

BLUE LAKE METROPOLITAN DISTRICT NO. 2
Weld County, Colorado

FINANCIAL STATEMENTS
December 31, 2018

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Certified Public Accountants (a professional corporation)
1221 West Mineral Ave, Ste. 202 Littleton, Colorado 80120-4544 (303) 734-4800 Fax (303) 795-3356

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Blue Lake Metropolitan District No. 2

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, and each major fund of Blue Lake Metropolitan District No. 2, as of and for the year ended December 31, 2018, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, and each major fund of the Blue Lake Metropolitan District No. 2, as of December 31, 2018, 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

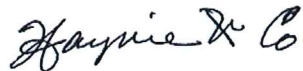
Required Supplementary Information

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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Blue Lake Metropolitan District No. 2's basic financial statements. The other information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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



Littleton, Colorado
September 30, 2019

BASIC FINANCIAL STATEMENTS

BLUE LAKE METROPOLITAN DISTRICT NO. 2
STATEMENT OF NET POSITION
December 31, 2018

	<u>Governmental Activities</u>
ASSETS	
Cash and investments - unrestricted	\$ 25,517
Cash and investments - restricted	80,576
Due from County Treasurer	1,117
Property taxes receivable	193,591
Prepaid expenses	495
Total assets	<u>301,296</u>
LIABILITIES	
Due to other governmental entities	48,259
Accounts payable	9,471
Accrued interest on long-term obligations	107,475
Noncurrent liabilities:	
Due in one year	15,000
Due in more than one year	3,201,549
Total liabilities	<u>3,381,754</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred property tax revenue	193,591
Total deferred inflows of resources	<u>193,591</u>
NET POSITION	
Restricted for:	
Emergency reserves	6,300
Debt service	78,435
Unrestricted	(3,358,784)
Total net position (deficit)	<u>\$ (3,274,049)</u>

These financial statements should be read only in connection with
the accompanying notes to financial statements.

BLUE LAKE METROPOLITAN DISTRICT NO. 2
STATEMENT OF ACTIVITIES
Year Ended December 31, 2018

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense)</u>
		<u>Charges for</u>	<u>Operating</u>	<u>Capital</u>	<u>Revenue and</u>
		<u>Services</u>	<u>Grants and</u>	<u>Grants and</u>	<u>Changes in</u>
			<u>Contribution</u>	<u>Contribution</u>	<u>Net Position</u>
					<u>Governmenta</u>
					<u>I Activities</u>
Primary government:					
Governmental activities:					
General government	\$ 22,166	\$ -	\$ -	\$ -	\$ (22,166)
Interest and expenses on long-term debt	131,040	-	-	-	(131,040)
	<u>\$ 153,206</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(153,206)</u>
General revenues:					
Property taxes					190,155
Specific ownership taxes					14,608
Interest income					2,319
Total general revenues					<u>207,082</u>
Change in net position					53,876
Net position (deficit) - Beginning					<u>(3,327,925)</u>
Net position (deficit) - Ending					<u>\$ (3,274,049)</u>

These financial statements should be read only in connection with
the accompanying notes to financial statements.

BLUE LAKE METROPOLITAN DISTRICT NO. 2
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2018

	General	Debt Service	Total
ASSETS			
Cash and investments - unrestricted	\$ 25,517	\$ -	\$ 25,517
Cash and investments - restricted	-	80,576	80,576
Due from County Treasurer	101	1,016	1,117
Property taxes receivable	17,511	176,080	193,591
Due from other funds	3,157	-	3,157
Prepaid expenses	495	-	495
Total assets	\$ 46,781	\$ 257,672	\$ 304,453
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
LIABILITIES			
Due to District 1	\$ 48,259	\$ -	\$ 48,259
Accounts payable	9,471	-	9,471
Due to other funds	-	3,157	3,157
Total liabilities	57,730	3,157	60,887
DEFERRED INFLOWS OF RESOURCES			
Deferred property tax revenue	17,511	176,080	193,591
Total deferred inflows of resources	17,511	176,080	193,591
FUND BALANCES			
Nonspendable:			
Prepaid expenditures	495	-	495
Restricted:			
Emergency reserves	6,300	-	6,300
Debt service	-	78,435	78,435
Unassigned	(35,255)	-	(35,255)
Total fund balances	(28,460)	78,435	49,975
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
	\$ 46,781	\$ 257,672	\$ 304,453

Governmental fund balance \$ 49,975

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

Long-term liabilities are not due and payable in the current period and, therefore, are not in the funds			
Long-term obligations		(3,216,549)	
Accrued interest on long-term obligations		(107,475)	(3,324,024)
Net position of governmental activities			\$ (3,274,049)

These financial statements should be read only in connection with the accompanying notes to financial statements.

