

**DENARGO MARKET
METROPOLITAN DISTRICT NO. 1**

Financial Statements

December 31, 2017

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June 20, 2018

DENARGO MARKET METROPOLITAN DISTRICT NO. 1

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Dazzio & Associates, PC

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Denargo Market Metropolitan District No. 1
Denver, Colorado

We have audited the accompanying financial statements of the governmental activities and the major fund of the Denargo Market Metropolitan District No. 1 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Denargo Market Metropolitan District No. 1, as of December 31, 2017, and the respective changes in financial position and the budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the 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. Our opinion on the basic financial statements is not affected by this missing information.

Daggio & Associates, P.C.

June 13, 2018

BASIC FINANCIAL STATEMENTS

DENARGO MARKET METROPOLITAN DISTRICT NO. 1

STATEMENT OF NET POSITION

December 31, 2017

	<u>Governmental Activities</u>
Assets	
Cash and Investments	\$ 179,410
Prepaid Expenses	9,114
Capital Assets, Net	<u>4,441,589</u>
Total Assets	<u>4,630,113</u>
Liabilities	
Accounts Payable	15,055
Due to District No. 2	1,506
Deposits	165,209
Noncurrent Liabilities: Due In More Than One Year	<u>412,342</u>
Total Liabilities	<u>594,112</u>
Net Position	
Net Investment In Capital Assets	4,243,036
Restricted for TABOR Reserve	2,240
Unrestricted	<u>(209,275)</u>
Total Net Position	<u><u>\$ 4,036,001</u></u>

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

DENARGO MARKET METROPOLITAN DISTRICT NO. 1

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2017

<u>Function/Program Activities</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense)</u>
		<u>Permits, Fees, Fines, and Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Revenue and Changes in Net Position</u>
Governmental Activities					Governmental Activities
Administration	\$ 103,912	\$ -	\$ 449,101	\$ 5,099	\$ 350,288
Operations and Maintenance	63,579	-	-	-	(63,579)
Interest on Developer Advance	50,168	-	-	-	(50,168)
Unallocated Depreciation	170,831	-	-	-	(170,831)
Total Governmental Activities	<u>\$ 388,490</u>	<u>\$ -</u>	<u>\$ 449,101</u>	<u>\$ 5,099</u>	<u>65,710</u>
			General Revenues:		
			Unrestricted Investment Earnings		<u>1,837</u>
			Total General Revenues		<u>1,837</u>
			Changes In Net Position		67,547
			Net Position - Beginning		<u>3,968,454</u>
			Net Position - Ending		<u>\$ 4,036,001</u>

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

DENARGO MARKET METROPOLITAN DISTRICT NO. 1

**BALANCE SHEET
GOVERNMENTAL FUND**

December 31, 2017

	General Fund
Assets	
Cash and Investments	\$ 179,410
Prepaid Expense	9,114
Total Assets	<u>\$ 188,524</u>
Liabilities	
Accounts payable	\$ 15,055
Due to District No. 2	1,506
Deposits	165,209
Total Liabilities	<u>181,770</u>
Fund Balance	
Nonspendable	
Prepaid Expenses	9,114
Restricted for TABOR Reserve	2,240
Unassigned	(4,600)
Total Fund Balance	<u>6,754</u>
Total Liabilities and Fund Balance	<u>\$ 188,524</u>

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

DENARGO MARKET METROPOLITAN DISTRICT NO. 1

**RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET TO THE
STATEMENT OF NET POSITION**

December 31, 2017

Total Fund Balance - Governmental Fund \$ 6,754

Total net position reported for governmental activities in the statement of
of net position is different because:

Capital assets used in governmental activities are not financial
resources and therefore are not reported in the funds. Those
assets consist of:

Capital Assets, Net 4,441,589

Long-term liabilities applicable to the District's governmental
activities are not due and payable in the current period and
accordingly are not reported as fund liabilities. All liabilities,
both current and long-term, are reported in the statement of
net position.

