

Palisade Metropolitan District No. 1

Financial Statements

Year Ended December 31, 2018

with

Independent Auditors' Report

C O N T E N T S

	<u>Page</u>
<u>Independent Auditors' Report</u>	I
<u>Basic Financial Statements</u>	
Balance Sheet/Statement of Net Position - Governmental Funds	1
Statement of Revenues, Expenditures and Changes in Fund Balances/Statement of Activities - Governmental Funds	2
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund	3
Notes to Financial Statements	4
<u>Supplemental Information</u>	
Schedule of Revenues, Expenditures and Changes in Fund Balance Budget and Actual – Debt Service Fund	18
Schedule of Revenues, Expenditures and Changes in Fund Balance Budget and Actual - Capital Projects Fund	19

Board of Directors
Palisade Metropolitan District No. 1
Broomfield County, Colorado

Independent Auditors' Report

We have audited the accompanying financial statements of the governmental activities and each major fund of the Palisade Metropolitan District No. 1, 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 District'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 District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting principles 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 Palisade Metropolitan District No. 1 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 opinions on the basic financial statements are 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 Palisade Metropolitan District No. 1's basic financial statements. The supplemental 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 supplemental information is the responsibility of management and were derived from and relate 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 supplemental information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Simmons & Wheeler, P.C.

Englewood, CO
August 17, 2018

Palisade Metropolitan District No. 1

BALANCE SHEET/STATEMENT OF NET POSITION
GOVERNMENTAL FUNDS
December 31, 2018

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
ASSETS						
Cash	\$ 132,037	\$ -	\$ -	\$ 132,037	\$ -	\$ 132,037
Cash - restricted	2,500	13,931	19,237	35,668	-	35,668
Receivable County Treasurer	291	1,310	-	1,601	-	1,601
Property taxes receivable	1,294	5,824	-	7,118	-	7,118
Facility fees receivable	-	-	24,000	24,000	-	24,000
Prepaid expenses	3,203	-	-	3,203	-	3,203
	<u>3,203</u>	<u>-</u>	<u>-</u>	<u>3,203</u>	<u>-</u>	<u>3,203</u>
Total Assets	<u>\$ 139,325</u>	<u>\$ 21,065</u>	<u>\$ 43,237</u>	<u>\$ 203,627</u>	<u>-</u>	<u>203,627</u>
LIABILITIES						
Accounts payable	\$ 2,913	\$ -	\$ -	\$ 2,913	-	2,913
Long-term liabilities:						
Due in more than one year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	4,063,016	4,063,016
Total Liabilities	<u>2,913</u>	<u>-</u>	<u>-</u>	<u>2,913</u>	4,063,016	4,065,929
DEFERRED INFLOWS OF RESOURCES						
Deferred property taxes	<u>1,294</u>	<u>5,824</u>	<u>-</u>	<u>7,118</u>	<u>-</u>	<u>7,118</u>
Total Deferred Inflows of Resources	<u>1,294</u>	<u>5,824</u>	<u>-</u>	<u>7,118</u>	<u>-</u>	<u>7,118</u>
FUND BALANCE						
Nonspendable:						
Prepays	3,203	-	-	3,203	(3,203)	-
Restricted:						
Emergencies	2,500	-	-	2,500	(2,500)	-
Debt service	-	15,241	-	15,241	(15,241)	-
Capital projects	-	-	43,237	43,237	(43,237)	-
Committed:						
Assigned:						
Unassigned	<u>129,415</u>	<u>-</u>	<u>-</u>	<u>129,415</u>	<u>(129,415)</u>	<u>-</u>
Total Fund Balances	<u>135,118</u>	<u>15,241</u>	<u>43,237</u>	<u>193,596</u>	<u>(193,596)</u>	<u>-</u>
Total Liabilities, Deferred Inflows of Resource and Fund Balances	<u>\$ 139,325</u>	<u>\$ 21,065</u>	<u>\$ 43,237</u>	<u>\$ 203,627</u>		
NET POSITION						
Restricted for:						
Emergencies					2,500	2,500
Capital projects					43,237	43,237
Unrestricted					<u>(3,930,398)</u>	<u>(3,930,398)</u>
Total Net Position (Deficit)					<u>\$ (3,869,420)</u>	<u>\$ (3,869,420)</u>

