

SERENITY RIDGE METROPOLITAN DISTRICT NO. 2

**ANNUAL FINANCIAL REPORT
AND SUPPLEMENTAL INFORMATION
FOR THE
YEAR ENDED DECEMBER 31, 2023**

SERENITY RIDGE METROPOLITAN DISTRICT NO. 2

ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED DECEMBER 31, 2023

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinions

I have audited the accompanying financial statements of the governmental activities and each major fund of Serenity Ridge Metropolitan District No. 2 as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In my 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 Ridge Metropolitan District No. 2 as of December 31, 2023, and the changes in financial position and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinions

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am required to be independent of Serenity Ridge Metropolitan District No. 2 and to meet my other ethical responsibilities, in accordance with the relevant ethical requirements relating to my audit. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Serenity Ridge Metropolitan District No. 2's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, I:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Serenity Ridge Metropolitan District No. 2's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in my judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Serenity Ridge Metropolitan District No. 2's ability to continue as a going concern for a reasonable period of time.

I am required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that I identified during the audit.

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 statements in an appropriate

operational, economic, or historical context. My opinion on the basic financial statements is not affected by this missing information.

Supplementary Information

My audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Serenity Ridge Metropolitan District No. 2's basic financial statements. The supplementary budget comparison schedule identified in the table of contents is presented to supplement the basic financial statements and is presented for purposes of additional analysis and is not a required part of the basic 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 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 my opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Scott Wright

Salida, Colorado
March 25, 2024

SERENITY RIDGE METROPOLITAN DISTRICT NO. 2

STATEMENT OF NET POSITION DECEMBER 31, 2023

	Governmental Activities
ASSETS	
Cash and Cash Equivalents	\$ 758,041
Receivables	<u>1,450,278</u>
Total Assets	<u>2,208,319</u>
LIABILITIES	
Accounts Payable	20,524
Accrued Interest Payable	37,229
Noncurrent Liabilities:	
Due Within One Year	655,000
Due In More Than One Year	<u>15,830,000</u>
Total Liabilities	<u>16,542,753</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred Revenue - Property Taxes	<u>1,428,402</u>
NET POSITION	
Restricted For:	
Emergencies	8,628
Debt Service	377,009
Unrestricted (Deficit)	<u>(16,148,473)</u>
Total Net Position (Deficit)	<u><u>\$ (15,762,836)</u></u>

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

SERENITY RIDGE METROPOLITAN DISTRICT NO. 2

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2023

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
General Government	\$ 222,207	\$ -	\$ -	\$ -	\$ (222,207)
Interest and Related Costs on Long-term Debt	2,705,661	-	-	-	(2,705,661)
Total Governmental Activities	\$ 2,927,868	\$ -	\$ -	\$ -	(2,927,868)
General Revenues:					
					1,319,715
					88,551
					60,833
					<u>1,469,099</u>
					Increase (Decrease) in Net Position
					(1,458,769)
					<u>Net Position (Deficit) - Beginning of Year</u>
					(14,304,067)
					<u>Net Position (Deficit) - End of Year</u>
					<u>\$(15,762,836)</u>

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

SERENITY RIDGE METROPOLITAN DISTRICT NO. 2

BALANCE SHEET GOVERNMENTAL FUNDS DECEMBER 31, 2023

	General Fund	Debt Service Fund	Total
ASSETS			
Cash and Cash Equivalents	\$ 400,733	\$ 357,308	\$ 758,041
Property Taxes Receivable	128,114	1,321,056	1,449,170
Due from Other Governments	-	1,108	1,108
Total Assets	<u>\$ 528,847</u>	<u>\$ 1,679,472</u>	<u>\$ 2,208,319</u>
LIABILITIES AND FUND BALANCES			
Accounts Payable	\$ 20,524	\$ -	\$ 20,524
Total Liabilities	<u>20,524</u>	<u>-</u>	<u>20,524</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred Revenue - Property Taxes	125,939	1,302,463	1,428,402
Total Deferred Inflows of Resources	<u>125,939</u>	<u>1,302,463</u>	<u>1,428,402</u>
FUND BALANCES			
Restricted For:			
TABOR Emergency Reserve	8,628	-	8,628
Debt Service	-	377,009	377,009
Unassigned	373,756	-	373,756
Total Fund Balances	<u>382,384</u>	<u>377,009</u>	<u>759,393</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 528,847</u>	<u>\$ 1,679,472</u>	<u>\$ 2,208,319</u>