BLUE LAKE METROPOLITAN DISTRICT NO. 2
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
Year Ended December 31, 2018

	<u>General</u>	<u>Debt Service</u>	<u>Total</u>
REVENUES			
Property taxes	\$ 17,200	\$ 172,955	\$ 190,155
Specific ownership tax	1,190	13,418	14,608
Investment income	1,604	715	2,319
Total revenue	<u>19,994</u>	<u>187,088</u>	<u>207,082</u>
EXPENDITURES			
GENERAL			
Management and accounting	12,184	-	12,184
Auditing	4,400	-	4,400
County treasurer fees	258	2,594	2,852
Insurance and bonds	2,488	-	2,488
Miscellaneous	242	-	242
DEBT SERVICE			
Bond principal	-	15,000	15,000
Bond interest	-	115,000	115,000
Paying agent fees	-	5,558	5,558
Total expenditures	<u>19,572</u>	<u>138,152</u>	<u>157,724</u>
EXCESS OF REVENUE OVER (UNDER)			
EXPENDITURES	<u>422</u>	<u>48,936</u>	<u>49,358</u>
OTHER FINANCING SOURCES			
Developer advances	<u>12,500</u>	<u>-</u>	<u>12,500</u>
Total other financing sources	<u>12,500</u>	<u>-</u>	<u>12,500</u>
NET CHANGE IN FUND BALANCES	12,922	48,936	61,858
FUND BALANCE - BEGINNING OF YEAR (RESTATED)	<u>(41,382)</u>	<u>29,499</u>	<u>(11,883)</u>
FUND BALANCE - END OF YEAR	<u>\$ (28,460)</u>	<u>\$ 78,435</u>	<u>\$ 49,975</u>

These financial statements should be read only in connection with
the accompanying notes to financial statements

**BLUE LAKE METROPOLITAN DISTRICT NO. 2
RECONCILIATION OF THE STATEMENT OF REVENUE,
EXPENDITURES, AND CHANGE IN FUND BALANCE OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended December 31, 2018**

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

Net change in fund balances - Total governmental funds	\$	61,858
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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:

Developer advances	(12,500)	
Principal payments	<u>15,000</u>	2,500

Some expenses reported in the Statement of Activities do not require the use of financial resources and, therefore, are not reported as expenditures in governmental funds:

Net change in accrued interest on long-term liabilities	<u>(10,482)</u>
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Change in net position of governmental activities	<u><u>\$ 53,876</u></u>
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These financial statements should be read only in connection with the accompanying notes to financial statements.

BLUE LAKE METROPOLITAN DISTRICT NO. 2
STATEMENT OF REVENUE, EXPENDITURES AND CHANGE IN
FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
Year Ended December 31, 2018

	<u>Budget Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUE				
Property taxes	\$ 17,200	\$ 17,200	\$ 17,200	\$ -
Specific ownership tax	100	100	1,190	1,090
Interest income	350	350	1,604	1,254
Total revenue	<u>17,650</u>	<u>17,650</u>	<u>19,994</u>	<u>2,344</u>
EXPENDITURES				
General				
Management and Accounting	5,000	5,000	12,184	(7,184)
Audit	6,500	6,500	4,400	2,100
County treasurer fees	258	258	258	-
Dues and subscriptions	450	450	-	450
Elections	500	500	-	500
Insurance and bonds	2,500	2,500	2,488	12
Legal	10,000	10,000	-	10,000
Miscellaneous	300	300	242	58
Contingency	600	600	-	600
Total expenditures	<u>26,108</u>	<u>26,108</u>	<u>19,572</u>	<u>6,536</u>
EXCESS OF REVENUE OVER EXPENDITURES	(8,458)	(8,458)	422	8,880
OTHER FINANCING SOURCES				
Developer advances	10,000	10,000	12,500	2,500
Total other financing uses	<u>10,000</u>	<u>10,000</u>	<u>12,500</u>	<u>2,500</u>
NET CHANGE IN FUND BALANCE	1,542	1,542	12,922	11,380
FUND BALANCE - BEGINNING OF YEAR (RESTATED)	<u>3,793</u>	<u>3,793</u>	<u>(41,382)</u>	<u>(45,175)</u>
FUND BALANCE - END OF YEAR	<u>\$ 5,335</u>	<u>\$ 5,335</u>	<u>\$ (28,460)</u>	<u>\$ (33,795)</u>

