

Palisade Metropolitan District No. 2
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	19
Schedule of Revenues, Expenditures and Changes in Fund Balance Budget and Actual - Capital Projects Fund	20

Board of Directors
Palisade Metropolitan District No. 2
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. 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 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. 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 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. 2'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
September 11, 2019

Palisade Metropolitan District No. 2

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 and investments	\$ 554,545	\$ -	\$ -	\$ 554,545	\$ -	\$ 554,545
Cash and investments - restricted	3,500	4,086,740	7,560,026	11,650,266	-	11,650,266
Receivable County Treasurer	1,443	5,511	-	6,954	-	6,954
Property taxes receivable	3,744	7,131	-	10,875	-	10,875
Receivable - other	-	-	22,790	22,790	-	22,790
Prepaid expenses	4,036	-	-	4,036	-	4,036
Total Assets	<u>567,268</u>	<u>4,099,382</u>	<u>7,582,816</u>	<u>12,249,466</u>	<u>-</u>	<u>12,249,466</u>
DEFERRED OUTFLOWS OF RESOURCES						
Deferred loss on refunding	-	-	-	-	186,128	186,128
Total Deferred Outflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>186,128</u>	<u>186,128</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 567,268</u>	<u>\$ 4,099,382</u>	<u>\$ 7,582,816</u>	<u>\$ 12,249,466</u>		
LIABILITIES						
Accounts payable	\$ 3,985	\$ 130,730	\$ -	\$ 134,715	-	134,715
Accrued interest on bonds	-	-	-	-	103,299	103,299
Long-term liabilities:						
Due within one year	-	-	-	-	190,000	190,000
Due in more than one year	-	-	-	-	27,047,162	27,047,162
Total Liabilities	<u>3,985</u>	<u>130,730</u>	<u>-</u>	<u>134,715</u>	<u>27,340,461</u>	<u>27,475,176</u>
DEFERRED INFLOWS OF RESOURCES						
Deferred property taxes	3,744	7,131	-	10,875	-	10,875
Total Deferred Inflows of Resources	<u>3,744</u>	<u>7,131</u>	<u>-</u>	<u>10,875</u>	<u>-</u>	<u>10,875</u>
FUND BALANCE						
Nonspendable:						
Prepays	4,036	-	-	4,036	(4,036)	-
Restricted:						
Emergencies	3,500	-	-	3,500	(3,500)	-
Debt service	-	3,961,521	-	3,961,521	(3,961,521)	-
Capital projects	-	-	7,582,816	7,582,816	(7,582,816)	-
Unassigned	552,003	-	-	552,003	(552,003)	-
Total Fund Balances	<u>559,539</u>	<u>3,961,521</u>	<u>7,582,816</u>	<u>12,103,876</u>	<u>(12,103,876)</u>	<u>-</u>
Total Liabilities, Deferred Inflows of Resource and Fund Balances	<u>\$ 567,268</u>	<u>\$ 4,099,382</u>	<u>\$ 7,582,816</u>	<u>\$ 12,249,466</u>		
NET POSITION						
Restricted for:						
Emergencies					3,500	3,500
Debt service					3,858,222	3,858,222
Capital projects					7,582,816	7,582,816
Unrestricted					<u>(26,494,995)</u>	<u>(26,494,995)</u>
Total Net Position (Deficit)					<u>\$(15,050,457)</u>	<u>\$(15,050,457)</u>

