000
2030	465,000
2031	485,000
2032	535,000
2033	560,000
2034	610,000
2035	640,000
2036	695,000
2037 (*)	730,000
	<hr/>
	\$ 5,140,000
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SERENITY RIDGE METROPOLITAN DISTRICT NO. 2

NOTES TO FINANCIAL STATEMENTS
December 31, 2020

NOTE 5 – LONG TERM DEBT (CONTINUED)

The 2018A Bonds maturing on December 1, 2043 are also subject to mandatory sinking fund redemption, in part, by lot, upon payment of par and accrued interest, without redemption premium, on December 1 in the years and amounts set forth below:

<u>Year of Redemption</u>	<u>Redemption Amount</u>
2038	\$ 790,000
2039	830,000
2040	900,000
2041	940,000
2042	1,015,000
2043 (*)	2,250,000
	<hr/>
	\$ 6,725,000
	<hr/> <hr/>

(*) Final maturity. Not a sinking fund redemption.

Series 2018B Subordinate Term Bond

On February 16, 2018, the District issued \$1,906,000 Subordinate General Obligation Limited Tax Bonds, Series 2018B (“2018B Bonds”) with an interest rate of 7.250%. The 2018B Bonds are limited tax general obligations of the District secured by and payable from the Subordinate Pledged Revenue consisting of funds derived by the District from the following sources, net of any costs of collection: (i) the Subordinate Required Mill Levy; (ii) the Subordinate Capital Fee Revenue; (iii) the portion of the Specific Ownership Tax which is collected as a result of imposition of the Subordinate Required Mill Levy; (iv) the amounts, if any, in the Senior Surplus Fund after the termination of such fund pursuant to the Senior Indenture; and (v) any other legally available funds which the District determines to transfer as Subordinate Pledged Revenue.

The 2018B Bonds are structured as “cash-flow” bonds, meaning that there are no scheduled principal payments prior to the final maturity date. Rather, principal on the 2018B Bonds is payable from, and solely to the extent of, Subordinate Pledged Revenue, if any, remaining after the annual payment of interest due on the 2018B Bonds. Interest is payable on December 15 each year to the extent of Subordinate Pledged Revenue available therefor, commencing December 15, 2018. To the extent interest is not paid when due, such interest is to compound at the rate of 7.250% on each interest payment date.

SERENITY RIDGE METROPOLITAN DISTRICT NO. 2

**NOTES TO FINANCIAL STATEMENTS
December 31, 2020**

NOTE 5 – LONG TERM DEBT (CONTINUED)

The 2018B Bonds are subject to redemption prior to maturity, at the option of the District, as a whole or in integral multiples of \$1,000, in any order of maturity and in whole or partial maturities, on December 15, 2023, and on any date thereafter, upon payment of par plus accrued interest thereon and a redemption premium of a percentage of the principal amount so redeemed, as follows:

<u>Date of Redemption</u>	<u>Redemption Premium</u>
December 15, 2023 to December 14, 2024	3.00%
December 15, 2024 to December 14, 2025	2.00%
December 15, 2025 to December 14, 2026	1.00%
December 15, 2026 and thereafter	0.00%

The following is an analysis of changes in long-term obligations for the year ended December 31, 2020:

	<u>Balance</u>			<u>Balance</u>	<u>Current</u>
	<u>1/1/2020</u>	<u>Additions</u>	<u>Deletions</u>	<u>12/31/2020</u>	<u>Portion</u>
Bonds payable:					
2018A GO Refunding & Improvement Bonds	\$ 14,490,000	\$ -	\$ 150,000	\$ 14,340,000	\$ 205,000
2018B Subordinate GO Bonds	1,906,000	-	-	1,906,000	-
2018B Accrued and Unpaid Interest	262,461	142,457	-	404,918	-
2018A GO Bond Premium	<u>122,093</u>	<u>-</u>	<u>5,308</u>	<u>116,785</u>	<u>-</u>
	<u>16,780,554</u>	<u>142,457</u>	<u>155,308</u>	<u>16,767,703</u>	<u>205,000</u>
Developer advances:					
On-Site Facilities Funding and Acquisition					
Capital - principal	-	1,683,597	814,419	869,178	-
Capital - interest	-	41,227	-	41,227	-
Off-Site Facilities Funding and Acquisition					
Capital - principal	-	2,721,981	2,634,481	87,500	-
Capital - interest	<u>-</u>	<u>4,150</u>	<u>-</u>	<u>4,150</u>	<u>-</u>
	<u>-</u>	<u>4,450,955</u>	<u>3,448,900</u>	<u>1,002,055</u>	<u>-</u>
Total	<u>\$ 16,780,554</u>	<u>\$ 4,593,412</u>	<u>\$ 3,604,208</u>	<u>\$ 17,769,758</u>	<u>\$ 205,000</u>

As of December 31, 2020, \$3,193,503 of the Service Plan Debt Authorization remains.