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

SERENITY RIDGE METROPOLITAN DISTRICT NO. 2

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION DECEMBER 31, 2023

	<u>Total</u>
Total Fund Balances - Governmental Fund	\$ 759,393
 <i>Amounts reported for governmental activities in the statement of net position are different because:</i>	
 Some liabilities, including bonds, notes and leases payable are not due and payable in the current period and therefore are not reported as liabilities in the governmental funds.	
- Series 2021A-1 Bonds Payable	(15,480,000)
- Series 2021A-2 Bonds Payable	<u>(1,005,000)</u>
	<u>(16,485,000)</u>
 Accrued interest payable is recognized for governmental activities but is not due and payable in the current period and therefore is not reported as a liability in the governmental funds.	
	<u>(37,229)</u>
Net Position of Governmental Activities	<u><u>\$ (15,762,836)</u></u>

SERENITY RIDGE METROPOLITAN DISTRICT NO. 2

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS FOR THE YEAR ENDED DECEMBER 31, 2023

	General Fund	Debt Service Fund	Total
Revenues			
Taxes:			
General Property Taxes	\$ 138,205	\$ 1,181,510	\$ 1,319,715
Specific Ownership Tax	9,273	79,278	88,551
Intergovernmental Revenues:			
Investment Earnings	23,333	37,500	60,833
Total Revenues	<u>170,811</u>	<u>1,298,288</u>	<u>1,469,099</u>
Expenditures			
Current:			
County Treasurer Fees	2,077	17,756	19,833
General, Operations, and Administrative Costs	20,524	-	20,524
Transfer to Serenity Ridge Metropolitan District No. 1	181,850	-	181,850
Debt Service:			
Principal	-	495,000	495,000
Interest	-	613,182	613,182
Total Expenditures	<u>204,451</u>	<u>1,125,938</u>	<u>1,330,389</u>
Net Change in Fund Balances	(33,640)	172,350	138,710
Fund Balances, Beginning of Year	<u>416,024</u>	<u>204,659</u>	<u>620,683</u>
Fund Balances, End of Year	<u>\$ 382,384</u>	<u>\$ 377,009</u>	<u>\$ 759,393</u>

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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, 2023

	<u>Total</u>
Net change in fund balances - Total Governmental Funds	\$ 138,710
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>	
Expenses reported in the Statement of Activities that do not require the use of current financial resources are not reported as expenditures in governmental funds.	
- Change in accrued interest payable on outstanding bonds	11,213
- Amortization of deferred charge on refunding of debt	<u>(2,103,692)</u>
	<u>(2,092,479)</u>
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position.	
- Repayment of general obligation bonds	<u>495,000</u>
Change in Net Position of Governmental Activities	<u><u>\$ (1,458,769)</u></u>

SERENITY RIDGE METROPOLITAN DISTRICT NO. 2

GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES (BUDGETARY BASIS) - BUDGET AND ACTUAL FOR THE YEAR ENDED DECEMBER 31, 2023