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

Palisade Metropolitan District No. 2

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	\$ 15,810	\$ -	\$ -	\$ 15,810	\$ -	\$ 15,810
Office expenses	791	-	-	791	-	791
Insurance	2,358	-	-	2,358	-	2,358
Legal	16,401	-	-	16,401	-	16,401
Treasurer's fees	100	121	-	221	-	221
Maintenance costs	40,444	-	-	40,444	-	40,444
Trustee fees	-	3,000	-	3,000	-	3,000
Bond interest expense	-	1,240,434	-	1,240,434	(7,246)	1,233,188
Capital outlay	-	-	1,116,681	1,116,681	-	1,116,681
Developer advances - interest	-	-	-	-	48,203	48,203
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total Expenditures	75,904	1,243,555	1,116,681	2,436,140	40,957	2,477,097
GENERAL REVENUES						
Property taxes	6,639	8,115	-	14,754	-	14,754
Specific ownership taxes	15,869	19,395	-	35,264	-	35,264
BURA Revenue	149,091	904,829	-	1,053,920	-	1,053,920
Payment in lieu of taxes	45,742	120,956	-	166,698	-	166,698
Sales and use tax less prior year overpayer	-	(102,623)	-	(102,623)	-	(102,623)
Interest income	-	77,939	137,977	215,916	-	215,916
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total General Revenues	217,341	1,028,611	137,977	1,383,929	-	1,383,929
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES						
	141,437	(214,944)	(978,704)	(1,052,211)	(40,957)	(1,093,168)
OTHER FINANCING SOURCES (USES)						
Transfer from District No. 1	12,236	445,339	20,000	477,575	-	477,575
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total Other Financing Sources (Uses)	12,236	445,339	20,000	477,575	-	477,575
NET CHANGES IN FUND BALANCES						
	153,673	230,395	(958,704)	(574,636)	574,636	
CHANGE IN NET POSITION						
					(615,593)	(615,593)
FUND BALANCES/NET POSITION:						
BEGINNING OF YEAR	405,866	3,731,126	8,541,520	12,678,512	(27,113,376)	(14,434,864)
END OF YEAR	<u>\$ 559,539</u>	<u>\$ 3,961,521</u>	<u>\$ 7,582,816</u>	<u>\$ 12,103,876</u>	<u>\$ (27,154,333)</u>	<u>\$ (15,050,457)</u>

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

Palisade Metropolitan District No. 2

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	\$ 6,651	\$ 6,639	\$ (12)
Specific ownership taxes	8,750	15,869	7,119
BURA Revenue	231,510	149,091	(82,419)
Payment in lieu of taxes	40,319	45,742	5,423
Interest income	<u>30</u>	<u>-</u>	<u>(30)</u>
Total Revenues	<u>287,260</u>	<u>217,341</u>	<u>(69,919)</u>
EXPENDITURES			
Accounting and audit	26,000	15,810	10,190
Office expenses	1,500	791	709
Insurance	2,800	2,358	442
Legal	30,000	16,401	13,599
Treasurer's fees	1,000	100	900
Maintenance costs	73,000	40,444	32,556
Emergency reserve	<u>2,000</u>	<u>-</u>	<u>2,000</u>
Total Expenditures	<u>136,300</u>	<u>75,904</u>	<u>60,396</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	150,960	141,437	(9,523)
OTHER FINANCING SOURCES (USES)			
Transfer from District No. 1	<u>24,000</u>	<u>12,236</u>	<u>(11,764)</u>
Total Other Financing Sources (Uses)	<u>24,000</u>	<u>12,236</u>	<u>(11,764)</u>
NET CHANGE IN FUND BALANCE	174,960	153,673	(21,287)
FUND BALANCE:			
BEGINNING OF YEAR	<u>391,304</u>	<u>405,866</u>	<u>14,562</u>
END OF YEAR	<u>\$ 566,264</u>	<u>\$ 559,539</u>	<u>\$ (6,725)</u>

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

Palisade Metropolitan District No. 2

Notes to Financial Statements

December 31, 2018

Note 1: Summary of Significant Accounting Policies

The accounting policies of the Palisade Metropolitan District No. 2 (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 modified, replaced, restated and superseded 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. 2

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. 2

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.

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.

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.

Palisade Metropolitan District No. 2

Notes to Financial Statements December 31, 2018

Interfund Balances

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “due to/from other funds”. These amounts are eliminated in the Statement of Net Position.

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, Kevamra, LLC (“Kevamra”), and conveyed by Kevamra 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 has one item that qualifies for reporting in this category. It is the deferred loss on refunding. A deferred loss on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

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.

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

Palisade Metropolitan District No. 2

Notes to Financial Statements

December 31, 2018

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.

The District also collects a fee as payment in lieu of taxes as a result of an agreement with Kevamra (Note 5).

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 \$4,036 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 \$3,500 of the General Fund balance has been restricted in compliance with this requirement.

The restricted fund balance in the Debt Service Fund in the amount of \$3,961,521 is restricted for the payment of the debt service costs associated with the Series 2016 Bonds.