Balances at year-end are:

Subordinate Nonrevolving Line of Credit Note	\$ (257,861)	
Accrued Interest on Subordinate Nonrevolving Line of Credit Note	(20,771)	
Developer Advance - Operation Funding Agreements	(133,622)	
Accrued Interest on Operating Advances	(88)	(412,342)

Net Position - Governmental Activities \$ 4,036,001

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

DENARGO MARKET METROPOLITAN DISTRICT NO. 1

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND

For the Year Ended December 31, 2017

	General Fund
Revenues	
Transfer from District No. 2	\$ 454,200
Net investment income	1,837
Total Revenues	<u>456,037</u>
Expenditures	
Current	
Management	39,247
Accounting	16,700
Audit	9,183
Legal	17,778
Miscellaneous	2,797
Directors Fees	1,700
Payroll Taxes	140
City of Denver Annual Fee	9,000
Insurance	9,786
Landscape and Irrigation	19,982
Site Lighting	1,862
Repairs and Maintenance	2,980
Site Inspection	2,081
Snow Removal	13,001
Locates	410
Utilities	20,844
Repay Developer Advance - Principal	237,565
Repay Developer Advance - Interest	144,067
Total Expenditures	<u>549,123</u>
Net Change in Fund Balance	(93,086)
Fund Balance - Beginning	<u>99,840</u>
Fund Balance - Ending	<u><u>\$ 6,754</u></u>

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

DENARGO MARKET METROPOLITAN DISTRICT NO. 1

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

For the Year Ended December 31, 2017

Net Change in Fund Balance - Total Governmental Fund \$ (93,086)

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

Governmental funds report capital outlays as expenditures. In the statement of activities, capital outlay is not reported as an expenditure. However, the statement of activities will report as depreciation expense the allocation of the cost of any depreciable asset over the estimated useful life of the asset.

Depreciation Expense (170,831)

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, however, has any effect on net position. The net effect of these differences in the treatment of long-term debt is as follows:

Line of Credit Note - Interest Payment	\$ 5,099	
Developer Operating Advance - Principal Payment	237,565	
Developer Operating Advance - Interest Payment	138,968	
Accrued Interest on Line of Credit Note	(20,629)	
Accrued Interest on Operating Advance	(29,539)	331,464
	(29,539)	331,464

Change in Net Position - Governmental Activities \$ 67,547

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

DENARGO MARKET METROPOLITAN DISTRICT NO. 1

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

**For the Year Ended December 31, 2017
(With Comparative Totals for the Year Ended December 31, 2016)**

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)	2016 Actual
Revenues					
Transfer from District No. 2	\$ 70,511	\$ 453,195	\$ 454,200	\$ 1,005	\$ 232,537
Permit Fees	-	-	-	-	5,650
Net investment income	-	960	1,837	877	455
Total Revenues	<u>70,511</u>	<u>454,155</u>	<u>456,037</u>	<u>1,882</u>	<u>238,642</u>
Expenditures					
Administrative					
Management	37,700	37,700	39,247	(1,547)	49,887
Statutory Compliance	-	-	-	-	2,283
Accounting	13,600	17,079	16,700	379	15,127
Audit	5,000	9,183	9,183	-	4,605
Legal	30,000	25,000	17,778	7,222	34,304
Miscellaneous	500	500	378	122	381
Directors Fees	3,000	2,000	1,700	300	3,700
Payroll Taxes	230	230	140	90	207
Election	-	-	-	-	1,316
City of Denver Annual Fee	9,000	9,000	9,000	-	9,000
Insurance	11,200	11,200	9,786	1,414	10,584
Operations and Maintenance					
Landscape and Irrigation	50,000	30,000	19,982	10,018	52,169
Site Lighting	3,000	3,000	1,862	1,138	1,132
Storm Drainage/Street Sweeping	2,000	-	-	-	-
Repairs and Maintenance	30,000	30,000	2,980	27,020	-
Site Inspection	16,560	3,000	2,081	919	851
Security	6,700	-	-	-	6,372
Snow Removal	20,600	18,000	13,001	4,999	16,085
Locates	3,200	3,200	410	2,790	3,631
Miscellaneous	3,000	3,000	2,419	581	1,274
Utilities	5,000	20,000	20,844	(844)	2,957
Contingency	17,145	21,276	-	21,276	-
Debt Service					
Repay Developer Advance - Principal	-	237,565	237,565	-	-
Repay Developer Advance - Interest	-	144,067	144,067	-	-
Total Expenditures	<u>267,435</u>	<u>625,000</u>	<u>549,123</u>	<u>75,877</u>	<u>215,865</u>
Excess Revenues Over (Under) Expenditures	<u>(196,924)</u>	<u>(170,845)</u>	<u>(93,086)</u>	<u>77,759</u>	<u>22,777</u>
Other Financing Sources					
Developer Advances	112,430	112,430	-	(112,430)	-
Transfers	-	-	-	-	47
Total Other Financing Sources	<u>112,430</u>	<u>112,430</u>	<u>-</u>	<u>(112,430)</u>	<u>47</u>
Net Change in Fund Balance	<u>(84,494)</u>	<u>(58,415)</u>	<u>(93,086)</u>	<u>(34,671)</u>	<u>22,824</u>
Fund Balance - Beginning	<u>84,494</u>	<u>99,840</u>	<u>99,840</u>	<u>-</u>	<u>77,016</u>
Fund Balance - Ending	<u>\$ -</u>	<u>\$ 41,425</u>	<u>\$ 6,754</u>	<u>\$ (34,671)</u>	<u>\$ 99,840</u>

