

MCKAY LANDING METROPOLITAN DISTRICT NO. 2
City and County of Broomfield, Colorado

FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

YEAR ENDED DECEMBER 31, 2018

**MCKAY LANDING METROPOLITAN DISTRICT NO. 2
TABLE OF CONTENTS
YEAR ENDED DECEMBER 31, 2018**

INDEPENDENT AUDITOR’S REPORT	1
BASIC FINANCIAL STATEMENTS	
GOVERNMENT-WIDE FINANCIAL STATEMENTS	
STATEMENT OF NET POSITION	1
STATEMENT OF ACTIVITIES	2
FUND FINANCIAL STATEMENTS	
BALANCE SHEET – GOVERNMENTAL FUNDS	3
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS	4
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF THE GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES	5
GENERAL FUND – STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL	6
NOTES TO BASIC FINANCIAL STATEMENTS	7
SUPPLEMENTARY INFORMATION	
DEBT SERVICE FUND – SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL	19
OTHER INFORMATION	
SCHEDULE OF DEBT SERVICE REQUIREMENTS TO MATURITY	21
SCHEDULE OF ASSESSED VALUATION, MILL LEVY, AND PROPERTY TAXES COLLECTED	22



**Haynie &
Company**

Certified Public Accountants (a professional corporation)

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Independent Auditor's Report

To the Board of Directors
McKay Landing Metropolitan District No. 2

We have audited the accompanying financial statements of the governmental activities and the major funds of McKay Landing 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. 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.

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 funds of McKay Landing Metropolitan District No. 2, as of December 31, 2018 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.



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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 an opinion on the financial statements that collectively comprise McKay Landing Metropolitan District No. 2's financial statements as a whole. The supplementary information section is presented for purposes of additional analysis and is not a required part of the financial statements.

The supplementary 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 financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



Littleton, Colorado
June 19, 2019

BASIC FINANCIAL STATEMENTS

MCKAY LANDING METROPOLITAN DISTRICT NO. 2
STATEMENT OF NET POSITION
DECEMBER 31, 2018

	Governmental Activities
ASSETS	
Cash and Investments	\$ 509,695
Cash and Investments - Restricted	224,487
Receivable - County Treasurer	5,083
Prepaid Expenses	2,725
Property Taxes Receivable	862,816
Total Assets	1,604,806
 DEFERRED OUTFLOWS OF RESOURCES	
Cost of Loan Refunding	815,510
Total Deferred Outflows of Resources	815,510
 LIABILITIES	
Accounts Payable	1,691
Accrued Interest Payable	20,532
Noncurrent Liabilities:	
Due Within One Year	355,000
Due in More Than One Year	8,670,000
Total Liabilities	9,047,223
 DEFERRED INFLOWS OF RESOURCES	
Property Tax Revenue	862,816
Total Deferred Inflows of Resources	862,816
 NET POSITION	
Restricted for:	
Emergency Reserves	3,600
Debt Service	200,355
Unrestricted	(7,693,678)
Total Net Position	\$ (7,489,723)

See accompanying Notes to Basic Financial Statements.

MCKAY LANDING METROPOLITAN DISTRICT NO. 2
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2018

		Program Revenues			Net Revenues (Expenses) and Change in Net Position
FUNCTIONS/PROGRAMS	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Primary Government:					
Governmental Activities:					
General Government	\$ 37,519	\$ -	\$ -	\$ -	\$ (37,519)
Interest and Related Costs on Long-Term Debt	354,028	-	-	-	(354,028)
Total Governmental Activities	\$ 391,547	\$ -	\$ -	\$ -	(391,547)
 GENERAL REVENUES					
Property Taxes					866,184
Specific Ownership Taxes					55,898
Net Investment Income					21,748
Other Revenue					65
Total General Revenues					943,895
 CHANGE IN NET POSITION					
Net Position - Beginning of Year					(8,042,071)
 NET POSITION - END OF YEAR					
					\$ (7,489,723)

See accompanying Notes to Basic Financial Statements.