These financial statements should be read only in connection with
the accompanying notes to financial statements.

BLUE LAKE METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

NOTE 1 - DEFINITION OF REPORTING ENTITY

Blue Lake Metropolitan District No. 2 (the District), a quasi-municipal corporation and political subdivision of the State of Colorado was organized on May 17, 2004 and is governed pursuant to provisions of the Colorado Special District Act. The District's service area is located in Weld County, Colorado, entirely within the Town of Lochbuie (Town).

The District was formed in conjunction with two other metropolitan districts, Blue Lake Metropolitan District No. 1 (District 1) and Blue Lake Metropolitan District No. 3 (District 3). The purpose of the District is to finance, construct and install public improvements, including streets and traffic signals, and water, sewer, storm drainage and park, open space and recreation facilities for the Blue Lake Development. Public improvements and facilities constructed or acquired by the District may be owned and maintained by one or more of the Districts, or may be dedicated for ownership and maintenance to the Town of Lochbuie, Colorado, or to other non-profit or governmental entities for the use and benefit of the Blue Lake Development residents and taxpayers.

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 for any other District organization, nor is the District a component unit of any other primary governmental entity.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are normally supported by taxes and intergovernmental revenues.

BLUE LAKE METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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.

Separate financial statements are provided for governmental funds. 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 related cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met. Depreciation is computed and recorded as an operating expense. Expenditures for property and equipment are shown as increases in assets and redemption of bonds, notes, and developer advances 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 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 government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The major sources of revenue susceptible to accrual are property taxes. Expenditures, other than interest on long-term obligations are recorded when the liability is incurred or the long-term obligation paid. All other revenue items are considered to be measurable and available only when cash is received by the District.

The District reports the following major governmental funds:

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

BLUE LAKE METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

The Debt Service Fund accounts for the resources accumulated and payments made for principal, interest and related expenses on long-term general obligation debt.

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

Fund Balances – Governmental Funds

The District's governmental fund balances may consist of five classifications based on the relative strength of the spending constraints:

Nonspendable fund balance – the amount of fund balance that is not in spendable form (such as inventory or prepaids) or is legally or contractually required to be maintained intact.

Restricted fund balance – the amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions or by enabling legislation.

Committed fund balance – amounts constrained to specific purposes by the District itself, using its highest level of decision-making authority (i.e. Board of Directors). To be reported as committed, amounts cannot be used for any other purpose unless the District takes the same highest level of action to remove or change the constraint.

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

Unassigned fund balance – amounts that are available for any purpose.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the District Board of Directors has provided otherwise in its commitment or assignment actions.

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's Board

BLUE LAKE METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budgets (Continued)

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.

Subsequent to the end of the year, supplementary appropriations approved by the District's Board of Directors modified the appropriation in the Debt Service Fund from \$135,094 to \$140,000.

Pooled Cash and Investments

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 single account. Cash in excess of immediate operating requirements is pooled for deposit and investment flexibility. Investment earnings are allocated periodically to the participating funds based upon each fund's average equity balance in the total cash. Investments are carried at fair value.

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 due in April or if in equal installments, at the taxpayer's election, in February and June. Delinquent taxpayers are notified in August and generally sales of the tax liens on delinquent properties are held in November or December. The County Treasurer remits the taxes collected monthly to the District.

Property taxes, net of estimated uncollectible taxes, are recorded initially as deferred inflows of resources in the year they are levied and measurable. The deferred inflows of resources related to property tax revenues are recorded as revenue in the year they are available or collected.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position reports 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 and so will not be recognized as an outflow of resources (expense/expenditure) until that time. The District does not have any items that qualifies for reporting in this category.