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

DENARGO MARKET METROPOLITAN DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017

Note 1 – Definition of Reporting Entity

The Denargo Market Metropolitan District No. 1 (the District, or District No. 1 or Management District), a quasi-municipal corporation and political subdivision of the State of Colorado was organized by recorded order and decree of the District Court for the City and County of Denver on June 30, 2010, and is governed pursuant to provisions of the Colorado Special District Act (Title 32, Article 1, Colorado Revised Statutes). The District operates under a Service Plan approved by the City and County of Denver (City) on March 8, 2010. The District's service boundaries are located entirely within the City. The District is one of three related districts: Denargo Market Metropolitan Districts Nos. 1, 2 and 3 (the Districts). As of December 31, 2017, the Districts have the same membership of their respective Boards of Directors. Pursuant to the Service Plan, Districts Nos. 2 and 3 are referred to as the Financing Districts and District No. 1 is the Management District. The Management District is responsible for managing, implementing and coordinating the financing, acquisition, construction, completion, operation and maintenance of all public infrastructure and services within and without the project known as Denargo Market. The Financing Districts provide the funding for the improvements and the tax base needed to support ongoing operations of the Districts.

The District was established principally to coordinate the acquisition and financing of public improvements, including street improvements, traffic and safety controls, water improvements, sanitation improvements, stormwater drainage improvements, parks and recreation improvements, safety protection, transportation and mosquito control (the Improvements). It is anticipated that when completed, the District will transfer much of the public improvements to the City for ownership and operations and maintenance. It is anticipated that certain street, stormwater drainage and parks and recreation improvements will be retained by the District for operations and maintenance thereof.

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

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

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

DENARGO MARKET METROPOLITAN DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

Note 2 – Summary of Significant Accounting Policies

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

Government-Wide and Fund Financial Statements

The government-wide financial statements include the statement of net position and the statement of activities. These financial statements include all of the activities of the District. Governmental activities are normally supported by taxes and intergovernmental revenues.

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenue. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenue* 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 revenue are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported in 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 related cash flows. Revenues are recognized as soon as all eligibility requirements imposed by the provider have been met. Expenditures for capital assets are shown as increases in assets and redemption of bonds and notes are recorded as a reduction in liabilities.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenue to be available if they are collected within 60 days of the end of the current fiscal period. The major source of revenue susceptible to accrual is interest. All other revenue items are considered to be measurable and available only when cash is received by the District. The District determined that Developer

DENARGO MARKET METROPOLITAN DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017

advances are not considered revenue susceptible to accrual. Expenditures other than interest on long-term obligations are recorded when the liability is incurred or the long-term obligation paid.

The District reports the following major governmental fund:

General Fund – This fund is the general operating fund of the District. It is used to account for all financial resources of the general government.

Budgets

In accordance with the State Budget Law, the District's Board of Directors holds public hearings in the fall each year to approve the budget and appropriate the funds for the ensuing year. The appropriation is at the total fund expenditures level and lapses at year end. The District 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 District has amended its budget for the year ended December 31, 2017.

Cash and Investments

Colorado Revised Statutes specify investment instruments meeting defined rating and risk criteria in which the District may invest which include: obligations of the United States and certain U.S. government agency securities, general obligation and revenue bonds of U.S. local government entities, bankers acceptances of certain banks, commercial paper, certain corporate bonds, written repurchase agreements collateralized by certain authorized securities, certain money market funds, guaranteed investment contracts, and local government investment pools.

Cash and investments are presented on the balance sheet in the basic financial statements at fair value.

Capital Assets

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

DENARGO MARKET METROPOLITAN DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

Improvements not conveyed either to the City or to other governmental entities for ownership and maintenance, are owned and maintained by the District.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable. Depreciation expense has been computed using the straight-line method over the estimated economic useful lives:

Streets	30 years
Sidewalks	30 years
Street Lights	30 years
Parks	30 years

Fund Equity

Net Position

For government-wide presentation purposes when both restricted and unrestricted resources are available for use, it is the government's practice to use restricted resources first, then unrestricted resources as they are needed.

