

NEU TOWNE METROPOLITAN DISTRICT

Financial Statements

Year Ended December 31, 2017

with

Independent Auditor's Report

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Office of the State Auditor

September 21, 2018

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Board of Directors
Neu Towne Metropolitan District
Douglas County, Colorado

Independent Auditors' Report

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Neu Towne Metropolitan District (the "District") as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

We believe 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 Neu Towne Metropolitan District as of December 31, 2017, 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 of America.

Other Matters

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

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

Stratagem PC
Certified Public Accountants
Lakewood, Colorado

September 20, 2018

NEU TOWNE METROPOLITAN DISTRICT

BALANCE SHEET/STATEMENT OF NET POSITION
GOVERNMENTAL FUNDS
December 31, 2017

| | <u>General</u> | <u>Debt Service</u> | <u>Capital Project</u> | <u>Total</u> | <u>Adjustments</u> | <u>Statement of Net Position</u> |
|---|------------------|-------------------------|----------------------------|-------------------|-----------------------|--|
| ASSETS | | | | | | |
| Cash and investments | \$ 62,138 | \$ - | \$ - | \$ 62,138 | \$ - | \$ 62,138 |
| Cash and investments - restricted | - | 13,675 | - | 13,675 | - | 13,675 |
| Receivable county treasurer | 106 | 1,235 | - | 1,341 | - | 1,341 |
| Property taxes receivable | 19,333 | 225,600 | - | 244,933 | - | 244,933 |
| Prepaid expenses | 2,488 | - | - | 2,488 | - | 2,488 |
| Capital assets not being depreciated | - | - | - | - | 1,148,710 | 1,148,710 |
| Total Assets | <u>\$ 84,065</u> | <u>\$ 240,510</u> | <u>\$ -</u> | <u>\$ 324,575</u> | 1,148,710 | 1,473,285 |
| LIABILITIES | | | | | | |
| Accounts payable | \$ 141,145 | \$ 28,953 | \$ 46,949 | \$ 217,047 | \$ - | \$ 217,047 |
| Retainage payable | - | - | 30,735 | 30,735 | - | 30,735 |
| Accrued interest on bonds | - | - | - | - | 31,807 | 31,807 |
| Long-term liabilities | | | | | | |
| Due in more than one year | - | - | - | - | 9,595,824 | 9,595,824 |
| Total Liabilities | <u>141,145</u> | <u>28,953</u> | <u>77,684</u> | <u>247,782</u> | 9,627,631 | 9,875,413 |
| DEFERRED INFLOWS OF RESOURCES | | | | | | |
| Deferred property taxes | <u>19,333</u> | <u>225,600</u> | <u>-</u> | <u>244,933</u> | <u>-</u> | <u>244,933</u> |
| Total Deferred Inflows of Resources | <u>19,333</u> | <u>225,600</u> | <u>-</u> | <u>244,933</u> | <u>-</u> | <u>244,933</u> |
| FUND BALANCE | | | | | | |
| Nonspendable | | | | | | |
| Prepaid expenses | 2,488 | - | - | 2,488 | (2,488) | - |
| Restricted for: | | | | | | |
| Emergencies | 414 | - | - | 414 | (414) | - |
| Unassigned | <u>(79,315)</u> | <u>(14,043)</u> | <u>(77,684)</u> | <u>(171,042)</u> | 171,042 | - |
| Total Fund Balances | <u>(76,413)</u> | <u>(14,043)</u> | <u>(77,684)</u> | <u>(168,140)</u> | 168,140 | - |
| Total Liabilities, Deferred Inflows of Resources and Fund Balances | <u>\$ 84,065</u> | <u>\$ 240,510</u> | <u>\$ -</u> | <u>\$ 324,575</u> | | |
| NET POSITION | | | | | | |
| Restricted for: | | | | | | |
| Emergencies | | | | | 414 | 414 |
| Unrestricted: | | | | | <u>(8,647,475)</u> | <u>(8,647,475)</u> |
| Total Net Position (Deficit) | | | | | <u>\$ (8,647,061)</u> | <u>\$ (8,647,061)</u> |