**MCKAY LANDING METROPOLITAN DISTRICT NO. 2
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2018**

	General	Debt Service	Total Governmental Funds
ASSETS			
Cash and Investments	\$ 509,695	\$ -	\$ 509,695
Cash and Investments - Restricted	3,600	220,887	224,487
Receivable - County Treasurer	5,083	-	5,083
Prepaid Expenses	2,725	-	2,725
Property Taxes Receivable	50,018	812,798	862,816
Total Assets	\$ 571,121	\$ 1,033,685	\$ 1,604,806
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES			
LIABILITIES			
Accounts Payable	\$ 1,691	\$ -	\$ 1,691
Total Liabilities	1,691	-	1,691
DEFERRED INFLOWS OF RESOURCES			
Property Tax Revenue	50,018	812,798	862,816
Total Deferred Inflows of Resources	50,018	812,798	862,816
FUND BALANCES			
Nonspendable:			
Prepaid Expenses	2,725	-	2,725
Restricted for:			
Emergency Reserves	3,600	-	3,600
Debt Service	-	220,887	220,887
Unassigned:			
General Government	513,087	-	513,087
Total Fund Balances	519,412	220,887	740,299
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 571,121	\$ 1,033,685	

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

Deferred outflows of resources are not available to pay for current period expenditures and, therefore, are not reported in the funds.
Cost of Loan Refunding

815,510

Long-term liabilities, including loan payable, are not due and payable in the current period and, therefore, are not reported in the funds.

Loan Payable
Accrued Interest Payable

(9,025,000)
(20,532)

Net Position of Governmental Activities

\$ (7,489,723)

See accompanying Notes to Basic Financial Statements.

MCKAY LANDING METROPOLITAN DISTRICT NO. 2
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2018

	General	Debt Service	Total Governmental Funds
REVENUES			
Property Taxes	\$ 50,214	\$ 815,970	\$ 866,184
Specific Ownership Taxes	55,898	-	55,898
Net Investment Income	10,625	11,123	21,748
Other Revenue	65	-	65
Total Revenues	116,802	827,093	943,895
EXPENDITURES			
General:			
Accounting	14,298	-	14,298
Audit	3,700	-	3,700
County Treasurer's Fees	753	12,244	12,997
Directors' Fees	400	-	400
Dues and Licenses	300	-	300
Election Expense	1,544	-	1,544
Insurance and Bonds	2,848	-	2,848
Legal	13,646	-	13,646
Miscellaneous	30	-	30
Debt Service:			
Loan Principal - Series 2016	-	345,000	345,000
Loan Interest - Series 2016	-	262,122	262,122
Early Principal Redemption - Series 2016	-	100,000	100,000
Total Expenditures	37,519	719,366	756,885
NET CHANGE IN FUND BALANCES	79,283	107,727	187,010
Fund Balances - Beginning of Year	440,129	113,160	553,289
FUND BALANCES - END OF YEAR	\$ 519,412	\$ 220,887	\$ 740,299

See accompanying Notes to Basic Financial Statements.

**MCKAY LANDING METROPOLITAN DISTRICT NO. 2
 RECONCILIATION OF THE STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES
 IN FUND BALANCES OF THE GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
 YEAR ENDED DECEMBER 31, 2018**

Net Change in Fund Balances - Governmental Funds	\$ 187,010
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Amounts reported for governmental activities in the statement of activities are different because:

The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The net effect of these differences in the treatment of long-term debt and related items is as follows:

Loan Principal Payment - Series 2016	445,000
Amortization on Cost of Loan Refunding - Series 2016	(80,674)

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Accrued Interest on Loans Payable - Change in Liability	1,012
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Change in Net Position of Governmental Activities	\$ 552,348
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**MCKAY LANDING METROPOLITAN DISTRICT NO. 2
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL
YEAR ENDED DECEMBER 31, 2018**