Fund Balances

Generally, the fund balance represents the difference between the current assets and current liabilities. In the fund financial statements, governmental funds report fund balance classifications that comprise a hierarchy based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

Governmental funds report up to five classifications of fund balance: nonspendable, restricted, committed, assigned and unassigned. Due to circumstances which differ amongst governments, not every government or every governmental fund will present all of these components. The following classifications describe the relative strength of the spending constraints:

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

Restricted fund balance – The portion of fund balances that is constrained to be used for a specific purpose by external parties (such as bondholders), constitutional provisions or enabling legislation. The District reports the following Restricted Fund Balances:

DENARGO MARKET METROPOLITAN DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

Restricted for TABOR Emergencies

Emergency reserves have been provided for as required by Article X, Section 20 of the Constitution of the State of Colorado (see Note 10).

Committed fund balance – The portion of fund balance that can only be used for specific purposes pursuant to constraints imposed by 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 – The portion of fund balance that is constrained by the government's intent to be used for specific purposes but is neither restricted nor committed. Intent is expressed by the Board of Directors to be used for a specific purpose. Constraints imposed on the use of assigned amounts are more easily removed or modified than those imposed on amounts that are classified as committed.

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

If more than one classification of fund balance is available for use when an expenditure is incurred, it is the District's practice to use the most restrictive classification first.

Note 3 – Cash and Investments

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

Cash	\$ 13,658
Investments	<u>165,752</u>
Total	<u>\$ 179,410</u>

Deposits with Financial Institutions

Custodial credit risk

Custodial risk for deposits is the risk that, in the event of a failure of a depository financial institution, the District will not be able to recover its deposits or will not be able to recover collateral securities that are in possession of an outside party. The Colorado Public Deposit Protection Act (PDPA) governs the investment of public funds. 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 (\$250,000) must be collateralized. The

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NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017

eligible collateral is determined by the PDPA. PDPA allows the institution to create a single collateral pool for all public funds. The pool for all the uninsured public deposits as a group is to be maintained by another institution or held in trust. The market value of the collateral must be at least equal to 102% of the aggregate uninsured deposits. The institution's internal records identify the collateral by depositor and as such, these deposits are considered to be uninsured but collateralized. The State Regulatory Commissions for banks and financial services are required by statute to monitor the naming of eligible depositories and reporting of the uninsured deposits and assets maintained in the collateral pools. At December 31, 2017, the District's bank deposits amounting to \$14,226 were insured by federal depository insurance and consequently were not exposed to custodial credit risk.

Investments

The District has adopted an investment policy to follow Colorado Revised Statutes regarding investments.

The District generally limits its concentration of investments to obligations of the United States, certain U.S. government agency securities and Local Government Investment Pools, which are believed to have minimal credit risk; minimal interest rate risk and no foreign currency risk. Additionally, the District is not subject to concentration risk disclosure requirements or subject to investment custodial credit risk for investments that are in the possession of another party. Colorado revised statutes limit investment maturities to five years or less unless formally approved by the Board of Directors, such actions are generally associated with a debt service reserve or sinking fund requirements.

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

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

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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

As of December 31, 2017, the Authority had the following investments:

<u>Investment</u>	<u>Maturity</u>	<u>Amount</u>
Colorado Government Liquid Asset Trust (COLOTRUST)	Weighted Average under 60 Days	<u>\$ 165,752</u>

COLOTRUST

The District invested in the Colorado Local Government Liquid Asset Trust (COLOTRUST) (the Trust), an investment vehicle established for local government entities in Colorado to pool surplus funds. The State Securities Commissioner administers and enforces all State statutes governing the Trust. The Trust operates similarly to a money market fund and each share is equal in value to \$1.00. The Trust offers shares in two portfolios, COLOTRUST PRIME and COLOTRUST PLUS+. Both portfolios may invest in U.S. Treasury securities and repurchase agreements collateralized by U.S. Treasury securities. COLOTRUST PLUS+ may also invest in certain obligations of U.S. government agencies, highest rated commercial paper and any security allowed under CRS 24-75-601. A designated custodial bank serves as custodian for the Trust's portfolios pursuant to a custodian agreement. The custodian acts as safekeeping agent for the Trust's investment portfolios and provides services as the depository in connection with direct investments and withdrawals. The custodian's internal records segregate investments owned by the Trust. COLOTRUST is rated AAAM by Standard & Poor's. COLOTRUST records its investments at fair value and the District records its investment in COLOTRUST using the net asset value method. There are no unfunded commitments, the redemption frequency is daily and there is no redemption notice period.