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

NEU TOWNE METROPOLITAN DISTRICT

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

For the Year Ended December 31, 2017

| | <u>General</u> | <u>Debt Service</u> | <u>Capital Project</u> | <u>Total</u> | <u>Adjustments</u> | <u>Statement of Activities</u> |
|--|--------------------|-------------------------|----------------------------|---------------------|-----------------------|--|
| EXPENDITURES | | | | | | |
| Accounting and audit | \$ 3,743 | \$ 5,173 | \$ - | \$ 8,916 | \$ - | \$ 8,916 |
| Insurance | 2,735 | - | - | 2,735 | - | 2,735 |
| Legal | 17,346 | 43,483 | - | 60,829 | - | 60,829 |
| Treasurer's fees | 217 | 2,531 | - | 2,748 | - | 2,748 |
| Interest on judgements | - | - | - | - | 23,154 | 23,154 |
| Bond interest expense | - | 195,159 | - | 195,159 | 378,027 | 573,186 |
| Paying agent fees | - | 1,000 | - | 1,000 | - | 1,000 |
| Developer advance interest expense | - | - | - | - | 43,893 | 43,893 |
| Total Expenditures | <u>24,041</u> | <u>247,346</u> | <u>-</u> | <u>271,387</u> | <u>445,074</u> | <u>716,461</u> |
| PROGRAM REVENUES | | | | | | |
| Development fees | - | 46,000 | - | 46,000 | - | 46,000 |
| Total Program Revenues | <u>-</u> | <u>46,000</u> | <u>-</u> | <u>46,000</u> | <u>-</u> | <u>46,000</u> |
| Net Program Income (Expense) | (24,041) | (201,346) | - | (225,387) | (445,074) | (670,461) |
| GENERAL REVENUES | | | | | | |
| Property taxes | 14,425 | 168,295 | - | 182,720 | - | 182,720 |
| Specific ownership taxes | 1,580 | 18,436 | - | 20,016 | - | 20,016 |
| Interest and other income | 22,066 | 530 | - | 22,596 | - | 22,596 |
| Total General Revenues | <u>38,071</u> | <u>187,261</u> | <u>-</u> | <u>225,332</u> | <u>-</u> | <u>225,332</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | | | | | | |
| | 14,030 | (14,085) | - | (55) | (445,074) | (445,129) |
| OTHER FINANCING SOURCES (USES) | | | | | | |
| Judgement mill levy | - | - | - | - | 48,065 | 48,065 |
| Total Other Financing Sources (Uses) | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>48,065</u> | <u>48,065</u> |
| CHANGE IN FUND BALANCE | | | | | | |
| | 14,030 | (14,085) | - | (55) | 55 | |
| CHANGE IN NET POSITION | | | | | | |
| | | | | | (397,064) | (397,064) |
| FUND BALANCE/NET POSITION (DEFICIT) | | | | | | |
| BEGINNING OF YEAR | <u>(90,443)</u> | <u>42</u> | <u>(77,684)</u> | <u>(168,085)</u> | <u>(8,081,912)</u> | <u>(8,249,997)</u> |
| END OF YEAR | <u>\$ (76,413)</u> | <u>\$ (14,043)</u> | <u>\$ (77,684)</u> | <u>\$ (168,140)</u> | <u>\$ (8,478,921)</u> | <u>\$ (8,647,061)</u> |

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

NEU TOWNE METROPOLITAN DISTRICT

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

For the Year Ended December 31, 2017

| | Original <u>Budget</u> | Final <u>Budget</u> | <u>Actual</u> | Variance Favorable <u>(Unfavorable)</u> |
|--------------------------------------|---------------------------|-------------------------|------------------------|---|
| REVENUES | | | | |
| Property taxes | \$ 14,425 | \$ 13,718 | \$ 14,425 | \$ 707 |
| Specific ownership taxes | 1,000 | 1,591 | 1,580 | (11) |
| Interest and other income | <u>100</u> | <u>100</u> | <u>22,066</u> | <u>21,966</u> |
| Total Revenues | <u>15,525</u> | <u>15,409</u> | <u>38,071</u> | <u>22,662</u> |
| EXPENDITURES | | | | |
| Accounting and audit | 3,000 | 3,800 | 3,743 | 57 |
| Insurance | 3,000 | 2,750 | 2,735 | 15 |
| Legal | 6,000 | 19,000 | 17,346 | 1,654 |
| Miscellaneous expenses | 1,000 | - | - | - |
| Treasurer's fees | 216 | 217 | 217 | - |
| Contingency | 1,000 | 337 | - | 337 |
| Emergency reserve | <u>396</u> | <u>396</u> | <u>-</u> | <u>396</u> |
| Total Expenditures | <u>14,612</u> | <u>26,500</u> | <u>24,041</u> | <u>2,459</u> |
| CHANGE IN FUND BALANCE | 913 | (11,091) | 14,030 | 25,121 |
| FUND BALANCE - BEGINNING OF YEAR | <u>(68,885)</u> | <u>(90,443)</u> | <u>(90,443)</u> | <u>-</u> |
| FUND BALANCE - END OF YEAR | <u>\$ (67,972)</u> | <u>\$ (101,534)</u> | <u>\$ (76,413)</u> | <u>\$ 25,121</u> |

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

NEU TOWNE METROPOLITAN DISTRICT

Notes to Financial Statements December 31, 2017

Note 1: Summary of Significant Accounting Policies

The accounting policies of the Neu Towne Metropolitan District, located in Douglas County, Colorado, conform to the accounting principles generally accepted in the United States of America (“GAAP”) as applicable to governmental units. The Governmental Accounting Standards Board (“GASB”) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant policies consistently applied in the preparation of financial statements.