The restricted fund balance in the Capital Projects Fund in the amount of \$7,582,816 is restricted for the payment of the costs for capital improvements within the District.

Palisade Metropolitan District No. 2

Notes to Financial Statements
December 31, 2018

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

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

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

Note 2: Cash and Investments

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

Statement of Net Position:

Cash and investments	\$ 554,545
Cash and investments - Restricted	<u>11,650,266</u>
Total	<u>\$ 12,204,811</u>

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

Deposits with financial institutions	\$ 400,887
Investments – CSAFE	<u>11,803,924</u>
	<u>\$ 12,204,811</u>

Palisade Metropolitan District No. 2

Notes to Financial Statements

December 31, 2018

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.

Deposits

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.

Interest Rate Risk

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

Investment Valuation

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

Palisade Metropolitan District No. 2

Notes to Financial Statements December 31, 2018

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

CSAFE

The local government investment pool Colorado Surplus Asset Fund Trust (“CSAFE”), is rated AAAM by Standard and Poor’s with a weighted average maturity of under 60 days. CSAFE records its investments at amortized cost and the District records its investments in CSAFE using the amortized cost method. CSAFE is an investment vehicle established by state statute for local government entities to pool surplus assets. The State Securities Commissioner administers and enforces all State statutes governing the Trust. The Trust is similar to a money market fund, with each share valued at \$1.00. CSAFE may invest in U.S. Treasury securities, repurchase agreements collateralized by U.S. Treasury securities, certain money market funds, and highest rated commercial paper. A designated custodial bank serves as custodian for CSAFE’s portfolio pursuant to custodian agreements. The custodian acts as safekeeping agent for CSAFE’s investment portfolio and provides services as the depository in connection with direct investments and withdrawals. The custodians’ internal records identify the investments owned by CSAFE. At December 31, 2018, the District had \$11,803,924 invested in CSAFE

Note 3: Long Term Debt

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

Operation Funding Agreement

On November 13, 2008 the District and 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. The OFA expires on December 31, 2027. 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 to include advances up to \$125,000 as are necessary through 2013. The total amount funded through December 31, 2018 is \$31,372.

Facilities Funding and Acquisition Agreement

On August 25, 2016 the District and Kevamra entered into an Amended and Restated Facilities Funding and Acquisition Agreement (“Amended FFAA”) with an effective date of September 27, 2007. Pursuant to the Amended FFAA, Kevamra agreed to provide funding for certain construction related expenses of the District up to \$17,500,000 and the District agreed to reimburse Kevamra for such capital advances made to the District along with interest at 8% per annum. The Amended 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 Amended FFAA, along with interest at 8% per annum. On November 16, 2017, with an effective date of January 1, 2018, the District and Kevamra entered into a First Amendment to Amended FFAA to extend the fiscal years Kevamra shall be obligated to advance funds up to the amount of the shortfall amount through 2020 and to extend the term of the amended FFAA. The Amended FFAA expires on December 31, 2030.

Palisade Metropolitan District No. 2

Notes to Financial Statements

December 31, 2018

General Obligation Limited Tax and Revenue Bonds Series 2016

On September 1, 2016, the District issued \$26,240,000 of General Obligation Limited Tax and Revenue Bonds, Series 2016 (“Series 2016 Bonds”), for the purpose of funding and reimbursing a portion of the costs of certain public infrastructure, paying the costs of issuance of the Series 2016 Bonds, funding the Reserve Fund, funding a portion of interest to accrue on the Series 2016 Bonds and refinancing the 2011 Loan, and the 2015 Loans. The Series 2016 Bonds bear interest at rates ranging from 4.375% to 5.000%, payable semiannually on each June 1 and December 1, commencing on December 1, 2016.

The Series 2016 Bonds are subject to a mandatory sinking fund redemption commencing on December 1, 2019 and are subject to redemption prior to maturity, at the option of the District, as a whole or in integral multiples of \$1,000, in any order of maturity and in whole or partial maturities, commencing on December 1, 2021, upon payment of par, accrued interest, and a redemption premium that ranges between 0% and 3%.