SERENITY RIDGE METROPOLITAN DISTRICT NO. 2

NOTES TO FINANCIAL STATEMENTS
December 31, 2020

NOTE 5 – LONG TERM DEBT (CONTINUED)

The following is a summary of the annual long-term debt principal and interest requirements for the 2018A bonds:

	2018A Bonds		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 205,000	\$ 719,456	\$ 924,456
2022	260,000	710,232	970,232
2023	270,000	698,532	968,532
2024	305,000	686,382	991,382
2025	315,000	672,656	987,656
2026-2030	2,005,000	3,122,156	5,127,156
2031-2035	2,830,000	2,543,284	5,373,284
2036-2040	3,945,000	1,710,212	5,655,212
2041-2043	4,205,000	498,149	4,703,149
	<u>\$ 14,340,000</u>	<u>\$ 11,361,059</u>	<u>\$ 25,701,059</u>

NOTE 6 – AGREEMENTS

Acquisition Agreement

District No. 1 and Neumann Homes of Colorado, LLC (the “Developer”) entered into an Improvement Acquisition Agreement dated March 24, 2004 (the “Acquisition Agreement”) whereby the Developer agreed to design and construct certain improvements (the “Improvements”) for the benefit of District No. 1 and the development in anticipation of District No. 1 later acquiring such Improvements from the Developer. In exchange, District No. 1 agreed to pay the Developer for those costs associated with the design and construction of the Improvements, pursuant to the terms of the Acquisition Agreement. As of December 31, 2020, District No. 1 had not acquired any Improvements from the Developer under the Acquisition Agreement.

SERENITY RIDGE METROPOLITAN DISTRICT NO. 2

NOTES TO FINANCIAL STATEMENTS December 31, 2020

NOTE 6 – AGREEMENTS (CONTINUED)

District Facilities Construction and Service Agreement

On April 21, 2004, the District and District No. 1 entered into a District Facilities Construction and Service Agreement (“District Facilities Agreement”). The District Facilities Agreement designates District No. 1 as the “Operating District”, and the District as the “Taxing District.” The District Facilities Agreement, as well as the Service Plan provides that the Operating District will own, (subject to transfers to other governmental entities) operate, maintain and construct the facilities benefiting both Districts and that the Taxing District will pay all costs related to the construction, operation and maintenance of such facilities through the imposition of taxes and facility fees which will be transferred to the Operating District on an ongoing basis.

On February 5, 2018, the District and District No. 1 entered into a First Amendment to District Facilities Construction and Service Agreement to recognize the issuance of the District’s 2018A Bonds and 2018B Bonds and to authorize the District to transfer the proceeds of the 2018A Bonds and 2018B Bonds in accordance with the provisions of the On-Site FFAA (as defined below) and the Off-Site FFAA (as defined below).

Off-Site Facilities Funding and Acquisition Agreement

On February 16, 2018, the District and Richmond American Homes of Colorado, Inc. (“Richmond”) entered into an Off-Site Facilities Funding and Acquisition Agreement (the “Off-Site FFAA”) whereby Richmond agreed to construct the Off-Site Improvements (as defined therein) and convey the same to the District or other appropriate jurisdiction and the District agrees to reimburse Richmond for its construction costs relative to the Off-Site Improvements up the maximum amount of \$3,500,000 from the proceeds of the 2018A Bonds and 2018B Bonds. The obligation of the District under the Off-Site FFAA is a multi-fiscal year obligation of the District. The obligation of the District to acquire and pay for the Off-Site Improvements expires on February 16, 2021. As of December 31, 2020, the District had a balance due to Richmond for Off-Site Improvements of \$87,500 with accrued interest of \$4,150.