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Taxes:				
General Property Taxes	\$ 138,205	\$ 138,205	\$ 138,205	\$ -
Specific Ownership Tax	10,000	10,000	9,273	(727)
Investment Earnings	9,000	9,000	23,333	14,333
Total Revenues	<u>157,205</u>	<u>157,205</u>	<u>170,811</u>	<u>13,606</u>
Expenditures				
Current:				
Accounting	-	1,000	1,084	(84)
Audit	-	6,300	6,300	-
County Treasurer's Fees	2,073	2,073	2,077	(4)
Election	-	-	16	(16)
Legal	-	9,000	9,002	(2)
Management	-	3,000	2,707	293
Miscellaneous	-	411	145	266
Landscape Maintenance	-	1,500	1,270	230
Transfer to Serenity Ridge District No. 1	90,000	182,000	181,850	150
Emergency Reserve	4,716	4,716	-	4,716
Total Expenditures	<u>96,789</u>	<u>210,000</u>	<u>204,451</u>	<u>5,549</u>
Net Change in Fund Balances	60,416	(52,795)	(33,640)	19,155
Fund Balances, Beginning of Year	<u>354,905</u>	<u>354,905</u>	<u>416,024</u>	<u>61,119</u>
Fund Balances, End of Year	<u>\$ 415,321</u>	<u>\$ 302,110</u>	<u>\$ 382,384</u>	<u>\$ 80,274</u>

SERENITY RIDGE METROPOLITAN DISTRICT NO. 2

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2023

The financial statements of Serenity Ridge Metropolitan District No. 2 (District) have been prepared in conformity with generally accepted accounting principles (GAAP) generally accepted in the United States of America as applied to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting board for establishing governmental accounting and financial reporting principles. The following notes are an integral part of the District's financial statements.

Note 1. Summary of Significant Accounting Policies

A. Financial Reporting Entity

As required by generally accepted accounting principles, these financial statements present Serenity Ridge Metropolitan District No. 2 (the primary government). The District does not have any component units for which the District is considered financially accountable.

Primary Government. The District, a quasi-municipal corporation and a political subdivision of the State of Colorado, was organized by Order and Decree of the District Court in and for Arapahoe County, recorded on February 2, 2004, and is governed pursuant to provisions of the Colorado Special District Act. 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. The District's primary revenues are property taxes.

The following is a summary of the more significant policies consistently applied in the preparation of financial statements. The District is governed by an elected Board of Directors.

As required by GAAP, these financial statements present the activities of the District, which is legally separate and financially independent of other state and local governments. The District follows GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, which amended GASB Statement No. 14, *The Financial Reporting Entity* and GASB Statement No. 29, *Determining Whether Certain Organizations are Component Units*, which provides guidance for determining which governmental activities, organizations and functions should be included within the financial reporting entity. GASB sets 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

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NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2023

organization to provide specific financial benefits or burdens and fiscal dependency. The pronouncements also require including a possible component unit if it would be misleading to exclude it.

The District is not financially accountable for any other organization, nor is the District a component unit of any other primary governmental entity. The District has no employees, and all operations and administrative functions are contracted. The more significant accounting policies of the District are described as follows:

B. Government-wide and Fund Financial Statements

Government-wide Financial Statements. The government-wide financial statements (i.e. the Statement of Net Position and the Statement of Activities) report information on all non-fiduciary activities of the District. The Statement of Activities demonstrates the degree to which the direct expenses of a given function or business segment are offset by program revenues and helps identify the extent to which each is self-financing or draws from the general revenues of the District. Direct expenses are those that are clearly identifiable with a specific function or business segment. Program revenues include 1) charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and, 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or business segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements. Fund financial statements report detailed information about the District with the focus on major funds rather than on reporting funds by type. Separate financial statements are provided for governmental funds. The District has no proprietary or fiduciary funds. Individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

Measurement Focus and Basis of Accounting. The government-wide financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when the liability is incurred regardless of the timing of related cash flows.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recorded when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period (60 days). The major sources of revenue which are susceptible to accrual are property taxes. All other revenue items are considered to be measurable and available only when cash is received by the District. Expenditures generally are recorded when the liability is incurred, as

SERENITY RIDGE METROPOLITAN DISTRICT NO. 2

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2023

under full accrual accounting. However, debt service expenditures, as well as expenditures related to claims and judgments, are recorded only when payment is due.