BLUE LAKE METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Outflows/Inflows of Resources (Continued)

In addition to liabilities, the statement of net position reports 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 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. Accordingly, the item, *deferred property tax revenue*, is deferred and recognized as an inflow of resources in the period that the amount becomes available.

NOTE 3 - CASH AND INVESTMENTS

Cash and investments as of December 31, 2018 are classified in the accompanying statement of net position as follows:

Cash and investments - unrestricted	\$ 25,517
Cash and investments - restricted	<u>80,576</u>
	<u>\$ 106,093</u>

Cash and investments as of December 31, 2018 consist of the following:

Deposits with financial institutions	\$ 0
Investments	<u>106,093</u>
Total cash and investments	<u>\$ 106,093</u>

Cash Deposits

The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulators. 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 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 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.

At December 31, 2018, the District's cash deposits had a bank balance of \$3,003 and carrying balance of \$0.

BLUE LAKE METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

Investments

Credit Risk

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

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

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

The local government investment pool, which includes Colorado Local Government Liquid Asset Trust (Colostrust) is rated AAAM by S&P Global Ratings.

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.

As of December 31, 2018, the District had the following investments:

Investment	Maturity	Carrying Value
Colorado Local Government Liquid Asset Trust (Colostrust)	Weighted average under 60 days	<u>\$106,093</u>

COLOTRUST

During 2017, the District invested in Colostrust, 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 Colostrust. Colostrust operates similarly to a money market fund and each share is equal in value to \$1.00. Colostrust offers shares in two

BLUE LAKE METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

COLOTRUST (Continued)

portfolios, COLOTRUST PRIME and COLOTRUST PLUS+. Both portfolios may invest in U.S. Treasury securities and repurchase agreements collateralized by U.S. Treasury securities. COLOTRUST PLUS+ may also invest in certain obligations of U.S. government agencies, highest rated commercial paper, and repurchase agreements collateralized by certain obligations of U.S. government agencies. A designated custodial bank serves as custodian for Colotrust's portfolios pursuant to a custodian agreement.

The custodian acts as safekeeping agent for Colotrust'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 Colotrust. As of December 31, 2018, the District had \$106,093 invested in COLOTRUST PLUS+ in the name of the District.

Investment Valuation

Certain investments are measured at fair value on a recurring basis are categorized within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure an asset's fair value: 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 investments are not required to be categorized within the fair value hierarchy. These investments are measured at amortized cost or in certain circumstances the value is calculated using the net asset value (NAV) per share, or its equivalent of the investment. These investments include 2a7-like external investment pools and money market investments. The District held investments in Colotrust at year end for which the investment valuations were determined as follows.

Colotrust determines the NAV of the shares of each portfolio as of the close of business on each day. The NAV per share of each portfolio is computed by dividing the total value of the securities and other assets of the portfolios, less any liabilities, by the total outstanding shares of the portfolios. Liabilities, which include all expenses and fees of Colotrust, are accrued daily. The NAV is calculated at fair value using various inputs to determine value in accordance with FASB guidance. It is the goal of Colotrust to maintain a NAV of \$1.00 per share, however changes in interest rates may affect the fair value of the securities held by Colotrust and there can be no assurance that the NAV will not vary from \$1.00 per share.

BLUE LAKE METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

NOTE 4 - LONG-TERM OBLIGATIONS

The following is an analysis of changes in long-term obligations for the year ended December 31, 2018:

	Balance at December 31, 2017	Additions	Retirements/ Adjustments	Balance at December 31, 2018	Due Within One Year
Limited Tax G.O. Bonds Series 2016A	\$ 2,000,000	\$ -	\$ 15,000	\$ 1,985,000	\$ 15,000
Limited Tax G.O. Bonds Series 2016B	500,000	-	-	500,000	-
Developer advances	719,049	12,500	-	731,549	-
Accrued interest on developer advance:	45,743	50,555	-	96,298	-
	<u>\$ 3,264,792</u>	<u>\$ 63,055</u>	<u>\$ 15,000</u>	<u>\$ 3,312,847</u>	<u>\$ 15,000</u>