SERENITY RIDGE METROPOLITAN DISTRICT NO. 2

NOTES TO FINANCIAL STATEMENTS December 31, 2020

NOTE 6 – AGREEMENTS (CONTINUED)

On-Site Facilities Funding and Acquisition Agreement

On February 16, 2018, the District and Serenity Investors, LLC (“Serenity Investors”) entered into an On-Site Facilities Funding and Acquisition Agreement (the “On-Site FFAA”) whereby the District agreed to reimburse Serenity Investors for the costs associated with the construction of the On-Site Improvements (as defined therein) constructed by Richmond and conveyed to the District or other appropriate jurisdiction, as such reimbursement rights were assigned by Richmond to Serenity pursuant to a purchase and sale agreement. The District is to reimburse Serenity Investors from the proceeds of the Series 2018A Bonds and the Series 2018B Bonds, subject to Richmond being fully reimbursed pursuant to the terms of the Off-Site FFAA. If the proceeds of the 2018A and 2018B Bonds are insufficient to reimburse Serenity Investors for the costs associated with the On-Site Improvements, the parties agreed that no payments are required of the District unless and until the District issues bonds in an amount sufficient to reimburse Serenity Investors for all or a portion of the unpaid construction costs associated with the On-Site Improvements. Interest will accrue on the construction costs from the date incurred at the rate of 8% per annum. The obligation of the District to acquire and pay for the On-Site Improvements expires on December 31, 2058. As of December 31, 2020, the District had a balance due to Serenity Investors for On-Site Improvements of \$869,178 with related accrued interest of \$41,227.

Letter Agreement Regarding Reimbursement for On-Site Improvements and Off-Site Improvements

On October 14, 2019, the District provided that certain Letter Agreement from the District to Serenity Investors and Richmond regarding reimbursement allocation for on-site and off-site improvements (“Letter Agreement”). In this Letter Agreement, the District acknowledges the amount of \$2,732,361 has been certified as District eligible costs reimbursable to Serenity Investors, pursuant to the terms of the On-Site FFAA and Off-Site FFAA (the “Reimbursement Amount”). Pursuant to the Letter Agreement, Serenity Investors and Richmond agree and acknowledge that the \$1,954,342 certified as incurred for On-Site improvements was reimbursable to Serenity Investors (“On-Site Reimbursement”), and the \$778,019 incurred for Off-Site Improvements was reimbursable to Richmond (“Off-Site Reimbursement”). Consistent with the terms of the Off-Site FFAA, the District acknowledged it placed \$3,500,000 of proceeds from the Series 2018A and Series 2018B Bonds in escrow to pay for construction and acquisition of the Off-Site improvements. The Parties acknowledged that pursuant to the On-Site FFAA, the District will not utilize, and Serenity Investors is not entitled to, any portion of these funds held in escrow until it is released in accordance to the terms of the Off-Site FFAA. Due to the timing of construction, Richmond agreed that Serenity Investors may be paid their On-Site Reimbursement in the amount of \$1,954,342, prior to the amount held in escrow for Off-Site Reimbursement being fully released, provided the amount remaining in escrow is at least \$3,500,000 less \$778,019 (the amount of Off-Site Reimbursement set forth in the Letter Agreement).

SERENITY RIDGE METROPOLITAN DISTRICT NO. 2

NOTES TO FINANCIAL STATEMENTS

December 31, 2020

NOTE 7 – RELATED PARTY

During 2020, a majority of the District's board members were officers, employees or consultants of landowners within the District.

NOTE 8 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Explanation of differences between the governmental fund Balance Sheet and the government-wide Statement of Net Position

The governmental fund Balance Sheet / Statement of Net Position includes an adjustments column. Explanation of the adjustments included in the reconciling column is as follows:

- 1) Capital improvements used in government activities are not financial resources and, therefore are not reported in the funds;
- 2) Long-term liabilities such as bonds and developer advances payable and related accrued interest payable, are not due and payable in the current period and, therefore, are not in the funds; and
- 3) Deferred loss on refunding is reported as deferred charges and amortized over the term of the related debt in the government-wide financial statements.

Explanation of differences between the governmental fund Statement of Revenue, Expenditures and Changes in Fund Balances and the government-wide Statement of Activities

The governmental fund Statement of Revenue, Expenditures and Changes in Fund Balances / Statement of Activities include an adjustments column. Explanation of the adjustments included in the reconciling column is as follows:

- 1) Governmental funds report capital outlays as expenditures, however, in the statement of activities, the costs of those assets are held as construction in process pending transfer to other governmental entities or depreciated over their useful lives;
- 2) Governmental funds report interest expense on the modified accrual basis; however, interest expense is reported on the full accrual method on the Statement of Activities; and,
- 3) Governmental funds report long-term debt payments as expenditures, however, in the statement of activities, the payment of long-term debt is recorded as a decrease of long-term liabilities.