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

Palisade Metropolitan District No. 1

STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES/STATEMENT OF ACTIVITIES
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2018

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
EXPENDITURES						
Accounting and audit	\$ 14,574	\$ -	\$ -	\$ 14,574	\$ -	\$ 14,574
Management	400	-	-	400	-	400
Insurance	3,468	-	-	3,468	-	3,468
Legal	11,300	-	-	11,300	-	11,300
Miscellaneous expenses	136	-	-	136	-	136
Treasurer's fees	21	96	-	117	-	117
Transfer to District No. 2	12,236	445,339	20,000	477,575	-	477,575
Interest on developer advance	-	-	-	-	256,491	256,491
Capital outlay	-	-	1,068,863	1,068,863	-	1,068,863
Total Expenditures	<u>42,135</u>	<u>445,435</u>	<u>1,088,863</u>	<u>1,576,433</u>	<u>256,491</u>	<u>1,832,924</u>
GENERAL REVENUES						
Property taxes	1,419	6,387	-	7,806	-	7,806
Specific ownership taxes	3,201	14,406	-	17,607	-	17,607
BURA TIF Revenue	48,184	216,833	-	265,017	-	265,017
St Vrain Tax	-	176,423	-	176,423	-	176,423
City Tax	-	12,504	-	12,504	-	12,504
County Tax	-	16,653	-	16,653	-	16,653
HHS Tax	-	2,453	-	2,453	-	2,453
Total General Revenues	<u>52,804</u>	<u>445,659</u>	<u>-</u>	<u>498,463</u>	<u>-</u>	<u>498,463</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	10,669	224	(1,088,863)	(1,077,970)	(256,491)	(1,334,461)
OTHER FINANCING SOURCES (USES)						
Developer advances	-	-	1,064,308	1,064,308	(1,064,308)	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>1,064,308</u>	<u>1,064,308</u>	<u>(1,064,308)</u>	<u>-</u>
NET CHANGES IN FUND BALANCES	10,669	224	(24,555)	(13,662)	13,662	
CHANGE IN NET POSITION					(1,334,461)	(1,334,461)
FUND BALANCES/NET POSITION:						
BEGINNING OF YEAR	<u>124,449</u>	<u>15,017</u>	<u>67,792</u>	<u>207,258</u>	<u>(2,742,217)</u>	<u>(2,534,959)</u>
END OF YEAR	<u>\$ 135,118</u>	<u>\$ 15,241</u>	<u>\$ 43,237</u>	<u>\$ 193,596</u>	<u>\$ (4,063,016)</u>	<u>\$ (3,869,420)</u>

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

Palisade Metropolitan District No. 1

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

For the Year Ended December 31, 2018

	Original & Final <u>Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
REVENUES			
Property taxes	\$ 1,341	\$ 1,419	\$ 78
Specific ownership taxes	5,500	3,201	(2,299)
BURA TIF Revenue	48,259	48,184	(75)
Interest income	<u>50</u>	<u>-</u>	<u>(50)</u>
Total Revenues	<u>55,150</u>	<u>52,804</u>	<u>(2,346)</u>
EXPENDITURES			
Accounting and audit	17,000	14,574	2,426
Management	-	400	(400)
Insurance	2,500	3,468	(968)
Legal	25,000	11,300	13,700
Miscellaneous expenses	1,000	136	864
Treasurer's fees	20	21	(1)
Transfer to District No. 2	24,000	12,236	11,764
Emergency reserve	<u>2,000</u>	<u>-</u>	<u>2,000</u>
Total Expenditures	<u>71,520</u>	<u>42,135</u>	<u>29,385</u>
NET CHANGE IN FUND BALANCE	(16,370)	10,669	27,039
FUND BALANCE:			
BEGINNING OF YEAR	<u>121,800</u>	<u>124,449</u>	<u>2,649</u>
END OF YEAR	<u>\$ 105,430</u>	<u>\$ 135,118</u>	<u>\$ 29,688</u>

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

Palisade Metropolitan District No. 1

Notes to Financial Statements
December 31, 2018

Note 1: Summary of Significant Accounting Policies

The accounting policies of the Palisade Metropolitan District No. 1 (the “District”), located in the City and County of Broomfield, Colorado (“Broomfield”), conform to the accounting principles generally accepted in the United States of America (“GAAP”) as applicable to governmental units. The Governmental Accounting Standards Board (“GASB”) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant policies consistently applied in the preparation of financial statements.