Definition of Reporting Entity

The District was organized on November 18, 2004, as a quasi-municipal organization established under the State of Colorado Special District Act. The District was established to provide street, traffic and safety, water, sanitary sewer, and parks and recreation improvements and facilities within and without the District. The District's primary revenues are property taxes. 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 the GASB, Statement No. 61, *The Financial Reporting Entity: Omnibus, which amended GASB Statement No. 14, The Financial Reporting Entity* and GASB Statement No. 39, *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 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. The District has no component units as defined by the GASB.

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

Basis of Presentation

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

NEU TOWNE METROPOLITAN DISTRICT

Notes to Financial Statements December 31, 2017

The government-wide financial statements (i.e. the statement of net position and the statement of governmental fund revenues, expenditures, and changes in fund balances/statement of activities) report information on all of the governmental activities of the District. The statement of net position reports all financial and capital resources of the District. The difference between the (a) assets and deferred outflows of resources and the (b) liabilities and deferred inflows of resources of the District is reported as net position. The statement of activities demonstrates the degree to which expenditures/expenses of the governmental funds are supported by general revenues. For the most part, the effect of interfund activity has been removed from these statements.

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

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are collected.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The 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 District 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.

NEU TOWNE METROPOLITAN DISTRICT

Notes to Financial Statements December 31, 2017

Debt Service Fund – The Debt Service Fund is used to account for all financial 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 to account for all financial resources that are restricted, committed or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other assets.

Budgetary Accounting

Budgets are adopted on a non-GAAP basis for the governmental funds. In accordance with the State Budget Law of Colorado, the District's Board of Directors holds public hearings in the fall of each year to approve the budget and appropriate the funds for the ensuing year. The 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. The appropriation is at the total fund expenditures level and lapses at year end.

Subsequent to year end, the District amended its total appropriations in the General Fund from \$14,612 to \$26,500 primarily due to higher legal costs.

Assets, Liabilities and Net Position

Fair Value of Financial Instruments

The District's financial instruments include cash and cash equivalents, accounts receivable and accounts payable. The District estimates that the fair value of all financial instruments at December 31, 2017, does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying balance sheet. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

Deposits and Investments

The District's cash and cash equivalents are considered to be cash on hand and short-term investments with maturities of three months or less from the date of acquisition. Investments for the government are reported at fair value.

The District follows the practice of pooling cash and investments of all funds to maximize investment earnings. Except when required by trust or other agreements, all cash is deposited to and disbursed from a minimum number of bank accounts. Cash in excess of immediate operating requirements is pooled for deposit and investment flexibility. Investment earnings are allocated periodically to the participating funds based upon each fund's average equity balance in the total cash.

NEU TOWNE METROPOLITAN DISTRICT

Notes to Financial Statements December 31, 2017

Estimates

The preparation of these financial statements in conformity with GAAP requires the District management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has no items that qualify for reporting in this category.

In addition to liabilities, the statement of financial 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 taxes are deferred and recognized as an inflow of resources in the period that the amounts become available.

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities.

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items), are reported in the applicable governmental activities columns in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated acquisition value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the life of the asset are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable using the straight-line method. Depreciation on property that will remain assets of the District is reported on the Statement of Activities as a current charge. All property and equipment will be conveyed to the Town of Parker (“Town”) upon completion and final acceptance by the Town. Upon completion and final acceptance by the Town, the majority of capital assets, except for park and recreation and landscaping improvements, will be conveyed to the Town and Parker Water and Sanitation District.

NEU TOWNE METROPOLITAN DISTRICT

Notes to Financial Statements December 31, 2017

Improvements that will be conveyed to other governmental entities are classified as construction in progress and are not depreciated. Land and certain landscaping improvements are not depreciated. No depreciation expense was recognized during 2017.

Property Taxes

Property taxes are levied by the District's Board of Directors. The levy is based on assessed valuations determined by the County Assessor generally as of January 1 of each year. The levy is normally set by December 15 by certification to the County Commissioners to put the tax lien on the individual properties as of January 1 of the following year. The County Treasurer collects the determined taxes during the ensuing calendar year.

The taxes are payable by April 30 or if in equal installments, at the taxpayers' election, in February and June. Delinquent taxpayers are notified in July or 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 since they are not normally available nor are they budgeted as a resource until the subsequent year. The deferred property taxes are recorded as revenue in the subsequent year when they are available or collected.