SERENITY RIDGE METROPOLITAN DISTRICT NO. 2

NOTES TO FINANCIAL STATEMENTS December 31, 2020

NOTE 9 – RISK MANAGEMENT

The District is exposed to various risks of loss related to 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”) as of December 31, 2020. The Pool is an organization created by intergovernmental agreement to provide property, liability, public official’s 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 coverage. In the event aggregated losses incurred by the Pool exceed amounts recoverable from reinsurance contracts and funds accumulated by the Pool, the Pool may require additional contributions from the Pool members. Any excess funds which the Pool determines are not needed for purposes of the Pool may be returned to the members pursuant to a distribution formula.

NOTE 10 – TAX, SPENDING AND DEBT LIMITATIONS

Article X, Section 20 of the Colorado Constitution, commonly known as the Taxpayer’s Bill of Rights (“TABOR”) contains tax, spending, revenue and debt limitations which apply to the State of Colorado and all local governments.

Spending and revenue limits are determined based on the prior year’s Fiscal Year Spending adjusted for allowable increases based upon inflation and local growth. Fiscal Year Spending is generally defined as expenditures plus reserve increases with certain exceptions. Revenue in excess of the Fiscal Year Spending limit must be refunded unless the voters approve retention of such revenue.

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

The District management believes that 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.

At the November 4, 2003 election, voters of the District approved an election question allowing the District to exceed the revenue and spending limitations of TABOR.

SUPPLEMENTAL INFORMATION

Serenity Ridge 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, 2020

	Original / Final		Variance
	<u>Budget</u>	<u>Actual</u>	Favorable (Unfavorable)
REVENUES			
Property taxes	\$ 1,127,893	\$ 1,081,389	\$ (46,504)
Specific ownership taxes	67,674	79,928	12,254
Interest income	-	14,148	
Transfer from District No. 1	-	6,000	6,000
	<u>1,195,567</u>	<u>1,181,465</u>	<u>(28,250)</u>
EXPENDITURES			
Bond principal	150,000	150,000	-
Bond interest	726,207	726,206	1
Audit	6,500	-	6,500
Paying agent fees	5,000	6,000	(1,000)
Miscellaneous expenses	2,500	-	2,500
Treasurer's fees	16,918	16,195	723
	<u>907,125</u>	<u>898,401</u>	<u>8,724</u>
NET CHANGE IN FUND BALANCE	288,442	283,064	(19,526)
FUND BALANCE:			
BEGINNING OF YEAR	<u>2,000,806</u>	<u>2,035,733</u>	<u>34,927</u>
END OF YEAR	<u>\$ 2,289,247</u>	<u>\$ 2,318,797</u>	<u>\$ 15,401</u>

The notes to the financial statements are an integral part of these statements.

Serenity Ridge 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, 2020

	Original/Final		Variance
	<u>Budget</u>	<u>Actual</u>	<u>Favorable (Unfavorable)</u>
REVENUES			
Interest income	\$ 130,000	\$ 17,890	\$ (112,110)
Total Revenues	<u>130,000</u>	<u>17,890</u>	<u>(112,110)</u>
EXPENDITURES			
Capital improvements	<u>-</u>	<u>4,405,578</u>	<u>(4,405,578)</u>
Total Expenditures	<u>-</u>	<u>4,405,578</u>	<u>(4,405,578)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	130,000	(4,387,688)	4,293,468
OTHER FINANCING SOURCES (USES)			
Developer advance proceeds	-	4,405,578	4,405,578
Repayment of developer advances	<u>-</u>	<u>(3,448,900)</u>	<u>(3,448,900)</u>
Total Other Financing Sources (Uses)	<u>-</u>	<u>956,678</u>	<u>956,678</u>
NET CHANGE IN FUND BALANCE	130,000	(3,431,010)	5,250,146
FUND BALANCE:			
BEGINNING OF YEAR	<u>6,224,795</u>	<u>3,522,067</u>	<u>(2,702,728)</u>
END OF YEAR	<u>\$ 6,354,795</u>	<u>\$ 91,057</u>	<u>\$ 2,547,418</u>

The notes to the financial statements are an integral part of these statements.