Definition of Reporting Entity

The District was organized on August 16, 2007, as a quasi-municipal organization established under the State of Colorado Special District Act. The District was established to finance and construct certain public infrastructure improvements that benefit the citizens of the District. The District's primary revenues are property taxes. The District is governed by an elected Board of Directors.

On September 12, 2006, Broomfield approved the District’s Service Plan (the “Original Service Plan”). On December 2, 2014, Broomfield approved the First Amended and Restated Service Plan for the District (the “Amended Service Plan”), which is intended to modify, replace, restate and supersede the Original Service Plan in its entirety.

As required by GAAP, these financial statements present the activities of the District, which is legally separate and financially independent of other state and local governments. The District follows the GASB pronouncements which provide guidance for determining which governmental activities, organizations and functions should be included within the financial reporting entity. GASB sets forth the financial accountability of a governmental organization’s elected governing body as the basic criterion for including a possible component governmental organization in a primary government’s legal entity. Financial accountability includes, but is not limited to, appointment of a voting majority of the organization’s governing body, ability to impose its will on the organization, a potential for the organization to provide specific financial benefits or burdens and fiscal dependency. The pronouncements also require including a possible component unit if it would be misleading to exclude it.

The District is not financially accountable for any other organization. The District has no component units as defined by the GASB.

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

Palisade Metropolitan District No. 1

Notes to Financial Statements December 31, 2018

Basis of Presentation

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

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

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

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The material sources of revenue subject to accrual are property taxes and interest. Expenditures, other than interest on long-term obligations, are recorded when the liability is incurred or the long-term obligation is paid.

Palisade Metropolitan District No. 1

Notes to Financial Statements
December 31, 2018

The District reports the following major governmental funds:

General Fund - The General Fund is the general operating fund of the District. It is used to account for all financial resources not accounted for and reported in another fund.

Debt Service Fund – The Debt Service Fund is used to account for all financial resources that are restricted, committed or assigned to expenditures for principal, interest and other debt related costs.

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

Budgetary Accounting

Budgets are adopted on a non-GAAP basis for the governmental funds. In accordance with the State Budget Law of Colorado, the District's Board of Directors holds public hearings in the fall of each year to approve the budget and appropriate the funds for the ensuing year. The District's Board of Directors can modify the budget by line item within the total appropriation without notification. The appropriation can only be modified upon completion of notification and publication requirements. The budget includes each fund on its basis of accounting unless otherwise indicated. The appropriation is at the total fund expenditures level and lapses at year end.

Subsequent to year end the District amended the total appropriations in the Debt Service Fund from \$435,193 to \$460,090 due to additional funds transferred to District No. 2.

Assets, Liabilities and Net Position

Fair Value of Financial Instruments

The District's financial instruments include cash and cash equivalents, accounts receivable and accounts payable. The District estimates that the fair value of all financial instruments at December 31, 2018, does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying balance sheet. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

Deposits and Investments

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

Palisade Metropolitan District No. 1

Notes to Financial Statements
December 31, 2018

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

Estimates

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

Fixed Assets

The District had no fixed assets during 2018. The District does act as a conduit for eligible improvements that have been paid for by the Developer and conveyed by the Developer to Broomfield.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District does not have any items that qualify for reporting under this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has one item that qualifies for reporting in this category. Deferred property taxes are deferred and recognized as an inflow of resources in the period that the amounts become available.

Long-Term Obligations

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

Palisade Metropolitan District No. 1

Notes to Financial Statements
December 31, 2018

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 taxpayers' election, in February and June. Delinquent taxpayers are notified in July or August and the sales of the resultant tax liens on delinquent properties are generally held in November or December. The County Treasurer remits the taxes collected monthly to the District.

Property taxes, net of estimated uncollectible taxes, are recorded initially as deferred inflows in the year they are levied and measurable since they are not normally available nor are they budgeted as a resource until the subsequent year. The deferred property taxes are recorded as revenue in the subsequent year when they are available or collected.