DENARGO MARKET METROPOLITAN DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

Note 4 – Capital Assets

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital assets being depreciated				
Streets	\$ 2,542,371	\$ -	\$ -	\$ 2,542,371
Parks	2,582,542	-	-	2,582,542
Total capital assets being depreciated	<u>5,124,913</u>	<u>-</u>	<u>-</u>	<u>5,124,913</u>
Less accumulated depreciation for				
Streets	254,238	84,746	-	338,984
Parks	258,255	86,085	-	344,340
Total accumulated depreciation	<u>512,493</u>	<u>170,831</u>	<u>-</u>	<u>683,324</u>
Total capital assets being depreciated, net	<u>4,612,420</u>	<u>(170,831)</u>	<u>-</u>	<u>4,441,589</u>
Governmental activities capital assets, net	<u>\$ 4,612,420</u>	<u>\$ (170,831)</u>	<u>\$ -</u>	<u>\$ 4,441,589</u>

Note 5 – Long-Term Obligations

The following is an analysis of changes in the District's long-term obligations for the year ended December 31, 2017:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<u>Governmental Activities</u>					
Subordinate Nonrevolving Line of Credit Note, Series 2010	\$ 257,861	\$ -	\$ -	\$ 257,861	\$ -
Accrued Interest - Line of Credit Note	5,241	20,629	5,099	20,771	-
Developer Advance - Operating	371,187	-	237,565	133,622	-
Accrued Interest - Developer Advance - Operating	109,517	29,539	138,968	88	-
	<u>\$ 743,806</u>	<u>\$ 50,168</u>	<u>\$ 381,632</u>	<u>\$ 412,342</u>	<u>\$ -</u>

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\$22,612,500 Subordinate Nonrevolving Line of Credit Note, Series 2010 (the “Note”).

The Note was issued pursuant to a Resolution of the District adopted on October 29, 2010 (the “Resolution”) in a principal amount not to exceed \$22,612,500 with Denargo Market L.P. (the “Original Developer”). The Original Developer sold certain real property within the boundaries of the Districts to Denargo Market Development, LLC (“Developer”). In connection with such sale, on December 22, 2015, the Note was cancelled and reissued in the name of the Developer (the “Reissued Note”).

The Reissued Note secures advances for the costs of public improvements made by the Developer pursuant to the PFRA (defined below). The Reissued Note bears interest at the rate of 8% per annum. Payments of principal and interest are payable annually on December 15 after all payments due and owing on the Senior Obligations (as defined therein) in that year have been fully paid. The majority of the amounts outstanding on the Reissued Note were paid in 2016 from the proceeds of District No. 2’s Limited Tax (Convertible to Unlimited Tax) General Improvement Loan in the principal amount of \$10,000,000 (the “2016A Loan”) and Taxable Limited Tax (Convertible to Unlimited Tax) General Obligation Advancing Improvement Loan in an amount not to exceed \$8,000,000 (the “2016B Loan”) (the 2016A Loan and the 2016B Loan are referred to collectively as the “2016 Loan”). In connection with the 2016 Loan, the Reissued Note was further amended and restated (the “Amended and Restated Note”) dated September 29, 2016 to reflect that the only amount remaining on the Amended and Restated Note was \$467,533 and that no additional amounts can be added thereto. In 2016, the Amended and Restated Note was further reduced as a result of the application of proceeds of the 2016A Loan to amounts outstanding thereon such that as of December 31, 2016, the amount remaining on the Amended and Restated Note was \$263,102 which included \$257,861 in principal and \$5,241 of accrued interest.

In 2017, District No. 2 made advances on the 2016B Loan amounting to \$381,632. Of this amount, \$5,099 was applied to accrued interest on the Amended and Restated Note and \$376,533 was applied to principal and interest on the Developer advances made under the Multiple-Year Operation Funding Agreement.

The Amended and Restated Note is secured by and payable solely from the “Pledged Revenues” which include: (i) amounts derived from imposition of the Capital Levies, less costs of collection; and (ii) Facilities Fees, if any. Provided that the District is imposing and enforcing the collection of the Pledged Revenue, failure to make a payment when due shall not constitute a default.