Limited Tax General Obligation Bonds Series 2016A

On December 13, 2016, the District issued \$2,000,000 Limited Tax General Obligation Bonds, Series 2016A (senior bonds). Interest on the senior bonds is payable semiannually on June 1 and December 1, commencing June 1, 2017 at an interest rate of 5.750%. The bonds are subject to mandatory redemption beginning December 1, 2018, and each December 1 thereafter until final maturity on December 1, 2046. The bonds are secured by and payable from senior pledged revenue which consists of the moneys derived by the District from the following sources: (i) the senior required mill levy; (ii) the Capital Fees, if any; (iii) the portion of the specific ownership tax which is collected as a result of imposition of the senior required mill levy; and (iv) any other legally available monies which the District determines to transfer to the trustee for application as senior pledged revenue. The senior required mill levy is defined, generally, as an ad valorem mill levy imposed on all taxable property of the District each year in an amount that is sufficient to pay the senior bonds, but not in excess of 50 mills. Proceeds of the senior bonds are to be used to: (i) finance public improvements related to residential development within the District; and (ii) pay the costs of issuing the senior bonds.

The senior bonds are subject to redemption prior to maturity, at the option of the District, as a whole or in integral multiples of \$1,000, in any order of maturity and in whole or partial maturities, at the redemption price of 103% prior to December 1, 2021, 102% prior to December 1, 2022, 101% prior to December 1, 2023 and 100% on and after December 1, 2024, together with interest accrued and unpaid thereon to the date fixed for redemption.

Subordinate Limited Tax General Obligation Bonds Series 2016B

On December 13, 2016, the District also issued \$500,000 Subordinate Limited Tax General Obligation Bonds, Series 2016B (subordinate bonds). The bonds are structured as “cash flow” bonds, and have no scheduled payments of principal. Interest on the subordinate bonds is payable annually on December 15, commencing December 15, 2017 at an interest rate of 8.000%. Both

BLUE LAKE METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

NOTE 4 - LONG-TERM OBLIGATIONS (CONTINUED)

interest and principal are payable solely from and only to extent of available subordinate pledged revenue which consists of the moneys derived by the District from the following sources: (i) the subordinate required mill levy; (ii) the Capital Fees, if any; (iii) the portion of the specific ownership tax which is collected as a result of imposition of the subordinate required mill levy; and (iv) any other legally available monies which the District determines to transfer to the trustee for application as subordinate pledged revenue. The subordinate required mill levy is defined, generally, as an ad valorem mill levy imposed in an amount of 50 mills less the ad valorem mill levy required to be used, paid, pledged, or otherwise applied in connection with any senior bonds, including the 2016A senior bonds. Proceeds of the subordinate bonds are to be used to: (i) finance public improvements related to residential development within the District; and (ii) pay the costs of issuing the subordinate bonds.

The subordinate bonds are subject to redemption prior to maturity, at the option of the District, as a whole or in integral multiples of \$1,000, in any order of maturity and in whole or partial maturities, at the redemption price of 103% prior to December 15, 2021, 102% prior to December 15, 2022, 101% prior to December 15, 2023 and 100% on and after December 15, 2024, together with interest accrued and unpaid thereon to the date fixed for redemption.

The District's long-term obligations mature as follows:

	Limited Tax General Obligation Bonds - Series 2016A and 2016B		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 15,000	\$ 154,137	\$ 169,137
2020	20,000	153,275	173,275
2021	20,000	152,125	172,125
2022	25,000	150,975	175,975
2023	25,000	149,537	174,537
2024-2028	175,000	722,099	897,099
2029-2033	275,000	661,437	936,437
2034-2038	405,000	568,001	973,001
2039-2043	575,000	433,164	1,008,164
2044-2046	950,000	172,900	1,122,900
	<u>\$ 2,485,000</u>	<u>\$ 3,317,650</u>	<u>\$ 5,802,650</u>

Developer Advances

Intergovernmental Agreement Regarding Debt Allocation Between and Among Blue Lake Metropolitan District Nos. 1-3.