Fund Equity

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

Nonspendable Fund Balance

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

The nonspendable fund balance in the General Fund in the amount of \$3,203 represents prepaid insurance.

Restricted Fund Balance

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

The restricted fund balance in the General Fund represents Emergency Reserves that have been provided as required by Article X, Section 20 of the Constitution of the State of Colorado. A total of \$2,500 of the General Fund balance has been restricted in compliance with this requirement.

Palisade Metropolitan District No. 1

Notes to Financial Statements
December 31, 2018

The restricted fund balance in the Debt Service Fund in the amount of \$15,241 is restricted for the payment under the Capital Pledge Agreement (Note 5).

The restricted fund balance in the Capital Projects Fund in the amount of \$43,237 is restricted for the payment of the costs for capital improvements within the District.

Unassigned Fund Balance

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

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

Net Position

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

Net investment in capital assets – consists of net capital assets, reduced by outstanding balances of any related debt obligations and deferred inflows of resources attributable to the acquisition, construction, or improvement of those assets and increased by balances of deferred outflows or resources related to those assets. The District does not have any amount to report in net investment in capital assets as it does not own any capital assets.

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

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

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

Palisade Metropolitan District No. 1

Notes to Financial Statements
December 31, 2018

Note 2: Cash

As of December 31, 2018, cash and investments are classified in the accompanying financial statements as follows:

Statement of Net Position:

Cash	\$ 132,037
Cash - Restricted	<u>35,668</u>
Total	\$ <u>167,705</u>

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

Deposits with financial institutions	\$ <u>167,705</u>
--------------------------------------	-------------------

Custodial Credit Risk

The Colorado Public Deposit Protection Act, (“PDPA”) requires that all units of local government deposit cash in eligible public depositories. State regulators determine eligibility. Amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is determined by the PDPA. PDPA allows the institution to create a single collateral pool for all public funds. The pool is to be maintained by another institution, or held in trust for all the uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the aggregate uninsured deposits. The State Commissioners for banks and financial services are required by statute to monitor the naming of eligible depositories and reporting of the uninsured deposits and assets maintained in the collateral pools.

The District follows state statutes for deposits. None of the District’s deposits were exposed to custodial credit risk.

Investments

At December 31, 2018, the District did not have any investments.

Credit Risk

The District’s investment policy requires that the District follow state statutes for investments. Colorado statutes specify the types of investments meeting defined rating and risk criteria in which local governments may invest. These investments include obligations of the United States and certain U.S. Government agency entities, certain money market funds, guaranteed investment contracts, and local government investment pools.

Custodial and Concentration of Credit Risk

None of the District’s investments are subject to custodial or concentration of credit risk.

Palisade Metropolitan District No. 1

Notes to Financial Statements
December 31, 2018

Interest Rate Risk

Colorado revised statutes limit investment maturities to five years or less unless formally approved by the Board of Directors.

Note 3: Long Term Debt

A description of the long-term obligations as of December 31, 2018, is as follows:

Operations Funding Agreement

On November 13, 2008, the District and Kevamra, LLC (“Kevamra”) entered into an Operation Funding Agreement with an effective date of September 27, 2007 (“OFA”), whereby Kevamra agreed to provide funding for operations and maintenance expenses of the District as needed through 2010 up to \$125,000 and the District agreed to reimburse Kevamra for such advances, along with interest at 8% per annum. On December 9, 2010, the District entered into a First Amendment to the OFA extending the term to include advances up to \$125,000 as are necessary through 2012. On November 15, 2012, the District entered into a Second Amendment to OFA extending the term of the OFA through 2013.

Amended and Restated Facilities Funding and Acquisition Agreement

On August 25, 2016, the District and Kevamra entered into an Amended and Restated Facilities Funding and Acquisition Agreement with an effective date of September 27, 2007 (“Restated FFAA”) whereby Kevamra agreed to provide funding for certain construction related expenses of the District as needed for fiscal years 2007 through 2017, up to \$6,000,000 and the District agreed to reimburse Kevamra for such capital advances made to the District along with interest at 8% per annum. The Restated FFAA further provides Kevamra may construct public improvements for subsequent acquisition and/or reimbursement by the District, subject to the conditions set forth in the Restated FFAA, along with interest at 8% per annum. On November 16, 2017, the District and Kevamra entered into a First Amendment to Restated FFAA effective January 1, 2018 to extend the fiscal years Kevamra shall be obligated to advance funds up to the shortfall amount through 2020 and to extend the term of the Restated FFAA through December 31, 2030.