Fund Equity

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. Because circumstances differ among governments, not every government or every governmental fund will present all of these components. The following classifications make the nature and extent of the constraints placed on a government's fund balance more transparent:

Nonspendable Fund Balance

Nonspendable fund balance includes amounts that cannot be spent because they are either not spendable in form (such as inventory or prepaids) or are legally or contractually required to be maintained intact.

The nonspendable fund balance in the General Fund in the amount of \$2,488 represents prepaid expenditures.

NEU TOWNE METROPOLITAN DISTRICT

Notes to Financial Statements December 31, 2017

Restricted Fund Balance

The restricted fund balance includes amounts restricted for a specific purpose by external parties such as grantors, bondholders, constitutional provisions or enabling legislation.

The restricted fund balance in the General Fund represents Emergency Reserves that have been provided as required by Article X, Section 20 of the Constitution of the State of Colorado. A total of \$414 of the General Fund balance has been restricted in compliance with this requirement.

Committed Fund Balance

The portion of fund balance that can only be used for specific purposes pursuant to constraints imposed by a formal action of the government's highest level of decision-making authority, the Board of Directors. The constraint may be removed or changed only through formal action of the Board of Directors.

Assigned Fund Balance

Assigned fund balance includes amounts the District intends to use for a specific purpose. Intent can be expressed by the District's Board of Directors or by an official or body to which the Board of Directors delegates the authority.

Unassigned Fund Balance

Unassigned fund balance includes amounts that are available for any purpose. Positive amounts are reported only in the General Fund, all funds can report negative amounts.

For the classification of Governmental Fund balances, the District considers an expenditure to be made from the most restrictive first when more than one classification is available.

Deficits

The General Fund reported a deficit fund balance in the fund financial statements of \$(76,413), a deficit fund balance in the Debt Service Fund of \$(14,043), and a deficit fund balance in the Capital Projects Fund of \$(77,684). The District is studying various ways of eliminating the deficits in the future.

Net Position

Net Position represents the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources. The District can report three categories of net position, as follows:

NEU TOWNE METROPOLITAN DISTRICT

Notes to Financial Statements
December 31, 2017

Net investment in capital assets – consists of net capital assets, reduced by outstanding balances of any related debt obligations and deferred inflows of resources attributable to the acquisition, construction, or improvement of those assets and increased by balances of deferred outflows or resources related to those assets.

Restricted net position – net position is considered restricted if their use is constrained to a particular purpose. Restrictions are imposed by external organizations such as federal or state laws. Restricted net position is reduced by liabilities and deferred inflows of resources related to the restricted assets.

Unrestricted net position – consists of all other net position that does not meet the definition of the above two components and is available for general use by the District.

When an expense is incurred for purposes for which both restricted and unrestricted net position are available, the District will use the most restrictive net position first.

Note 2: Cash and Investments

As of December 31, 2017, cash and investments are classified in the accompanying financial statements as follows:

| | |
|----------------------------------|------------------|
| Statement of net position: | |
| Cash and investments | \$ 62,138 |
| Cash and investments -restricted | <u>13,675</u> |
| | <u>\$ 75,813</u> |

Cash and investments as of December 31, 2017, consist of the following:

| | |
|--------------------------------------|------------------|
| Deposits with financial institutions | \$ 75,733 |
| Investments – Federated Treasury | <u>80</u> |
| | <u>\$ 75,813</u> |

Deposits

Custodial Credit Risk

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 equal to 102% of the aggregate uninsured deposits. The State Commissioners for banks and financial services are required by statute to monitor the naming of eligible depositories and reporting of the uninsured deposits and assets maintained in the collateral pools.

NEU TOWNE METROPOLITAN DISTRICT

Notes to Financial Statements December 31, 2017

The District does not have a formal policy for deposits. None of the District's deposits were exposed to custodial credit risk.

Investments

Investment Valuation

Certain investments are measured at fair value within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The District's investment is not required to be categorized within the fair value hierarchy.

Credit Risk

The District has not adopted a formal investment policy; however the District follows state statutes regarding investments. Colorado statutes specify the types of investments meeting defined rating and risk criteria in which local governments may invest. These investments include obligations of the United States and certain U.S. Government agency entities, certain money market funds, guaranteed investment contracts, and local government investment pools.

Federated Treasury Obligations Fund

During 2017, the District's funds that were included in the trust accounts at the UMB Bank were invested in the Federated Treasury Obligations Fund. This fund is a money market fund and each share is equal in value to \$1.00. The fund is AAAM rated and invests exclusively in U.S. Treasury securities and repurchase agreements collateralized by U.S. Treasury securities. The maturity of the underlying securities is 397 days or less. As of December 31, 2017, the District has \$80 invested in the fund, all of which was restricted for the repayment of bond principal and interest.