Financial Statement Presentation – Fund Accounting. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts which are segregated for the purpose of accounting for specific activities. The District uses funds to report results of operations and financial position, and demonstrate compliance with legal, contractual, and regulatory requirements.

The District reports the following major governmental funds:

- *General Fund* - This is the District's primary operating fund. It is used to account for all activities of the District not required to be accounted for in another fund.
- *Debt Service Fund* - This fund is used to account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of the governmental funds.

D. Deferred Outflows / Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents the consumption of net position that applies to a future period that will not be recognized as an outflow of the resources (expenditure) until the future period. The District had a deferred outflow of resources for unamortized deferred refunding losses. In the government-wide and proprietary funds statement of net position *deferred charge on refunding of debt* is the result of the difference between the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the life of the refunding bonds.

In addition to liabilities, the statement of net position 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 that applies to a future period(s) 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 - deferred property tax revenues.

The governmental funds also reported deferred inflows of resources representing deferred property tax revenues.

Deferred outflows of resources are presented below the total assets on the government-wide and governmental fund statements. Deferred inflows of resources are presented below the total liabilities on the government-wide and governmental fund statements.

SERENITY RIDGE METROPOLITAN DISTRICT NO. 2

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2023

E. Cash, Cash Equivalents, and Investments

The District follows the practice of pooling cash and investments of all funds to maximize investment earnings. Cash and cash equivalents include amounts in demand deposits as well as short-term investments with a maturity date within 3 months of the date acquired by the Town. Colorado State Statutes authorize the District to invest its excess funds in direct U.S. Government treasury and agency securities, bonds and other obligations of states and political subdivisions, corporate bonds, and local government investment pools. Investments are stated at fair value.

F. Long-term Obligations

In the government-wide Statement of Net Position long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method, which approximates the interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. 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 are reported as debt service expenditures.

G. Fund Equity

The following fund balance classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

- Nonspendable fund balance – amounts that are not in a spendable form (such as inventory or prepaid/deferred charges) or are required to be maintained intact;
- Restricted fund balance – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation;
- Committed fund balance – amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest-level action to remove or change the constraint;
- Assigned fund balance – amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or an official or body to which the governing body delegates the authority;
- Unassigned fund balance – amounts that are available for any purpose; positive amounts are reported only in the general fund.

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NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2023

When fund balance resources are available for a specific purpose in more than one classification, it is the District's policy to use the most restrictive funds first in the following order: restricted, committed, assigned, and unassigned as they are needed. The District considers all unassigned fund balances to be "reserves" for future operations or capital replacement as defined within Article X, Section 20 of the Constitution of the State of Colorado (see Note 6).

H. Budgetary Information

In accordance with the Colorado Budget Law, the District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. On or prior to October 15th the budget is submitted to the Board of Directors of the District.
2. A public hearing on the budget is held prior to its adoption.
3. On the date of the hearing, the Board reviews the proposed budget and formally adopts it by resolution.
4. At the time of adopting the budget the Board also adopts the mill levies.
5. Prior to the beginning of the calendar year, the Board passes an appropriating resolution giving the District legal authority to spend.
6. The District adopts budgets for the general and debt service funds on a basis consistent with generally accepted accounting principles. The District's Board of Directors can modify the budget and appropriations resolutions upon completion of notification and publication requirements. The appropriation is at the total fund expenditures and other financing uses level and lapses at year-end and lapses at year end.

Budgeted amounts reported in the accompanying financial statements are as originally adopted and as amended by the Board of Directors. There were three supplemental amendments for the year ended December 31, 2023.

I. 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 15th by certification to the County Commissioners to put the tax lien on the individual properties as of January 1st of the following year (*This date was postponed to January 10, 2024 for the year commencing on January 1, 2024 due to the passage of Senate Bill 23B-001*). The County Treasurer collects the determined taxes during the ensuing calendar year. The taxes are payable by April or if in equal installments, at the taxpayer's election, in February and June. Delinquent taxpayers are notified in August and, generally, sale 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 inflow of resources in the year they are levied and measurable. The unearned property tax revenues are recorded as revenue in the year they are available or collected.