The following is an analysis of changes in long-term debt for the period ending December 31, 2018:

	Balance			Balance	Current
	1/1/2018	Additions	Deletions	12/31/2018	Portion
Developer Advance					
Operations	\$ 54,258	\$ -	\$ -	\$ 54,258	\$ -
Operations - Interest	34,676	4,341	-	39,017	-
Capital	2,501,661	1,064,308	-	3,565,969	-
Capital - Interest	151,622	252,150	-	403,772	-
Total	<u>\$2,742,217</u>	<u>\$ 1,320,799</u>	<u>\$ -</u>	<u>\$4,063,016</u>	<u>\$ -</u>

Palisade Metropolitan District No. 1

Notes to Financial Statements
December 31, 2018

Debt Authorization

As of December 31, 2018, the District had remaining voted debt authorization of approximately \$123,120,000. The District has not budgeted to issue any new debt during 2019. Pursuant to the Amended Service Plan, the District cannot issue debt in excess of \$10,260,000. Issuance of debt in excess of \$10,260,000 shall be considered a material modification of the Amended Service Plan, which shall be subject to the statutory procedures set forth in Section 32-1-207, C.R.S.

Note 4: Related Party

All of the Board of Directors are employees, owners or are otherwise associated with Kevamra and may have conflicts of interest in dealing with the District. Management believes that all potential conflicts, if any, have been disclosed by the Board.

Note 5: Agreements

Amended and Restated Intergovernmental Agreement for Cost Sharing

On August 25, 2016, the District and Palisade Metropolitan District No. 2 (“District No. 2”) entered into an Amended and Restated Intergovernmental Agreement for Cost Sharing with an effective date of January 1, 2014 (“Amended IGA”). The purpose of the Amended IGA is to identify and approve the allocation of the costs of the Completed Improvements as between the Districts, to evidence the agreement of District No. 1 to assume the obligation to reimburse Kevamra for the District No. 1 Allocated Improvement Costs (as defined in the Amended IGA) and the District No. 1 Direct Costs (as defined in the Amended IGA) pursuant to the District No. 1 FFAA (as defined in the Amended IGA) and to evidence the agreement of District No. 2 to assume the obligation to reimburse Kevamra for the District No. 2 Allocated Improvement Costs pursuant to the District No. 2 FFAA (as defined in the Amended IGA).

Reimbursement Agreement

On October 9, 2007, the District entered into a Reimbursement Agreement by and among the Broomfield Urban Renewal Authority (“BURA”) and District No. 2 (“Reimbursement Agreement”) whereby BURA agreed to reimburse the Districts for eligible improvements in an amount of the lesser of the total certified costs, or \$15,809,807 (“Reimbursement Obligation”). Pursuant to the Reimbursement Agreement, the Districts are expected to issue bonds to finance the eligible improvements described therein and, to assist in supporting the repayment of such bonds, BURA agreed to transfer 50% of the 3.5% sales taxes imposed upon all transactions subject to sales tax within the Districts, 50% of the 3.5% use tax revenue produced by initial construction of Private Improvements within the Districts, and 50% of the Service Expansion Fee collected for residential uses developed and constructed within the Districts.

Palisade Metropolitan District No. 1

Notes to Financial Statements
December 31, 2018

Additionally, BURA will deposit into a separate account and transfer to Districts all property tax revenue paid to BURA as a result of the Districts' mill levies. The funds generated from the operating mill levy will be used by the Districts to pay for normal operating and maintenance, and the portion attributable to the debt service mill levy will be used for payment on the bonds. The debt service mill levy transfer will expire on the first to occur of the 25th anniversary of the Reimbursement Agreement or the defeasance in full of the bonds. The District's mill levies do not count against or otherwise reduce the Reimbursement Obligation. On April 19, 2011 the Districts entered into Amendment No. 1 to the Reimbursement Agreement ("Amendment No. 1") to acknowledge issuance of a Promissory Note by District No. 2 to finance certain specified public improvements ("Amendment Improvements") for the benefit of certain property within District No. 2 ("Amendment Property"). Pursuant to Amendment No. 1, BURA agreed to pledge to District No. 2 for repayment of the Promissory Note that portion of increment revenues BURA receives as a result of 7.242 mills levied by Broomfield associated with the Amendment Property, and that portion of the increment revenues BURA receives as a result of the mill levy imposed by the Saint Vrain School District on the Amendment Property ("Amendment Revenues").