The District and District 1 and 3 entered into an Intergovernmental Agreement Regarding Debt Allocation Between and Among Blue Lake Metropolitan District Nos. 1-3, dated April 2, 2015 (the "Debt Allocation IGA"), for the purpose of setting forth the debt allocations of the District

BLUE LAKE METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

NOTE 4 - LONG-TERM OBLIGATIONS (CONTINUED)

and District 1 and 3. The Debt Allocation IGA allocates \$3,700,000 of the debt limitation to District 3 and the remaining \$20,300,000 to the District and District 1. The Debt Allocation IGA further provides that the District and District 1 may further allocate the \$20,300,000 allocation between and amongst themselves in any manner that the respective Boards of the Districts may agree upon, all in conformance with applicable law.

Advance and Reimbursement Agreements by and Between Blue Lake Metropolitan Districts No. 1, 2 and 3 and Lochbuie Land I, LLC

The District, District 1 and District 3 each entered into Advance and Reimbursement Agreements with Lochbuie Land I, LLC (Lochbuie Land I) on June 29, 2004 (the “Advance and Reimbursement Agreement”) to establish the terms and conditions pursuant to which Lochbuie Land I would make advances to the Districts and the Districts would reimburse Lochbuie Land I for the advances. Under the Advance and Reimbursement Agreements, the Districts are required to reimburse Lochbuie Land I for advances with interest at a rate of seven percent (7%) per annum. Payments made by the Districts are subject to annual appropriation and budget approval and are not to be made from funds otherwise required for operations, capital improvements and debt service costs and expenses of the Districts. Amounts payable under the Reimbursement Agreements are subordinate to any bonded indebtedness of the Districts.

Authorized Debt

The following table depicts the borrowing authority authorized by the District’s voters at the 2004 District Election, the 2015 Intergovernmental Agreement Regarding Debt Allocation Between and Among Blue Lake Metropolitan District Nos. 1-3, and the amount remaining as of December 31, 2018, after application of debt issued by the District. The remaining balance is shared with District 1, and may be re-allocated in the future as noted above.

	Total Authorized	Remaining at December 31, 2018
Streets and improvements	\$ 7,680,000	\$ 6,643,619
Water system	6,240,000	5,481,817
Sanitary sewer system	5,760,000	4,637,387
Parks and recreation	620,000	620,000
	<u>\$ 20,300,000</u>	<u>\$ 17,382,823</u>

NOTE 5 – INTERGOVERNMENTAL RECEIVABLES AND PAYABLES

At December 31, 2018, the District had a payable to District 1 in the amount of \$48,259 for expenditures paid on the District’s behalf.

BLUE LAKE METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

NOTE 6 – FUND EQUITY

At December 31, 2018, the District reported the following classification of fund equity.

Nonspendable Fund Balance

The nonspendable fund balance in the General Fund in the amount of \$495 represents prepaid expenditures for the ensuing fiscal year and is therefore not in a spendable form.

Restricted Fund Balance

The restricted fund balance in the General Fund in the amount of \$6,300 is comprised of the Emergency Reserves that have been provided for as required by Article X, Section 20 of the Constitution of the State of Colorado.

The restricted fund balance in the amount of \$78,435 is to be used exclusively for debt service requirements.

NOTE 7 - NET POSITION

The District’s net position consists of two components – restricted and unrestricted.

The restricted portion of the net position includes amounts that are restricted for use either externally by creditors, grantors, contributors, or laws and regulations of other governments; or imposed by law through constitutional provisions or enabling legislation. The District’s restricted net position at December 31, 2018 is as follows:

	Governmental Activities
Restricted net position:	
TABOR emergency reserve (Note 9)	\$ 6,300
Debt service (Note 4)	78,435
	\$ 84,735

In the government-wide financial statements, the District’s liabilities plus deferred inflows of resources exceeded assets plus deferred outflows of resources by \$3,228,292 representing capital improvements that were funded with long-term debt that have been dedicated to other entities, while the long-term debt remains an obligation of the District.

NOTE 8 - RELATED PARTIES

All of the members of the Board of Directors of the District are employees, owners or otherwise associated with Lochbuie Land I, and may have conflicts of interest in dealing with the District. The District entered into an Advance and Reimbursement Agreement dated June 29, 2004 with Lochbuie Land I (see Note 4). Specific details of transactions with Lochbuie Land I regarding organization, advances and debt are described elsewhere in these notes.