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NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2023

Note 2. Deposits and Investments

Cash and investments as of December 31, 2023, are classified in the accompanying financial statements as follows:

Cash and Cash Equivalents	<u>\$ 758,041</u>
Total	<u>\$ 758,041</u>

Cash and investments as of December 31, 2023, consist of the following:

Deposits With Local Government Investment Pools	<u>\$ 758,041</u>
Total	<u>\$ 758,041</u>

Deposits

Custodial Credit Risk. Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the District would not be able to recover its deposits or would not be able to recover collateral securities that are in the possession of an outside party.

The District's deposits are entirely covered by federal depository insurance (FDIC) or by collateral held under Colorado's Public Deposit Protection Act (PDPA). The FDIC insures the first \$250,000 of the District's deposits at each financial institution. Deposit balances over \$250,000 are collateralized as required by PDPA. The Colorado Public Deposit Protection Act (PDPA) requires that cash be deposited in eligible public depositories and that deposits 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 with the District being a named participant in the single institution collateral pool. The minimum pledging requirement is 102% of the uninsured deposits. The Colorado State Banking Board verifies the market value at least monthly. Bank assets (usually securities) are required by PDPA to be delivered to a third-party institution for safekeeping and pledged to the Colorado Division of Banking. Based on the above, the Colorado State Auditor has concluded that there is no custodial risk for public deposits collateralized under PDPA. The District had no demand deposit balances at year end.

Local Government Investment Pools

Local government investment pools are trusts established for local government entities in Colorado to pool surplus funds. The State Securities Commissioner administers and enforces all State statutes governing the trusts. A designated custodial bank serves as custodian pursuant to a custodian agreement. The custodian acts as safekeeping agent for the trusts' 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 trusts. The District invests its surplus funds in the Colorado Local Government Liquid Asset Trust's

SERENITY RIDGE METROPOLITAN DISTRICT NO. 2

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2023

COLOTRUST PLUS+ fund. The PLUS+ fund may invest in U.S. Treasury securities and repurchase agreements collateralized by U.S. Treasury securities as well as in certain obligations of U.S. government agencies, highest rated commercial paper and repurchase agreements collateralized by certain obligations of U.S. government agencies. COLOTRUST is a stable \$1.00 net asset value (NAV) fund that offers daily liquidity.

Investments

Credit Risk. Colorado State Statutes specify investment instruments meeting defined rating and risk criteria in which local government entities may invest. These investments include local government investment pools and certain obligations of the United States government. State law limits investments in commercial paper, corporate bonds, and money market mutual funds to the top two ratings issued by nationally recognized statistical rating organizations. The District has no investment policy that would further limit its investment choices.

Presented below is the minimum rating, as required by Colorado State Statutes, for investments held by the District as of December 31, 2023.

<u>Ratings</u> <u>S&P</u>	<u>Local Government</u> <u>Investment Pools</u>
AAAm	<u>\$758,041</u>

Interest Rate Risk. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Concentration of Credit Risk. The District places no limit on the amount it may invest in any one issuer. As discussed above, the District invests its surplus funds in Colorado Local Government Liquid Asset Trust's COLOTRUST PLUS+ fund. The investment is not categorized because the investment is not evidenced by securities that exist in physical or book entry form. At December 31, 2023, the District had an investment of \$758,041 for both market and carrying value.

Fair Value of Investments. The District measures and records its investments using fair value measurement guidelines established by generally accepted accounting principles. These guidelines recognize a three-tiered fair value hierarchy, as follows:

- Level 1: Quoted prices for identical investments in active markets;
- Level 2: Observable inputs other than quoted market prices; and,
- Level 3: Unobservable inputs.