On December 2, 2014, the Districts and BURA entered into Amendment No. 2 to the Reimbursement Agreement ("Amendment No. 2") to provide for additional Pledged Revenue to pay for Eligible Expenditures of those Public Improvements defined in Amendment No. 2, including certain property tax increment revenues BURA receives as a result of the following, but excluding any Amendment No. 1 Property Tax Revenue attributed to the Amendment Property, (i) the levy of 7.242 mills by Broomfield upon certain property, (ii) 100% of the levy of the St. Vrain School District on certain property within District No. 2, and (iii) 75% of the levy of the St. Vrain School District on certain property within District No. 1. Amendment No. 2 also increased the Maximum Net Reimbursement Obligation of BURA to the lesser of the total cost for the Public Improvements, as certified and approved in accordance with the Reimbursement Agreement, or \$23,633,446.

On July 15, 2015, the Districts and BURA entered into a Corrected Amendment No. 3 to the Reimbursement Agreement ("Amendment No. 3") in order to clarify certain definitions and authorized uses of the Pledged Revenues.

Palisade Metropolitan District No. 1

Notes to Financial Statements December 31, 2018

Facilities Funding and Reimbursement Agreement

On December 20, 2012 the Board entered into a Facilities Funding and Reimbursement Agreement, as amended (“FFRA”) with Taylor Morrison of Colorado, Inc (“Taylor Morrison”), and Kevamra, whereby, the District agreed to construct certain offsite and onsite improvements as further described in the FFRA. Taylor Morrison agreed to deposit \$1,466,218 into an escrow account (as described below) for the District to utilize for the construction of the offsite improvements and to deposit \$833,782 with the District for other public improvements. Taylor Morrison further agreed that Kevamra shall have the right to receive and retain reimbursement from the District for both the onsite and offsite improvements. On December 20, 2012, \$2,300,000 was deposited by Taylor Morrison as required under the FFRA. In conjunction with the FFRA the District, Taylor Morrison and Vectra Bank Colorado, (the “Bank”) entered into an Escrow and Disbursement Agreement (“EDA”) whereby a disbursement account is established for the disbursement of the funds deposited by Taylor Morrison for offsite improvements in the amount of \$1,466,218 as described above. The EDA sets forth the requirements of each request for funds.

Capital Pledge Agreement

On September 1, 2016, the District and District No. 2 entered into a Capital Pledge Agreement (“2016 Capital Pledge Agreement”), whereby the District pledged certain revenues to the payment of District No. 2’s General Obligation Limited Tax and Revenue Bonds, Series 2016 (the “Bonds”) issued in the maximum principal amount of \$26,240,000. Under the 2016 Capital Pledge Agreement, the District covenants that: (i) the District shall levy the Mandatory Capital Levy (as defined in the 2016 Capital Pledge Agreement) on all taxable property within the District, (ii) the provisions of the Capital Pledge Agreement constitute the certificate of the District to Broomfield regarding the District’s obligations under the Bonds, (iii) amounts derived by the District under the Mandatory Capital Levy are appropriated for payment of the Bonds, until the Bonds have been fully paid; (iv) the District shall ratify and carry out provisions, annually, at the time and manner provided by law for levying taxes, shall levy, certify, and collect said taxes in the manner provided by law for the aforementioned purposes; (v) said taxes shall be levied, assessed, collected and enforced at the time and in the form and manner as other taxes in the State of Colorado and when collected said taxes shall be paid to District No. 2 as provided in the 2016 Capital Pledge Agreement; and (vi) the District Board shall take all necessary and proper steps to enforce promptly the payment of taxes levied pursuant to the 2016 Capital Pledge Agreement.