BLUE LAKE METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

NOTE 9 – INTERGOVERNMENTAL AGREEMENT

On April 27, 2016, the District entered into an Easement and Maintenance Agreement (the “Maintenance Agreement”) with Lochbuie Land I for the benefit of Bella Vista Master Association, Colorado nonprofit corporation (the “HOA”). Pursuant to the Maintenance Agreement, the District and Lochbuie Land I granted the HOA a permanent easement in order to operate, maintain, repair, construct, patrol, inspect, improve and replace public improvements located within the District, including parks and a retention pond. The HOA is responsible for all ongoing costs associated with its uses of the public improvements.

NOTE 10 - RISK MANAGEMENT

Except as provided in the Colorado Governmental Immunity Act, the District may be exposed to various risks of loss related to torts, thefts of, damage to, or destruction of assets; errors or omissions; injuries to employees, or acts of God.

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

The District pays annual premiums to the Pool for liability, property, public officials’ liability and workers compensation coverage. In the event aggregated losses incurred by the Pool exceed amounts recoverable from reinsurance contracts and funds accumulated by the Pool, the Pool may require additional contributions from the Pool members. Any excess funds which the Pool determines are not needed for purposes of the Pool may be returned to the members pursuant to a distribution formula.

NOTE 11 - 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, except Enterprise.

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.

BLUE LAKE METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

NOTE 11 - TAX, SPENDING AND DEBT LIMITATIONS (Continued)

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.

On May 4, 2004, a majority of the District's electors authorized the District to collect, retain and spend any and all amounts annually from any revenue sources whatsoever, other than ad valorem taxes, as a voter-approved revenue change without regard to any spending, revenue-raising or other limitation contained within Article X, Section 20 of the Colorado Constitution and without limiting in any year the amount of other revenues that may be collected and spent by the District.

NOTE 12 – RECLASSIFICATION OF FUND BALANCE

During 2018, management of the District began reporting its debt service activities in its Debt Service Fund, instead of being reported within the General Fund. Beginning fund balance in the General Fund and Debt Service Fund have been restated as follows:

	General Fund	Debt Service Fund
Fund balance at December 31, 2017	\$ (11,883)	\$ -
Restatement due to change in fund reporting	(29,499)	29,499
Fund balance at December 31, 2017 as restated	\$ (41,382)	\$ 29,499

This information is an integral part of the accompanying financial statements.

SUPPLEMENTAL INFORMATION

BLUE LAKE METROPOLITAN DISTRICT NO. 2
STATEMENT OF REVENUE, EXPENDITURES AND CHANGE IN
FUND BALANCE - BUDGET AND ACTUAL
DEBT SERVICE FUND
Year Ended December 31, 2018

	<u>Budget Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUE				
Property taxes	\$ 172,955	\$ 172,955	\$ 172,955	\$ -
Specific ownership tax	10,400	10,400	13,418	3,018
Interest income	20	20	715	695
Total revenue	<u>183,375</u>	<u>183,375</u>	<u>187,088</u>	<u>3,713</u>
EXPENDITURES				
General				
County treasurer fees	2,594	3,500	2,594	906
Debt Service				
Bond principal	15,000	15,000	15,000	-
Bond interest	115,000	115,000	115,000	-
Paying agents fees	2,500	6,500	5,558	942
Total expenditures	<u>135,094</u>	<u>140,000</u>	<u>138,152</u>	<u>1,848</u>
NET CHANGE IN FUND BALANCE	48,281	43,375	48,936	5,561
FUND BALANCE - BEGINNING OF YEAR (RESTATED)	<u>28,059</u>	<u>29,499</u>	<u>29,499</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ 76,340</u>	<u>\$ 72,874</u>	<u>\$ 78,435</u>	<u>\$ 5,561</u>

OTHER INFORMATION

BLUE LAKE METROPOLITAN DISTRICT NO. 2
SCHEDULE OF DEBT SERVICE REQUIREMENTS TO MATURITY
December 31, 2018

\$2,000,000 Series 2016A
Limited Tax General Obligation Bonds
Series 2016A
Dated December 13, 2016
Interest Rate of 5.750%
Payable on June 1 and December 1,
Principal Due December 1