At December 31, 2023, the District had no investments measured at fair value and had the following investments measured at net asset value:

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NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2023

<u>Investments Measured at Net Asset Value</u>	<u>Total</u>
COLOTRUST	\$ 758,041
Total	<u>\$ 758,041</u>

At December 31, 2023, there were no unrealized losses reflective of changes in the fair market value of investments.

Note 3. Capital Assets

All capital assets have been conveyed to the City of Aurora.

Note 4. Long-term Debt

Series 2021A-1 Taxable (Converting to Tax Exempt) Limited General Obligation Refunding Loan. On November 5, 2021, the District entered into a loan agreement with Key Government Finance, Inc. (Lender) in order to issue a \$16,320,000 Series 2021A-1 Taxable (Converting to Tax Exempt) Limited General Obligation Refunding Loan (2021A-1 Loan) to advance refund the District's outstanding Series 2018A and 2018B General Obligation Refunding and Improvement Bonds. The net proceeds, in combination with other District resources, were placed in an irrevocable trust and used to purchase U.S. Government securities for the purpose of generating sufficient resources to make all future debt service payments on the \$16,246,000 of outstanding Series 2018A and 2018B Bonds. The reacquisition price exceeded the net carrying amount of the old debt by \$2,288,004, whereby a Deferred Charge on Refunding of Debt was recorded and setup to be amortized over the remaining life of the refunded debt. In December, 2023, the 2018A and 2018B Bonds were fully redeemed, the irrevocable trust account closed and the unamortized value of the deferred charge in the amount of \$2,103,693 was fully written off.

The interest rate on the 2021A-1 Loan will be (i) the taxable fixed rate of 3.67% prior to the tax-exempt reissuance date and (ii) the tax-exempt fixed rate of 2.71% on and after the tax-exempt reissuance date. Interest is payable semi-annually on June 1 and December 1. The 2021A-1 Loan is secured by the 2021A-1 Pledged Revenue consisting of the funds derived by the District from the following sources, after payment of any costs of collection: (i) the Required Mill Levy; (ii) the portion of the Specific Ownership Taxes allocable to the amount of the Required Mill Levy; (iii) any PILOT Revenue; and (iv) any other legally available moneys which the District determines in its sole discretion to apply as 2021A-1 Pledged Revenue. The District may, at its option, prepay the 2021A-1 Loan in whole, or, with consent of the Lender, in part, on any date upon payment to the Lender of the principal amount and accrued interest to date, with no prepayment fee or premium. All optional prepayments shall be applied first against the principal payment due on the maturity date, and then in inverse order of maturity.

As discussed above, the Series 2021A-1 Loan was initially issued bearing taxable interest. On the tax-exempt reissuance date, the Series 2021A-1 Loan is deemed reissued being tax-exempt

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interest. Due to Internal Revenue Service rebate issues, the Series 2021A-1 Loan was not able to be converted on the original reissuance date of September 15, 2023. Therefore, an additional amount of interest was due on the Series 2021A-1 Loan in the amount of \$31,880, for the period from the original reissuance date of September 15 through the revised reissuance date of December 15, 2023.

Series 2021A-2 Tax Exempt Limited General Obligation Loan. On November 5, 2021, the District entered into a loan agreement with Key Government Finance, Inc. (Lender) in order to issue a \$1,075,000 Series 2021A-2 Tax Exempt Limited General Obligation Loan (2021A-2 Loan) to fund public improvement costs. The interest rate on the 2021A-2 Loan is the tax-exempt fixed rate of 2.71% through maturity. Interest is payable semi-annually on June 1 and December 1 with annual principal payments due December 1 each year. The District may, at its option, prepay the 2021A-2 Loan in whole, or, with consent of the Lender, in part, on any date upon payment to the Lender of the principal amount and accrued interest to date, with no prepayment fee or premium. The 2021A-2 Loan is secured by the 2021A-2 Pledged Revenue consisting of the funds derived by the District from the following sources, after payment of any costs of collection: (i) the Required Mill Levy; (ii) the portion of the Specific Ownership Taxes allocable to the amount of the Required Mill Levy; (iii) any PILOT Revenue; and (iv) any other legally available moneys which the District determines in its sole discretion to apply as 2021A-2 Pledged Revenue.