	Original and Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Property Taxes	\$ 50,214	\$ 50,214	\$ -
Specific Ownership Taxes	60,600	55,898	(4,702)
Net Investment Income	6,000	10,625	4,625
Other Revenue	-	65	65
Total Revenues	<u>116,814</u>	<u>116,802</u>	<u>(12)</u>
EXPENDITURES			
General:			
Accounting	18,000	14,298	3,702
Audit	4,000	3,700	300
Contingency	4,647	-	4,647
County Treasurer's Fees	753	753	-
Directors' Fees	600	400	200
Dues and Licenses	500	300	200
Election Expense	-	1,544	(1,544)
Insurance and Bonds	3,000	2,848	152
Legal	18,000	13,646	4,354
Miscellaneous	500	30	470
Total Expenditures	<u>50,000</u>	<u>37,519</u>	<u>12,481</u>
NET CHANGE IN FUND BALANCE	66,814	79,283	12,469
Fund Balance - Beginning of Year	<u>431,581</u>	<u>440,129</u>	<u>8,548</u>
FUND BALANCE - END OF YEAR	<u>\$ 498,395</u>	<u>\$ 519,412</u>	<u>\$ 21,017</u>

See accompanying Notes to Basic Financial Statements.

MCKAY LANDING METROPOLITAN DISTRICT NO. 2
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 1 DEFINITION OF REPORTING ENTITY

McKay Landing Metropolitan District No. 2 (the District), a quasi-municipal corporation and political subdivision of the state of Colorado, was organized on November 11, 1999, and is governed pursuant to provisions of the Colorado Special District Act. The District's service area is located entirely within the City and County of Broomfield, Colorado (the City). The District was established to provide financing for the construction of streets and safety control, water systems, sewer systems, parks and recreation facilities, transportation systems, television relay, mosquito control, and operation and maintenance of the District. Under the Service Plan, the District is the Financing District related to McKay Landing Metropolitan District No. 1 (McKay No. 1) as the Service District to serve the community of McKay Landing in the City. On December 19, 2007, McKay No. 1 was dissolved per a resolution that was approved by the City of Broomfield. Per the resolution, the District agreed to assume all the duties and responsibilities of McKay No. 1.

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

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

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. The effect of interfund activity has been removed from these statements. Governmental activities, which are normally supported by taxes, are the only activities currently reported by the District.

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

MCKAY LANDING METROPOLITAN DISTRICT NO. 2
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government-Wide and Fund Financial Statements (Continued)

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 the 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.

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 after the end of the current fiscal period. The major sources of revenue susceptible to accrual are property taxes. All other revenue items are considered to be measurable and available only when cash is received by the District. Expenditures, other than interest on long-term obligations, are recorded when the liability is incurred or the long-term obligation is due.

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 another fund.

The Debt Service Fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of the governmental funds.

MCKAY LANDING METROPOLITAN DISTRICT NO. 2
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 and other financing uses level and lapses at year-end. The District's Board of Directors can modify the budget by line item within the total appropriation without notification. The appropriation can only be modified upon completion of notification and publication requirements. The budget includes each fund on its basis of accounting unless otherwise indicated.

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

Property Taxes

Property taxes are levied by the District's Board of Directors. The levy is based on assessed valuations determined by the County Assessor generally as of January 1 of each year. The levy is normally set by December 15 by certification to the County Commissioners to put the tax lien on the individual properties as of January 1 of the following year. The County Treasurer collects the determined taxes during the ensuing calendar year. The taxes are payable by April 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 inflow of resources in the year they are levied and measurable. The property tax revenues are recorded as revenue in the year they are available or collected.

Cost of Loan Refunding

In the government-wide financial statements, the deferred cost of loan refunding is being amortized using the interest method over the life of the refunding loan. The amortization amount is a component of interest expense and the unamortized deferred cost is reflected as a deferred outflow of resources.

MCKAY LANDING METROPOLITAN DISTRICT NO. 2
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Inflow/Outflow 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 has one item that qualifies for reporting in this category. Accordingly, the item, *cost of loan refunding*, is deferred and recognized as an outflow of resources in the period that the amount is incurred.

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.

Equity

Net Position

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

Fund Balance

Fund balance for governmental funds should be reported in classifications that comprise a hierarchy based on the extent to which the government is bound to honor constraints on the specific purposes for which spending can occur. Governmental funds report up to five classifications of fund balance: nonspendable, restricted, committed, assigned, and unassigned. Because circumstances differ among 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 inventory) or legally or contractually required to be maintained intact.

Restricted Fund Balance – The portion of fund balance that is constrained to being used for a specific purpose by external parties (such as bondholders), constitutional provisions, or enabling legislation.