The Capital Levies (as defined in the Resolution) are imposed by District Nos. 2 and 3 (the “Taxing Districts”) pursuant to a Capital Pledge Agreement among the District and the Taxing Districts dated October 29, 2010 (the “Pledge Agreement”). Pursuant to the Pledge Agreement, the Taxing Districts are obligated to impose the Capital Levies and Facilities Fees, if any, and pay the Capital Levies Revenues to the District for their allocated portion of the Annual Bond Costs (as defined in

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the Resolution). The obligation of the Taxing Districts to pay the Annual Bond Costs constitutes a limited tax obligation of the Taxing Districts payable solely from and to the extent of the Pledged Revenue and constitutes an irrevocable lien upon the Pledged Revenues of the Taxing Districts. The Taxing Districts are obligated to impose the Capital Levies upon the direction of the District for 30 years after the direction of the District in the amount of the Capital Levies as determined by the District; provided, however, that the Capital Levy cannot exceed 35 mills for each Taxing District, provided that in the event the method of calculating assessed valuation is changed after March 8, 2010, the maximum mill levy will be increased or decreased to reflect such changes. If the Amended and Restated Notes are held by an owner who does not qualify as a “financial institution or an institutional investor” as defined in §32-1-103(6.5), C.R.S. or does not otherwise meet the requirements of §32-1-1101(6)(a), C.R.S., then the Capital Levy shall not be subject to adjustment and shall not exceed a maximum of 50 mills until the year in which the Boards of Directors of the Districts determine in a resolution, that compliance with such restriction is no longer necessary to comply with the requirements of §32-1-1101(6), C.R.S., and the Districts obtain an opinion of counsel addressed to the Districts to the effect that the restriction on adjustment of the mill levy is no longer necessary to comply with §32-1-1101(6)(a), C.R.S.

On September 29, 2016, the Districts entered into an Amendment to and Subordination of the Capital Pledge Agreement which provides that any payments on the Amended and Restated Note are to be made on a subordinate basis to the 2016 Loan. However, it is anticipated that at such time as the 2016B Loan closes, amounts available thereunder shall be used to pay all amounts remaining on the Amended and Restated Note.

The District may prepay, from other legally available revenues of the District, principal amounts outstanding under the Amended and Restated Note, in whole or in part, at any time without premium or penalty. All prepayments shall be accompanied by payment of the accrued and unpaid interest of the principal amount so prepaid, to the date of prepayment.

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Authorized Debt

On May 4, 2010, a majority of the qualified electors of the District authorized the issuance of indebtedness in an amount not to exceed \$281,770,500 at an interest rate not to exceed 18% per annum. On May 6, 2014, a majority of the qualified electors of the District authorized the issuance of indebtedness in an amount not to exceed \$307,386,000 at an interest rate not to exceed 18% per annum. At December 31, 2017, the District had authorized but unissued indebtedness in the following amounts allocated for the following purposes:

	Amount Authorized on November 4, 2010	Amount Authorized on May 6, 2014	Series 2010 Subordinate Note	Authorized but Unissued at December 31, 2017
Streets	\$ 25,615,500	\$ 25,615,500	\$ -	\$ 51,231,000
Parks and Recreation	25,615,500	25,615,500	-	51,231,000
Water	25,615,500	25,615,500	-	51,231,000
Sanitation	25,615,500	25,615,500	-	51,231,000
Transportation	25,615,500	25,615,500	-	51,231,000
Mosquito Control	25,615,500	25,615,500	-	51,231,000
Traffic and Safety Controls	25,615,500	25,615,500	-	51,231,000
Operations and Maintenance	25,615,500	25,615,500	-	51,231,000
Refundings	25,615,500	25,615,500	-	51,231,000
Intergovernmental Agreements	25,615,500	25,615,500	-	51,231,000
Security Services and Improvements	-	25,615,500	-	25,615,500
Television Relay and Translation	-	25,615,500	-	25,615,500
Debt Issuances	-	-	(7,191,918)	(7,191,918)
	<u>\$ 256,155,000</u>	<u>\$ 307,386,000</u>	<u>\$ (7,191,918)</u>	<u>\$ 556,349,082</u>

This table does not include detailed information related to authorized indebtedness, as allocated by District purpose (i.e. streets, traffic and safety controls, etc.) for the various debt issuances. Information by category is unavailable at this time. The Developer operating advances payable are not reflected in the above presentation of authorized debt usage.

Pursuant to the Service Plan, the Districts are permitted to issue bonded indebtedness up to \$22,612,500; provided however that the total debt authorization of \$22,612,500 may increase by an additional \$3,000,000 with the prior written approval of the Manager of Finance of the City and County of Denver.

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Developer Advances

The District entered into Operation Funding Agreements and a Project Funding and Reimbursement Agreement with the Developer as follows:

Operation Funding Agreements

The District entered into the following Operation Funding Agreements with the Original Developer: (i) 2010-2011 Operation Funding Agreement dated October 5, 2010 (“2010-2011 OFA”); (ii) 2012 Operation Funding Agreement dated April 24, 2012 (“2012 OFA”); (iii) 2013-2014 Operation Funding Agreement dated July 28, 2014 (“2013-2014 OFA”); and the 2015 Operation Funding Agreement dated November 18, 2014 (“2015 OFA”) (the 2010-2011 OFA, 2012 OFA, 2013-2014 OFA and the 2015 OFA are hereinafter referred to collectively as the “Prior OFAs”). As set forth below, the District and the Original Developer terminated the Prior OFAs in 2015 pursuant to a Termination of Project Funding and Reimbursement Agreement and Operation Funding Agreements. Amounts accrued under the Prior OFAs are now due and owing to the Developer on the terms and provisions of the Multiple Year Operation Funding Agreement, described below.