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.

NEU TOWNE METROPOLITAN DISTRICT

Notes to Financial Statements
December 31, 2017

Note 3: Capital Assets

An analysis of the changes in capital assets for the year ended December 31, 2017, follows:

| | <u>Balance</u> <u>1/1/2017</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance</u> <u>12/31/2017</u> |
|--|-----------------------------------|------------------|------------------|-------------------------------------|
| <u>Governmental Type Activities:</u> | | | | |
| <u>Capital assets not being depreciated:</u> | | | | |
| Landscape improvements | \$1,148,710 | \$ - | \$ - | \$1,148,710 |
| Total capital assets not being depreciated: | <u>1,148,710</u> | <u>-</u> | <u>-</u> | <u>1,148,710</u> |
| Government type assets, net | <u>\$1,148,710</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$1,148,710</u> |

Upon completion and final acceptance by the Town, the majority of capital assets, except for park and recreation and landscaping improvements, will be conveyed by the District to the Town and Parker Water and Sanitation District. Improvements that are conveyed are not depreciated.

Note 4: Long Term Debt

A description of the long-term obligations as of December 31, 2017, is as follows:

\$5,275,000 Limited Tax General Obligation Bonds, Series 2004

On December 1, 2004 the District issued \$5,275,000 of Limited Tax General Obligation Bonds Series 2004 (“Series 2004 Bonds”) dated December 1, 2004, for the purpose of (i) paying or reimbursing costs of the Project, (ii) reimbursing costs of organization, (iii) providing capitalized interest for the payment of a portion of the interest of the bonds, and (iv) paying costs of issuance of the bonds. The bonds bear interest between the rates of 7.2% to 7.25%, payable semiannually on each June 1 and December 1, commencing on June 1, 2005. The Series 2004 Bonds consist of term bonds issued in the amount of \$1,500,000 due December 1, 2023 and \$3,775,000 of term bonds due December 1, 2034. The Series 2004 Bonds maturing on December 1, 2023 are subject to a mandatory sinking fund redemption commencing on December 1, 2008.

NEU TOWNE METROPOLITAN DISTRICT

Notes to Financial Statements
December 31, 2017

The Series 2004 Bonds maturing on December 1, 2034 are subject to a mandatory sinking fund redemption commencing on December 1, 2024. The Series 2004 Bonds are subject to an early redemption at the option of the District, as a whole or in integral multiples of \$5,000, in any order of maturity and in whole or partial maturities, commencing December 1, 2015 and on any date thereafter, upon payment of par and accrued interest, without redemption premium. The Series 2004 Bonds are secured by Pledged Revenues including (i) the required mill levy, (ii) facility fees, (iii) specific ownership taxes and (iv) any other legally available funds of the District. The District covenants to levy a mill levy no less than 30.5 mills and no greater than 35.0 mills for debt repayment.

As noted in Note 6, during 2007 the Developer filed for bankruptcy. As the District has not yet established a revenue base sufficient to pay the District's debt service requirements, during 2008, through 2017 the District was unable to pay the full amount of interest due under the Series 2004 Bonds indenture, or make the required principal payments totaling \$635,000 per the indenture. Unpaid interest compounds and accrues semi-annually at the rate on the bonds. The unpaid interest of \$2,932,096 is reflected as a part of the long-term liabilities amount in the government-wide financial statements and the unpaid principal amount of \$635,000 is reflected as a component of the bond principal balance in the government-wide financial statements.

The following is an analysis of changes in long-term debt for the period ending December 31, 2017:

| | Balance 1/1/2017 | Additions | Deletions | Balance 12/31/2017 | Current Portion |
|-------------------------------|---------------------|-------------------|-------------------|-----------------------|--------------------|
| 2004 Limited Tax General | | | | | |
| Obligation Bonds | \$ 5,275,000 | \$ - | \$ - | \$ 5,275,000 | \$ - |
| Unpaid Interest - Bonds | 2,554,069 | 573,186 | 195,159 | 2,932,096 | - |
| Operating Advances | 42,256 | - | - | 42,256 | - |
| Interest - Operating Advances | 30,888 | 2,958 | - | 33,846 | - |
| Capital Advances | 584,783 | - | - | 584,783 | - |
| Interest - Capital Advances | 401,486 | 40,935 | - | 442,421 | - |
| Judgements | 298,169 | - | 20,428 | 277,741 | - |
| Interest on judgements | 12,164 | 23,154 | 27,637 | 7,681 | - |
| | <u>\$ 9,198,815</u> | <u>\$ 640,233</u> | <u>\$ 243,224</u> | <u>\$ 9,595,824</u> | <u>\$ -</u> |

Due to the uncertainty of the timing of the principal and interest payments on the Series 2004 General Obligation Bonds, a schedule of the timing of these payments is not available.