Note 6: Tax, Spending and Debt Limitations

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

Palisade Metropolitan District No. 1

Notes to Financial Statements
December 31, 2018

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.

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 November 6, 2006 a majority of the District's electors authorized the District to collect and spend or retain in a reserve all currently levied taxes and fees of the District without regard to any limitations under Article X, Section 20 of the Colorado Constitution.

Note 7: Risk Management

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

The District pays annual premiums to the Pool for auto, public officials' liability, and property and general liability coverage. In the event aggregated losses incurred by the Pool exceed its amounts recoverable from reinsurance contracts and its accumulated reserves, the District may be called upon to make additional contributions to the Pool on the basis proportionate to other members. Any excess funds which the Pool determines are not needed for purposes of the Pool may be returned to the members pursuant to a distribution formula.

Palisade Metropolitan District No. 1

Notes to Final Statements
December 31, 2018

Note 8: Reconciliation of Government-Wide Financial Statements and Fund Financial Statements

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

- 1) long-term liabilities such as notes payable and accrued note interest payable are not due and payable in the current period and, therefore, are not in the funds.

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

- 1) governmental funds report interest expense on the modified accrual basis; however, interest expense is reported on the full accrual method on the Statement of Activities.

SUPPLEMENTAL INFORMATION

Palisade Metropolitan District No. 1

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

For the Year Ended December 31, 2018

	Original <u>Budget</u>	Final <u>Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
REVENUES				
Property taxes	\$ 6,037	\$ 6,037	\$ 6,387	\$ 350
Specific ownership taxes	9,000	15,000	14,406	(594)
BURA TIF Revenue	217,171	217,171	216,833	(338)
St Vrain Tax	186,744	186,744	176,423	(10,321)
City Tax	5,010	10,000	12,504	2,504
County Tax	9,123	15,000	16,653	1,653
HHS Tax	1,967	2,500	2,453	(47)
Interest income	<u>50</u>	<u>50</u>	<u>-</u>	<u>(50)</u>
Total Revenues	<u>435,102</u>	<u>452,502</u>	<u>445,659</u>	<u>(6,843)</u>
EXPENDITURES				
Treasurer's fees	90	90	96	(6)
Transfer to District No. 2	<u>435,103</u>	<u>460,000</u>	<u>445,339</u>	<u>14,661</u>
Total Expenditures	<u>435,193</u>	<u>460,090</u>	<u>445,435</u>	<u>14,655</u>
NET CHANGE IN FUND BALANCE	(91)	(7,588)	224	7,812
FUND BALANCE:				
BEGINNING OF YEAR	<u>7,867</u>	<u>7,867</u>	<u>15,017</u>	<u>7,150</u>
END OF YEAR	<u>\$ 7,776</u>	<u>\$ 279</u>	<u>\$ 15,241</u>	<u>\$ 14,962</u>

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

Palisade Metropolitan District No. 1

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

For the Year Ended December 31, 2018

	Original & Final <u>Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
REVENUES			
Transfer from District No. 2	\$ 2,500,000	\$ -	\$ (2,500,000)
Total Revenues	<u>2,500,000</u>	<u>-</u>	<u>(2,500,000)</u>
EXPENDITURES			
Transfer to District No. 2	-	20,000	(20,000)
Capital outlay	500,000	1,068,863	(568,863)
Repay developer advance -principal	<u>2,000,000</u>	<u>-</u>	<u>2,000,000</u>
Total Expenditures	<u>2,500,000</u>	<u>1,088,863</u>	<u>1,411,137</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	-	(1,088,863)	(1,088,863)
OTHER FINANCING SOURCES (USES)			
Developer advances	-	<u>1,064,308</u>	<u>1,064,308</u>
Total Other Financing Sources (Uses)	<u>-</u>	<u>1,064,308</u>	<u>1,064,308</u>
NET CHANGE IN FUND BALANCE	-	(24,555)	(24,555)
FUND BALANCE:			
BEGINNING OF YEAR	<u>98,347</u>	<u>67,792</u>	<u>(30,555)</u>
END OF YEAR	<u>\$ 98,347</u>	<u>\$ 43,237</u>	<u>\$ (55,110)</u>

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