\$500,000 Series 2016B
Subordinate Limited Tax General Obligation Bonds
Series 2016B
Dated December 13, 2016
Interest Rate of 8.00%
Payable on December 15,
Principal Due December 15, 2046

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 15,000	\$ 114,137	\$ 129,137	\$ -	\$ 40,000	\$ 40,000
2020	20,000	113,275	133,275	-	40,000	40,000
2021	20,000	112,125	132,125	-	40,000	40,000
2022	25,000	110,975	135,975	-	40,000	40,000
2023	25,000	109,537	134,537	-	40,000	40,000
2024	30,000	108,100	138,100	-	40,000	40,000
2025	30,000	106,375	136,375	-	40,000	40,000
2026	35,000	104,650	139,650	-	40,000	40,000
2027	40,000	102,637	142,637	-	40,000	40,000
2028	40,000	100,337	140,337	-	40,000	40,000
2029	45,000	98,038	143,038	-	40,000	40,000
2030	50,000	95,450	145,450	-	40,000	40,000
2031	55,000	92,575	147,575	-	40,000	40,000
2032	60,000	89,412	149,412	-	40,000	40,000
2033	65,000	85,962	150,962	-	40,000	40,000
2034	70,000	82,225	152,225	-	40,000	40,000
2035	75,000	78,200	153,200	-	40,000	40,000
2036	80,000	73,888	153,888	-	40,000	40,000
2037	85,000	69,288	154,288	-	40,000	40,000
2038	95,000	64,400	159,400	-	40,000	40,000
2039	100,000	58,938	158,938	-	40,000	40,000
2040	105,000	53,188	158,188	-	40,000	40,000
2041	115,000	47,150	162,150	-	40,000	40,000
2042	125,000	40,538	165,538	-	40,000	40,000
2043	130,000	33,350	163,350	-	40,000	40,000
2044	140,000	25,875	165,875	-	40,000	40,000
2045	150,000	17,825	167,825	-	40,000	40,000
2046	160,000	9,200	169,200	500,000	40,000	540,000
	<u>\$ 1,985,000</u>	<u>\$ 2,197,650</u>	<u>\$ 4,182,650</u>	<u>\$ 500,000</u>	<u>\$1,120,000</u>	<u>\$ 1,620,000</u>

BLUE LAKE METROPOLITAN DISTRICT NO. 2
SCHEDULE OF ASSESSED VALUATION,
MILL LEVY AND PROPERTY TAXES COLLECTED
December 31, 2018

<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 Taxes</u>		<u>Percentage Collected to Levied</u>
			<u>Levied</u>	<u>Collected</u>	
2005	\$ 10	15.000	\$ -	\$ -	100.00%
2006	\$ 10	45.000	\$ -	\$ -	100.00%
2007	\$ 682,710	45.000	\$ 30,722	\$ 30,722	100.00%
2008	\$1,528,300	45.000	\$ 68,774	\$ 68,774	100.00%
2009	\$1,472,710	45.000	\$ 66,271	\$ 65,691	99.12%
2010	\$1,252,030	45.000	\$ 56,341	\$ 56,342	100.00%
2011	\$1,262,750	45.000	\$ 56,824	\$ 56,824	100.00%
2012	\$ 928,380	50.000	\$ 46,419	\$ 46,419	100.00%
2013	\$ 932,960	50.000	\$ 46,648	\$ 46,648	100.00%
2014	\$ 761,030	50.000	\$ 38,052	\$ 38,107	100.14%
2015	\$ 817,470	50.000	\$ 40,874	\$ 40,876	100.00%
2016	\$1,284,560	50.000	\$ 64,228	\$ 64,229	100.00%
2017	\$2,654,120	50.000	\$ 132,706	\$ 132,706	100.00%
2018	\$3,440,440	50.277	\$ 190,155	\$ 190,155	100.00%
Estimated for the year ending December 31, 2019	\$3,502,190	55.277	\$ 193,591		

NOTE:

Property taxes collected in any one year include collection of delinquent property taxes assessed in prior years, as well as reductions for property tax refunds or abatements. Information received from the County Treasurer does not permit identification of specific year of assessment.