As of December 31, 2017, the District had remaining voted debt authorization of approximately \$40,725,000. The District has not budgeted to issue any additional debt in 2018. Per the District's Service Plan, the District cannot issue debt in excess of \$8,000,000.

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Notes to Financial Statements December 31, 2017

Note 5: Agreements

The District has entered into various agreements with Neumann Homes of Colorado, L.L.C. (the “Developer”) concerning reimbursement of Developer advances for payment of operations and maintenance expenses, and reimbursement of Developer advances for payment of capital expenditures, and acquisition of public infrastructure designed, constructed and installed by the Developer.

Funding Agreement

The District entered into a Funding Agreement (the “Funding Agreement”) with the Developer setting forth terms for the reimbursement of organizational, capital, operations, and maintenance costs advanced by the Developer to, or on behalf of the District. The maximum funding obligation of the Developer with respect to Advances and Funding Shortfall is \$7,887,000 unless otherwise approved by the Developer. As of December 31, 2017, the Developer had advanced \$627,039 for operations and capital expenditures. In addition, the District owes \$476,267 in interest at 7.0%.

Amounts due under the Funding Agreement and Shortfall Amounts will be reimbursed to the Developer from any future Bond proceeds and other legally available revenues if and when available. Developer Advances do not constitute a debt of the District within the meaning of any constitutional or statutory provision and are subordinate in all respects to all District bonds, including the bonds, or other multiple fiscal year debt and financial obligations of any nature.

Acquisition and Reimbursement Agreement for Infrastructure Improvements

The District and the Developer entered into an Acquisition and Reimbursement Agreement for Infrastructure Improvements (the “Acquisition Agreement”) setting forth streets, landscaping, storm drainage, water and sewer, safety protection, and other public improvements (the “Improvements”) which will be funded, constructed and completed by the Developer and acquired by the District or the Town to serve the Development. The Improvements will be constructed and funded by the District in accordance with the limitations set forth in the Service Plan. The costs of completion of the Improvements (the “Reimbursement Costs”) due under the Acquisition Agreement will, if feasible, be paid from Bond proceeds and other legally available revenues. Reimbursement Costs may include all costs incurred in connection with the organization of the District and construction costs and expenses incurred for planning, design, engineering, surveying, and legal services relating thereto together with interest thereon from the date of transfer of the Improvements to the District, the Water District or the Town at an annual rate as set forth in the Acquisition Agreement. Amounts due under the Acquisition Agreement may also be paid from other legally available revenues of the Districts on a basis subordinate to the repayment of the Bonds.

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Notes to Financial Statements
December 31, 2017

Facility Fee Agreement

On December 21, 2004, the District and the Developer entered into an agreement whereby the Developer, in the event that Facility Fees are not paid to the District in the amounts and by the dates set forth in the schedule below, will pay any shortfall amount immediately upon receipt of notice from the District.

| <u>Date</u> | <u>Facility Fees Due</u> | |
|------------------|--------------------------|------------------|
| | <u>Annual</u> | <u>Aggregate</u> |
| May 1, 2007 | \$144,000 | \$504,000 |
| November 1, 2007 | \$144,000 | \$648,000 |
| May 1, 2008 | \$106,000 | \$754,000 |
| November 1, 2008 | \$103,000 | \$857,000 |
| May 1, 2009 | \$ 14,000 | \$871,000 |
| November 1, 2009 | \$ 12,000 | \$883,000 |

As noted in Note 6, during 2007 the Developer filed for bankruptcy and did not remit the balance due per the above Facility Fee Agreement. The District has attempted to negotiate a facility fee agreement with the Developer's lender, a failed Texas bank, but had no success in that regard. During 2009, the District received \$92,000 from the Developer's lender under the Facility Fee Agreement. Based on the circumstances, no amount has been recorded as a receivable related to unpaid facility fees as of December 31, 2017. The balance due under the Facility Fee Agreement as of December 31, 2017, was \$287,000. The District has not, however, waived any right to offset the balance due under the Facility Fee Agreement against any amounts payable to the Developer.

Note 6: Economic Dependency

During 2007 the Developer filed for bankruptcy protection resulting in the non-payment of the facility fees as well as property taxes. During 2008, the Developer's lender initiated foreclosure procedures with the Public Trustee to sell the property and taxes that have been subsequently received. The District attempted to negotiate a new funding agreement with the Developer's lender, without success. The ownership status of the Development project is uncertain.