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.

MCKAY LANDING METROPOLITAN DISTRICT NO. 2
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Equity (Continued)

Fund Balance (Continued)

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, 2018, are classified in the accompanying financial statements as follows:

Statement of Net Position:

Cash and Investments	\$ 509,695
Cash and Investments - Restricted	224,487
Total Cash and Investments	\$ 734,182

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

Deposits with Financial Institutions	\$ 5,373
Investments	728,809
Total Cash and Investments	\$ 734,182

Deposits with Financial Institutions

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 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 \$15,785 and a carrying balance of \$5,373.

**MCKAY LANDING METROPOLITAN DISTRICT NO. 2
 NOTES TO BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2018**

NOTE 3 CASH AND INVESTMENTS (CONTINUED)

Investments

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

The District generally limits its concentration of investments to those noted with an asterisk (*) below, 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 or investment custodial risk disclosure requirements 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 U.S. 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

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

<u>Investment</u>	<u>Maturity</u>	<u>Amount</u>
Colorado Local Government Liquid Asset Trust (COLOTRUST)	Weighted Average Under 60 Days	\$ 728,809

MCKAY LANDING METROPOLITAN DISTRICT NO. 2
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 3 CASH AND INVESTMENTS (CONTINUED)

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 at net asset value as determined by fair value. There are no unfunded commitments, the redemption frequency is daily, and there is no redemption notice period.

NOTE 4 LONG-TERM OBLIGATIONS

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

	Balance - December 31, 2017	Net Issues	Retirements	Balance - December 31, 2018	Due Within One Year
General Obligation Refunding Loan, Series 2016A	\$ 9,470,000	\$ -	\$ 445,000	\$ 9,025,000	\$ 355,000
Total Long-Term Obligations	<u>\$ 9,470,000</u>	<u>\$ -</u>	<u>\$ 445,000</u>	<u>\$ 9,025,000</u>	<u>\$ 355,000</u>

The details of the District's long-term obligations are as follows:

\$10,000,000 General Obligation Refunding Loan, Series 2016A (Tax-Exempt), dated September 22, 2016 with an interest rate of 2.73% and matures on December 1, 2036. Interest payments on the loan shall be due and payable semi-annually on June 1 and December 1 each year through maturity. Principal payments on the loan shall be due and payable on December 1 of each year through maturity.

The District may prepay the principal of the loan in amounts up to \$100,000 annually, at a price of par and accrued interest to the prepayment date, without prepayment fees, premiums, or penalties. In addition, on September 22, 2026, and on any date thereafter, the District may prepay the principal of the loan in whole or in part, at a price of par and accrued interest to the prepayment date, without prepayment fees, premiums, or penalties.

MCKAY LANDING METROPOLITAN DISTRICT NO. 2
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 4 LONG-TERM OBLIGATIONS (CONTINUED)

The loan is secured by and payable from pledged revenues consisting of monies derived by the District from the following sources, net of any collection costs: (1) the District's mill levy and (2) any other legally available monies which the District determines to apply to the payment of the loan. The District's mill levy means an ad valorem mill levy imposed upon all taxable property of the District, without limitation or rate, each year in an amount sufficient to pay the principal and interest on the loan as the same become due and payable. If monies produced from the mill levy, together with other pledged revenues, are not sufficient to pay punctually the scheduled payments of principal and interest, the District shall include all such amounts as may be necessary for such purposes in its computation of the mill levy in the subsequent year, and such mill levy shall be imposed and continue to be levied until the loan is fully paid.

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

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 355,000	\$ 246,383	\$ 601,383
2020	375,000	236,691	611,691
2021	385,000	226,454	611,454
2022	410,000	215,943	625,943
2023	420,000	204,750	624,750
2024-2028	2,410,000	840,159	3,250,159
2029-2033	2,925,000	483,894	3,408,894
2034-2036	1,745,000	88,453	1,833,453
Total	<u>\$ 9,025,000</u>	<u>\$ 2,542,727</u>	<u>\$ 11,567,727</u>

Authorized Debt

A majority of the qualified electors of the District authorized the issuance of indebtedness for general obligation bonds at an interest rate not to exceed 18% per annum. The electors also authorized the issuance of indebtedness for general obligation bonds for the purpose of refunding District debt at an interest rate which may be higher than the interest rate borne by the obligations being refunded. In addition, the electors authorized intergovernmental multiple fiscal year contractual obligation and the encumbrance of District property to provide additional security for District debt.