Project Funding and Reimbursement Agreement

On October 5, 2010, the District entered into a Project Funding and Reimbursement Agreement with the Original Developer (“Prior PFRA”). As set forth below, the District and the Original Developer terminated the Prior PFRA in 2015 pursuant to the Termination of Project Funding and Reimbursement Agreement and Operation Funding Agreements.

Termination of Project Funding and Reimbursement Agreement and Operation Funding Agreements (Termination Agreement)

On December 22, 2015, the District and the Original Developer terminated the Prior OFA’s and the Prior PFRA. The terms of the Termination Agreement recognize that the District will enter into a Project Funding and Reimbursement Agreement and an Operation Funding Agreement with the Developer, and all amounts owed under the previous agreements will become payable to the Developer.

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Project Funding and Reimbursement Agreement

On January 27, 2016, with an effective date of December 22, 2015, the District entered into a Project Funding and Reimbursement Agreement with the Developer (the "PFRA").

The PFRA provides that the amounts payable to the Original Developer under the Prior PFRA for Organization and Construction Related Expenses are now payable to the Developer.

The PFRA provides that the District will reimburse the Developer for any advances made to the District for construction related expenses associated with the costs of improvements to be provided by the District for fiscal years 2016 through 2020, up to \$22,612,000.

For advances made for Organization Expenses, simple interest shall accrue from the date of organization of the District until paid at the rate eight percent (8%) per annum. For Construction Expenses, simple interest shall accrue on each Developer Advance from the date of deposit into the District's account until paid at the rate of eight percent (8%) per annum. The Parties agree that payments by the District to the Developer shall credit first against accrued and unpaid interest and then to the principal amount due.

The PFRA was terminated on September 29, 2016 and no obligations of either the District or the Developer are remaining thereunder.

Multiple-Year Operation Funding Agreement

On August 22, 2016, the District entered into a Multiple-Year Operation Funding Agreement (the "MYOFA") with the Developer. Under the District's current financial forecast of increases in assessed valuation due to growth, and expenditures for operations and maintenance expenses ("Operations Expense"), the District anticipates annual shortfalls in revenues available for Operations Expenses to be incurred for fiscal year 2016 and in each fiscal year thereafter for an as-yet undetermined period of time. The District shall be required to impose on a yearly basis during the term of the MYOFA a mill levy of at least 10 mills, but not more than the mill levy limit in the Service Plan ("Operations Mill Levy") for the Operations Expenses of the District. The revenue generated from the Operations Mill Levy plus specific ownership taxes generated as a result of the Operations Mill Levy shall be the Operations Revenue. The MYOFA provides that the Developer will advance funds to the District in an amount equal to the difference between the Assumed Annual Budget Amount, equal to the operation and maintenance budget for the following fiscal year and the Operations Revenue (the "Shortfall Amount"). If the District imposes an Operations Mill Levy of less than 10 mills, the Developer is not obligated under the MYOFA to fund any difference between the Operations Revenue that would be generated from the 10 mills Operations Mill Levy plus specific ownership taxes generated as a result of the Operations Mill Levy and the revenue

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generated from the Operations Mill Levy actually imposed in the applicable year. Amounts advanced under the MYOFA accrue interest at 8% per annum.

The obligation of the Developer to advance funds under the MYOFA expires on December 31, 2056. In the event the District has not reimbursed the Developer for any Developer Advance(s) made pursuant to the MYOFA on or before December 31, 2056, any amount of principal and accrued interest outstanding on such date shall be deemed to be forever discharged and satisfied in full.

The MYOFA may be terminated after December 31, 2023 if the Operations Revenue for the two most recent consecutive years was equal to or more than the Assumed Annual Budget Amount during such two-year period.

Payments to reimburse the Developer shall be made on December 2 of each year and shall be applied as follows: (a) first to accrued and unpaid interest on amounts received on the Prior OFAs prior to their termination, but which remain outstanding pursuant to the Termination Agreement, in order of first accrued and then to the principal amount due on the Prior OFAs in the order of first accrued; then (b) first to the accrued and unpaid interest and then to the principal amount due pursuant to the MYOFA.