The District has not yet established a revenue base sufficient to pay the District's debt service requirements and operational expenditures. Until an independent revenue base is established, continuation of operations in the District and the payment of long-term obligations will be dependent upon funding by a future developer and or additional revenues from current taxpayers.

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Notes to Financial Statements December 31, 2017

Note 7: Tax, Spending and Debt Limitations

Article X, Section 20 of the Colorado Constitution, commonly known as the Taxpayer 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 of benefit increases.

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

Note 8: Risk Management

Except as provided in the Colorado Governmental Immunity Act, 24-10-101, et seq., CRS, the District may be exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets; errors or omissions; injuries to agents; and natural disasters. The Colorado Special Districts Property and Liability Pool (the “Pool”) is an organization created by intergovernmental agreement to provide common liability and casualty insurance coverage to its members at a cost that is considered economically appropriate. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

The District pays annual premiums to the Pool for auto, public officials’ liability, and property and general liability coverage. In the event aggregated losses incurred by the Pool exceed its amounts recoverable from reinsurance contracts and its accumulated reserves, the District may be called upon to make additional contributions to the Pool on the basis proportionate to other 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.

NEU TOWNE METROPOLITAN DISTRICT

Notes to Financial Statements
December 31, 2017

Note 9: Litigation

During 2010, 2011 and 2012, the District has entered into Stipulation and Settlement Agreements with three vendors under which the District acknowledged obligations totaling \$337,795. Since the District is unable to pay the obligations, a judgment mill levy of 10.000 mills was entered with the Court for collection year 2012. Moneys from the judgment mill levy will be collected by Douglas County and sent to the Court for payment to the vendors. The judgments accrue interest at 8% and are included in the long-term debt.

Note 10: Reconciliation of Government-Wide Financial Statements and Fund Financial Statements

The Government Funds Balance Sheet/Statement of Net Assets includes an adjustments column. The adjustments have the following elements:

- 1) Capital improvements used in government activities are not financial resources and, therefore are not reported in the funds; and
- 2) long-term liabilities such as bonds payable, accrued bond interest payable, are not due and payable in the current period and, therefore, are not in the funds.

The Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balances/Statement of Activities includes an adjustments column. The adjustments have the following elements:

- 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; and
- 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.

Note 11: Subsequent Event

Subsequent to year end the District issued \$8,715,000 of Limited Tax (Convertible to Unlimited Tax) General Obligation Refunding and Improvement Bonds Series 2018A (“Series 2018A Bonds”) and \$2,285,000 of Subordinate Limited Tax (Convertible to Unlimited Tax) General Obligation Refunding Series 2018B (“Series 2018B Bonds”). The Series 2018A Bonds were issued for the purpose of paying a portion of the cost of refunding the Series 2004 Bonds, paying the costs of Public Improvements, paying the cost associated with the of issuance, funding a Reserve Fund and funding capitalized interest. The Series 2018B Bonds were issued for the purpose of paying a portion of the cost of refunding the Series 2004 Bonds.

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Notes to Financial Statements December 31, 2017

The Series 2018A Bonds bear interest at the rate ranging between 5.125% and 5.375%, payable semiannually on each June 1 and December 1, commencing on December 1, 2018. The Series 2018B Bonds bear interest at the rate of 7.750%, payable annually on December 15, commencing on December 15, 2018, to the extent that Subordinate Pledged Revenue is available. The Series 2018A Bonds are subject to a mandatory sinking fund redemption commencing on December 1, 2022 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, commencing on December 1, 2023, upon payment of par, accrued interest, and a redemption premium that ranges between 0% and 3%.

The Series 2018A Bonds are secured by Pledged Revenues including (i) the required mill levy, (ii) facility fees, (iii) specific ownership taxes and (iv) any other legally available funds of the District. The Series 2018A Bonds are also secured by amounts held in the Reserve Fund and accumulated in the Surplus Fund. The Series 2018B Bonds are secured by the Subordinate Required Mill Levy, the portion of the Specific Ownership Tax which is collected as a result of the Subordinate Required Mill Levy, and any other legally available monies as determined by the District

The Series 2018B Bonds are “cash flow” bonds meaning that no regularly scheduled principal payments are due prior to the maturity date, and interest not paid will accrue and compound until there is sufficient Subordinate Pledged Revenue for payment. In the event any amounts due and owing on the Series 2018B Bonds remain outstanding on December 16, 2057, such amounts shall be deemed discharged and shall no longer be due and outstanding.