Required Mill Levy. Pursuant to the 2021A-1 and 2021A-2 Loan Agreements entered into with the Lender, the District is required to certify a mill levy that will generate property tax revenues of not less than the Debt Requirements for the next Fiscal Year, but (i), not in excess of 45.29 mills less the amount of the Operations Mill Levy. The Operations Mill Levy is defined as the number of mills necessary to produce the dollar amount of the Operations Deduction for the collection year. The Operations Deduction is defined as the amount reasonably determined by the District as being necessary to pay or reimburse the District's operations and maintenance expenses, but not in excess of the following: (i) for levy year 2021 (for collection in 2022), the amount of \$125,000, and (ii) for each levy year thereafter, an additional 1%.

General obligation bonds currently outstanding at December 31, 2023, are as follows:

<u>Purpose</u>	<u>Interest Rate</u>	<u>Amount</u>
General Government - Refunding	2.71%	\$ 15,480,000
General Government - Public Improvements	2.71%	<u>1,005,000</u>
Total		<u>\$ 16,485,000</u>

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Annual debt service requirements to maturity for general obligation bonds outstanding at December 31, 2023, are as follows:

Year Ending December 31	Principal	Interest	Total
2024	\$ 655,000	\$ 446,743	\$ 1,101,743
2025	670,000	428,992	1,098,992
2026	710,000	410,836	1,120,836
2027	730,000	391,596	1,121,596
2028	775,000	371,812	1,146,812
2029 - 2033	4,335,000	1,528,303	5,863,303
2034 - 2038	5,095,000	1,075,944	6,093,603
2039 - 2041	<u>3,515,000</u>	<u>321,975</u>	<u>3,836,975</u>
Total	<u>\$ 16,485,000</u>	<u>\$ 4,976,201</u>	<u>\$ 21,461,201</u>

Changes in Long-term Liabilities. Long-term liability activity for the year ended December 31, 2023, was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
<i>Loans Payable:</i>					
Series 2021A-1 GO Loan	\$ 15,940,000	\$ -	\$ 460,000	\$ 15,480,000	\$ 615,000
Series 2021A-2 GO Lon	<u>1,040,000</u>	<u>-</u>	<u>35,000</u>	<u>1,005,000</u>	<u>40,000</u>
Total Long- term Liabilities	<u>\$ 16,980,000</u>	<u>\$ -</u>	<u>\$ 495,000</u>	<u>\$ 16,485,000</u>	<u>\$ 655,000</u>

Authorized Debt. On November 4, 2003, a majority of the qualified electors of the District authorized the issuance of indebtedness in the amounts and purposes set for the in the table below, with interest rate not to exceed 18% per annum. The majority of qualified electors also voted to authorize the District to enter into one or more multiple fiscal year obligations, evidenced by an intergovernmental agreement, for the financing of public improvements, and to allow the District to collect, retain and spend all revenues in excess of TABOR spending, revenue raising or other limitations.

At December 31, 2023, the District had authorized but unissued indebtedness in the following amounts allocated for the following purposes:

Purpose	Debt Authorized	Amount Used, 2004 Bonds	Amount Used, 2014 Loan	Amount Used, 2018A Bonds	Amount Contingently Used, Refunding 2018A Bonds	Amount Used, 2018B Bonds	Amount Used, 2021A-1 Bonds	Amount Used, 2021A-2 Bonds	Authorized but Unused
Streets	\$ 6,700,000	\$ 2,334,590	\$ 528,707	\$ 1,870,816	\$ -	\$ 739,481	\$ -	\$ 417,074	\$ 809,332
Safety Prot.	1,000,000	-	-	-	-	-	-	-	1,000,000
Water	2,200,000	647,550	146,583	373,819	-	147,760	-	83,338	800,950
Sanitation	2,500,000	1,013,162	229,428	571,729	-	225,988	-	127,459	332,234
Park & Rec.	14,600,000	2,754,698	623,780	2,005,635	-	792,771	-	447,129	7,975,987
Operations	500,000	-	-	-	-	-	-	-	500,000
Refunding	<u>27,000,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,833,001</u>	<u>-</u>	<u>16,320,000</u>	<u>-</u>	<u>846,999</u>
Total	<u>\$54,500,000</u>	<u>\$ 6,750,000</u>	<u>\$ 1,528,498</u>	<u>\$ 4,821,999</u>	<u>\$ 9,833,001</u>	<u>\$ 1,906,000</u>	<u>\$16,320,000</u>	<u>\$1,075,000</u>	<u>\$12,265,502</u>

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NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2023

Note 5. 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 maintains commercial insurance for significant insurable risks. The District is a member of the Colorado Special Districts Property and Liability Pool (Pool). The Pool is an organization created by intergovernmental agreement to provide property, liability, public officials' liability, boiler and machinery, and workers' compensation coverage to its members. Settled claims have not exceeded this coverage in any of the past three fiscal years.

The District pays annual premiums to the Pool for liability, property, and public officials' liability 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 6. Commitments, Contingencies and Agreements

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).

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.

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NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2023

As discussed in Note 4, on November 4, 2003, a majority of qualified electors voted to authorize the District to enter into one or more multiple fiscal year obligations, evidenced by an intergovernmental agreement, for the financing of public improvements, and to allow the District to collect, retain and spend all revenues in excess of TABOR spending, revenue raising or other limitations.

TABOR requires local governments to establish Emergency Reserves. These reserves must be at least 3% of Fiscal Year Spending (excluding bonded debt service). Local governments are not allowed to use the emergency reserves to compensate for economic conditions, revenue shortfalls, or salary or benefit increases. The District has established an emergency reserve for the year ended December 31, 2023, in the amount of \$8,628.

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 interpretation of how to calculate Fiscal Year Spending limits may require judicial interpretation.

Note 7. Deficit Net Position

The District has a deficit net position of \$15,762,836 as of December 31, 2023. The District has incurred general obligation debt for the construction of public improvements within the District. All of these improvements have been deeded or transferred to other local and state governmental entities. These entities have assumed the responsibility for continued maintenance of these improvements and therefore, these assets no longer belong to the District but still exist for the benefit and use of the taxpayers of the District. GASB 34 requires netting the debt acquired to purchase assets against those assets the District still holds title to, which creates the net deficit as of December 31, 2023.

Note 8. Related Parties

For a portion of the year, a number of the District's board members were officers, employees or consultants of landowners within the District.

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DEBT SERVICE FUND SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES (BUDGETARY BASIS) - BUDGET AND ACTUAL FOR THE YEAR ENDED DECEMBER 31, 2023

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Taxes:				
General Property Taxes	\$ 1,181,510	\$ 1,181,510	\$ 1,181,510	\$ -
Specific Ownership Taxes	70,891	70,891	79,278	8,387
Investment Earnings	9,000	9,000	37,500	28,500
	1,261,401	1,261,401	1,298,288	36,887
Expenditures				
Current:				
County Treasurer Fees	17,723	18,000	17,756	244
Audit	6,500	6,500	-	6,500
Miscellaneous	2,500	60,300	-	60,300
Debt Service:				
Principal	495,000	495,000	495,000	-
Interest	529,535	614,000	613,182	818
Fiscal Charges	6,200	6,200	-	6,200
	1,057,458	1,200,000	1,125,938	74,062
Net Change in Fund Balances	203,943	61,401	172,350	110,949
Fund Balances, Beginning of Year	181,943	181,943	204,659	22,716
Fund Balances, End of year	\$ 385,886	\$ 243,344	\$ 377,009	\$ 133,665

See independent auditor's report.