MCKAY LANDING METROPOLITAN DISTRICT NO. 2
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 4 LONG-TERM OBLIGATIONS (CONTINUED)

At December 31, 2018, the District had authorized but unissued indebtedness in the following amounts allocated for the following purposes:

	Election Held 11/2/1999	Election Held 5/2/2000	Election Held 11/7/2000	Authorization Used	Authorized But Unissued
Street Improvements	\$ 5,500,000	\$ -	\$ 5,500,000	\$ 4,915,822	\$ 6,084,178
Traffic and Safety Controls	500,000	-	500,000	-	1,000,000
Water System	1,100,000	-	1,100,000	868,624	1,331,376
Sewer and Storm Sewer System	1,800,000	500,000	2,300,000	1,917,879	2,682,121
Parks and Recreation	3,300,000	3,000,000	6,300,000	3,188,781	9,411,219
Public Transportation	500,000	-	500,000	-	1,000,000
Television Relay	500,000	-	500,000	-	1,000,000
Mosquito Control	100,000	-	100,000	-	200,000
Operations and Maintenance	<u>2,250,000</u>	<u>-</u>	<u>2,250,000</u>	<u>135,200</u>	<u>4,364,800</u>
Subtotal	15,550,000	3,500,000	19,050,000	11,026,306	27,073,694
Debt Refunding	15,550,000	19,050,000	34,600,000	23,945,000	45,255,000
Contracts with Other Political Subdivisions for Public Improvements	15,550,000	19,050,000	34,600,000	-	69,200,000
Encumbrances on District Real and Personal Property as Security for Financial Institutions	<u>3,300,000</u>	<u>3,000,000</u>	<u>-</u>	<u>-</u>	<u>6,300,000</u>
Subtotal	<u>18,850,000</u>	<u>22,050,000</u>	<u>34,600,000</u>	<u>-</u>	<u>75,500,000</u>
Total	<u><u>\$ 49,950,000</u></u>	<u><u>\$ 44,600,000</u></u>	<u><u>\$ 88,250,000</u></u>	<u><u>\$ 34,971,306</u></u>	<u><u>\$ 147,828,694</u></u>

The issuance of the Series 2016 Loans refunded the Series 2006 Bonds and did not use any debt authorization.

The First Modification to the District's Service Plan authorized the District to issue limited tax general obligation bonds in the principal aggregate amount of \$10,100,000 without the need to seek approval from the City to further modify the Service Plan. This modification also limited the Mill Levy to a maximum of 35 mills as adjusted for changes in the ratio of actual value to assessed value of property within the District under State statutes.

In December 2006, the Second Modification to the Service Plan was approved by the City. Pursuant to this modification, the District was authorized to issue the 2006 Refunding Bonds in a principal amount not to exceed \$12,000,000. The second modification also removed the Mill Levy cap of 35 mills.

**MCKAY LANDING METROPOLITAN DISTRICT NO. 2
 NOTES TO BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2018**

NOTE 5 NET POSITION

The District has net position consisting of two components – restricted and unrestricted.

The restricted component of net position consists of assets that are restricted for use either externally imposed by creditors, grantors, contributors, or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The District had restricted net position as follows:

	Governmental Activities
Restricted Net Position:	
Emergencies	\$ 3,600
Debt Service	200,355
Total Restricted Net Position	\$ 203,955

The District has a deficit in unrestricted net position. This deficit amount is a result of the District being responsible for the repayment of long-term obligations issued for public improvements which were conveyed to other governmental entities.

NOTE 6 INTERGOVERNMENTAL AGREEMENTS

District Facilities Construction and Service Agreement

In order to implement the Service Plan, the District entered into the District Facilities Construction and Service Agreement (the Master IGA) with McKay No. 1 on April 21, 2000. The agreement was terminated on December 19, 2007, when McKay No. 1 was dissolved (see Note 1). As part of the dissolution, the District, McKay No. 1, and the City amended the Intergovernmental Agreement, whereby the District agreed to assume all the duties and responsibilities of McKay No. 1.