SUPPLEMENTAL INFORMATION

NEU TOWNE METROPOLITAN DISTRICT

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

For the Year Ended December 31, 2017

| | Original & Final <u>Budget</u> | <u>Actual</u> | Variance Favorable <u>(Unfavorable)</u> |
|--------------------------------------|--------------------------------------|------------------------|---|
| REVENUES | | | |
| Property taxes | \$ 168,295 | \$ 168,295 | \$ - |
| Specific ownership taxes | 12,000 | 18,436 | 6,436 |
| Development fees | 12,000 | 46,000 | 34,000 |
| Debt Service Shortage | 198,817 | - | (198,817) |
| Interest and other income | <u>100</u> | <u>530</u> | <u>430</u> |
| Total Revenues | <u>391,212</u> | <u>233,261</u> | <u>(157,951)</u> |
| EXPENDITURES | | | |
| Bond interest | 381,688 | 195,159 | 186,529 |
| Legal/Accounting/Audit | 5,000 | 48,656 | (43,656) |
| Paying agent fees | 2,000 | 1,000 | 1,000 |
| Treasurer's fees | <u>2,524</u> | <u>2,531</u> | <u>(7)</u> |
| Total Expenditures | <u>391,212</u> | <u>247,346</u> | <u>143,866</u> |
| CHANGE IN FUND BALANCE | - | (14,085) | (14,085) |
| FUND BALANCE - BEGINNING OF YEAR | <u>-</u> | <u>42</u> | <u>42</u> |
| FUND BALANCE - END OF YEAR | <u>\$ -</u> | <u>\$ (14,043)</u> | <u>\$ (14,043)</u> |

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

NEU TOWNE METROPOLITAN DISTRICT

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

For the Year Ended December 31, 2017

| | Original & Final <u>Budget</u> | <u>Actual</u> | Variance Favorable <u>(Unfavorable)</u> |
|----------------------------------|--------------------------------------|--------------------|---|
| REVENUES | | | |
| Judgement settlement | \$ 77,684 | \$ - | \$ (77,684) |
| Total Revenues | <u>77,684</u> | <u>-</u> | <u>(77,684)</u> |
| CHANGE IN FUND BALANCE | 77,684 | - | (77,684) |
| FUND BALANCE - BEGINNING OF YEAR | <u>(77,684)</u> | <u>(77,684)</u> | <u>-</u> |
| FUND BALANCE - END OF YEAR | <u>\$ -</u> | <u>\$ (77,684)</u> | <u>\$ (77,684)</u> |

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

Neu Towne Metropolitan District

SUMMARY OF ASSESSED VALUATION, MILL LEVY
AND PROPERTY TAXES COLLECTED
For the Year Ended December 31, 2017

| <u>Year Ended December 31,</u> | <u>Prior Year Assessed Valuation for Current Year Property Tax Levy</u> | <u>Mills Levied</u> | | <u>Total Property Tax</u> | | <u>Percent Collected to Levied</u> |
|--|---|---------------------|----------------|---------------------------|------------------|--|
| | | <u>Fund</u> | <u>Service</u> | <u>Levied</u> | <u>Collected</u> | |
| 2006 | \$ 787,450 | 3.000 | 30.500 | \$ 26,379 | \$ 26,386 | 100.03% |
| 2007 | \$ 1,810,160 | 3.000 | 35.000 | \$ 68,786 | \$ 31,856 | 46.31% |
| 2008 | \$ 4,575,480 | 3.000 | 35.000 | \$ 173,868 | \$ 208,169 | 119.73% |
| 2009 | \$ 4,371,030 | 3.000 | 35.000 | \$ 166,099 | \$ 149,043 | 89.73% |
| 2010 | \$ 3,699,840 | 3.000 | 35.000 | \$ 140,594 | \$ 142,992 | 101.71% |
| 2011 | \$ 3,681,510 | 3.000 | 35.000 | \$ 139,897 | \$ 156,026 | 111.53% |
| 2012 | \$ 2,923,390 | 3.000 | 35.000 | \$ 111,089 | \$ 182,720 | 164.48% |
| 2013 | \$ 3,188,800 | 3.000 | 35.000 | \$ 121,174 | \$ 111,392 | 91.93% |
| 2014 | \$ 3,076,615 | 3.000 | 35.000 | \$ 116,911 | \$ 113,621 | 97.19% |
| 2015 | \$ 3,728,230 | 3.000 | 35.000 | \$ 141,673 | \$ 144,970 | 102.33% |
| 2016 | \$ 4,572,800 | 3.000 | 35.000 | \$ 173,766 | \$ 173,767 | 100.00% |
| 2017 | \$ 4,808,420 | 3.000 | 35.000 | \$ 182,720 | \$ 182,720 | 100.00% |
| Estimated for year ending December 31, 2018 | \$ 5,921,410 | 3.265 | 38.099 | \$ 244,933 | | |

NOTE

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