Note 6 – Memorandum of Understanding

A Memorandum of Understanding was entered into on October 29, 2010, by and among the District, District No. 2 and District No. 3 (“MOU”), as amended by a First Amendment to the MOU, dated August 22, 2016 (“First Amendment to MOU”). The MOU acknowledges that the District shall provide for the financing, construction, design, operation and maintenance of the Improvements, as well as the overall administration of the Districts and further acknowledges that the District has the authority to enter into agreement(s) and other obligations with the developer of the Property to provide for the financing of such services. The First Amendment to MOU acknowledges District No. 2 will issue debt to repay the Developer Note and District No. 2 and District No. 3 (at such time as it has real property within its boundaries) will impose an operations mill levy to fund the Districts’ services provided by the District. The First Amendment to MOU acknowledges that the Districts will enter into an IGA detailing such services (“District IGA”).

The First Amendment to MOU also provides that the District IGA shall provide for District No. 2 and District No. 3 to remit revenues to the District for all costs incurred by the District pursuant to the First Amendment to MOU based on an allocable basis to be set forth in the District IGA. The District IGA also provides for the District and District No. 3 to reimburse District No. 2 for any debt issued by District No. 2 for public improvements based on an allocable basis to be set forth in the District IGA.

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During the year ending December 31, 2017, District No. 2 transferred a total of \$454,200 to the District. This amount consists of property and specific ownership taxes collected by District No 2 and transferred to the District amounting to \$72,568 and advances from the 2016B Loan by District No. 2 and transferred to the District amounting to \$381,632 (see Note 4).

Note 7 – Net Position

The District has net position consisting of three components – net investment in capital assets, restricted and unrestricted.

The government-wide financial statements utilize a net position presentation. Net position is categorized as net investment in capital assets, restricted and unrestricted.

Net investment in capital assets consists of capital assets, net of accumulated depreciation, and reduced by the outstanding balances of bonds, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. At December 31, 2017, the District reports \$4,243,036 as net investment in capital assets.

Restricted net position is subject to restrictions by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provision or enabling legislation. Restricted assets include the net position that is restricted for use by constitutional provision. At December 31, 2017, the District has restricted \$2,240 for the TABOR emergency reserve (see Note 10).

Unrestricted net position represents assets that do not have any third-party limitations on their use. The District's unrestricted net position as of December 31, 2017 is (\$209,275). This deficit amount was a result of the District being responsible for the repayment of debt obligations issued for public improvements, which were conveyed to other entities, and for debt obligations issued for operating purposes.

Note 8 – Related Party

Some of the members of the Board of Directors of the District may be or have been employees, consultants, owners of, or otherwise associated with the Original Developer, and/or the Developer, and may have conflicts of interest in dealing with the District. Additionally, one of the directors is employed by the City and as such, may have conflicts of interest in dealing with the District. Specific details of transactions with the Developer regarding organization, advances and debt are described elsewhere in these footnotes.

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Note 9 – 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 natural disasters.

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 general and automobile liability, public officials, auto physical damage and worker's compensation coverage. In the event aggregate losses incurred by the Pool exceed amounts recoverable from reinsurance contracts and funds accumulated by the Pool, the Pool may require additional contributions from the Pool members. Any excess funds, which the Pool determines are not needed for purposes of the Pool, may be returned to the members pursuant to a distribution formula.

Note 10 – Tax, Spending and Debt Limitations

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

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

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

On May 4, 2010, the voters approved the District to increase property taxes \$3,000,000 annually for the purpose of paying the District's operations and maintenance expenses and \$6,000,000 (up to 10 mills) for paying the costs associated with regional improvements as required by the City, without regard to any spending, revenue raising or other limitation contained within Article X, Section 20 of the Colorado Constitution or any other property tax limitation or law.

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Additionally, the voters authorized the District to collect, retain and spend all revenues received by the District during 2011 and all subsequent years as voter-approved revenue changes without regard to any spending, revenue raising or other limitation.

On May 6, 2014, the voters approved the District to increase property taxes \$3,000,000 annually for the purpose of paying the District's operations and maintenance expenses and \$6,000,000 (up to 10 mills) for paying the costs associated with regional improvements as required by the City, without regard to any spending, revenue raising or other limitation contained within Article X, Section 20 of the Colorado Constitution or any other property tax limitation or law.

Additionally, the voters authorized the District to collect, retain and spend all revenues received by the District during 2014 and all subsequent years as voter-approved revenue changes without regard to any spending, revenue raising or other limitation.

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 and qualification as an Enterprise will require judicial interpretation.