NOTE 7 RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; thefts of, damage to, or destruction of assets; errors or omissions; injuries to employees; or acts of God.

The District was a member of the Colorado Special Districts Property and Liability Pool (the 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.

MCKAY LANDING METROPOLITAN DISTRICT NO. 2
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 8 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 November 2, 1999, and again on November 7, 2000, a majority of the District's electors authorized tax levies, without limitation of rate, to produce taxes of \$150,000 annually for operations, maintenance, and other expenses without regard to any limitations under TABOR or Section 29-1-301, Colorado Revised Statutes.

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.

SUPPLEMENTARY INFORMATION

**MCKAY LANDING METROPOLITAN DISTRICT NO. 2
DEBT SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL
YEAR ENDED DECEMBER 31, 2018**

	Original and Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Property Taxes	\$ 815,971	\$ 815,970	\$ (1)
Net Investment Income	4,000	11,123	7,123
Total Revenues	<u>819,971</u>	<u>827,093</u>	<u>7,122</u>
EXPENDITURES			
General:			
County Treasurer's Fees	12,240	12,244	(4)
Contingency	5,769	-	5,769
Debt Service:			
Loan Principal - Series 2016	345,000	345,000	-
Loan Interest - Series 2016	263,991	262,122	1,869
Early Principal Redemption - Series 2016	100,000	100,000	-
Total Expenditures	<u>727,000</u>	<u>719,366</u>	<u>7,634</u>
NET CHANGE IN FUND BALANCE	92,971	107,727	14,756
Fund Balance - Beginning of Year	<u>100,613</u>	<u>113,160</u>	<u>12,547</u>
FUND BALANCE - END OF YEAR	<u>\$ 193,584</u>	<u>\$ 220,887</u>	<u>\$ 27,303</u>

OTHER INFORMATION

MCKAY LANDING METROPOLITAN DISTRICT NO. 2
SCHEDULE DEBT SERVICE REQUIREMENTS TO MATURITY
DECEMBER 31, 2018

\$10,000,000 General Obligation Refunding Loan, Series 2016 A, Dated September 22, 2016 Interest Rate of 2.73% Payable June 1 and December 1, Principal Due December 1			
Year Ending December 31,	Principal	Interest	Total
2019	\$ 355,000	\$ 246,383	\$ 601,383
2020	375,000	236,691	611,691
2021	385,000	226,454	611,454
2022	410,000	215,943	625,943
2023	420,000	204,750	624,750
2024	445,000	193,284	638,284
2025	460,000	181,136	641,136
2026	485,000	168,578	653,578
2027	495,000	155,337	650,337
2028	525,000	141,824	666,824
2029	540,000	127,491	667,491
2030	565,000	112,749	677,749
2031	580,000	97,325	677,325
2032	610,000	81,491	691,491
2033	630,000	64,838	694,838
2034	660,000	47,639	707,639
2035	675,000	29,621	704,621
2036	410,000	11,193	421,193
Total	\$ 9,025,000	\$ 2,542,727	\$ 11,567,727

MCKAY LANDING METROPOLITAN DISTRICT NO. 2
SCHEDULE OF ASSESSED VALUATION, MILL LEVY, AND PROPERTY TAXES COLLECTED
DECEMBER 31, 2018

Year Ended December 31,	Prior Year Assessed Valuation for Current Year Property Tax Levy	Mills Levied for		Total Property Taxes		Percent Collected to Levied
		General	Debt Service	Levied	Collected	
2014	\$ 19,637,500	2.000	34.500	\$ 716,769	\$ 716,776	100.01 %
2015	19,802,175	2.000	34.500	722,779	722,781	100.01
2016	23,320,080	2.000	34.500	851,183	851,217	100.01
2017	23,326,400	2.000	32.500	804,761	804,647	99.99
2018	25,106,790	2.000	32.500	866,185	866,184	99.99
Estimated for the Year Ending December 31, 2019	\$ 25,009,159	2.000	32.500	\$ 862,816		

NOTE: Property taxes collected in any one year include collection of delinquent property taxes levied in prior years.