The Series 2016 Bonds are secured by the (a) the Required Mill Levy, including any District TIF produced as a result of the imposition of the Required Mill Levy; (b) District No. 1 Capital Revenue (including BURA Agreement Revenue) (c) BURA Agreement Revenue (subject to certain provisions with respect to Sales Tax Revenue); (d) the PILOT Revenue; (e) the portion of the Specific Ownership Tax which is collected as a result of the imposition of the Required Mill Levy; and (f) any other legally available moneys which the District determines, in its absolute discretion, to transfer to the Trustee for application as Pledged Revenue. The Series 2016 Bonds are also secured by the Reserve Fund and the Surplus Fund.

Amended and Restated Intergovernmental Agreement for Cost Sharing

On August 25, 2016, the District and Palisade Metropolitan District No. 1 (“District No. 1”) 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 Amended and Restated Facilities Funding and Acquisition Agreement with Kevamra and to evidence the agreement of the District to assume the obligation to reimburse Kevamra for the District Allocated Improvement Costs (as defined in the Amended IGA) pursuant to the Amended FFAA. The Amended IGA also established the allocation between the District and District No. 1 for costs verified between the District and District No. 1 associated with the remaining public improvements to be constructed by the District for the benefit of the District and District No. 1.

Palisade Metropolitan District No. 2

Notes to Financial Statements
December 31, 2018

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

	Balance 1/1/2018	Additions	Deletions	Balance 12/31/2018	Current Portion
Series 2016 Bonds	\$ 26,240,000	\$ -	\$ -	\$ 26,240,000	\$ 190,000
Developer Advance					
Operations	31,372	-	-	31,372	-
Operations - Interest	20,849	2,503	-	23,352	-
Capital	572,820	-	-	572,820	-
Capital - Interest	18,656	45,700	-	64,356	-
Total	26,883,697	48,203	-	26,931,900	190,000
Premium	323,826	-	18,564	305,262	-
Total	<u>\$ 27,207,523</u>	<u>\$ 48,203</u>	<u>\$ 18,564</u>	<u>\$ 27,237,162</u>	<u>\$ 190,000</u>

The following is a summary of the annual long-term debt principal and interest requirements under the Series 2016 Bonds.

	Principal	Interest	Total
2019	\$ 190,000	\$ 1,239,594	\$ 1,429,594
2020	825,000	1,231,281	2,056,281
2021	915,000	1,195,188	2,110,188
2022	995,000	1,155,156	2,150,156
2023	1,035,000	1,111,625	2,146,625
2023-2027	6,280,000	4,814,375	11,094,375
2028-2032	2,400,000	3,758,313	6,158,313
2033-2037	3,365,000	3,086,000	6,451,000
2038-2044	4,635,000	2,124,000	6,759,000
2043-2046	5,600,000	669,250	6,269,250
	<u>\$ 26,240,000</u>	<u>\$ 20,384,782</u>	<u>\$ 46,624,782</u>

Debt Authorization

As of December 31, 2018, the District had remaining voted debt authorization of approximately \$138,143,843 for public improvements. The District anticipates issuing new debt during 2019 in conjunction with a proposed First Amendment to the Amended Service Plan to increase the District's general obligation debt limitation.

Palisade Metropolitan District No. 2

Notes to Financial Statements

December 31, 2018

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 to the Board.

Note 5: Agreements

Reimbursement Agreement

On October 9, 2007 the District entered into a Reimbursement Agreement by and among the Broomfield Urban Renewal Authority (“BURA”) and Palisade Metropolitan District No. 1 (“District 1”) (“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.

Additionally, BURA will deposit into a separate account and transfer to the 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 and BURA entered into Amendment No. 1 to the Reimbursement Agreement to acknowledge issuance of a Promissory Note by the District to finance certain specified public improvements (“Amendment Improvements”) for the benefit of certain property within the District (“Amendment Property”). Pursuant to Amendment No. 1, BURA agreed to pledge to the District 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 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 mill by the Broomfield upon certain property, (ii) 100% of the levy of the St. Vrain

Palisade Metropolitan District No. 2

Notes to Financial Statements December 31, 2018

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 \$23,633,446.00.

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.

Agreement Regarding Children’s Payments in Lieu of Taxes

The District and Kevamra entered into an Agreement Regarding Children’s Payments in Lieu of Taxes on July 12, 2011 (“Children’s Agreement”) whereby Kevamra agreed to transfer, convey and assign all of its rights title and interest in certain payments made by the Children’s Hospital Association (“Children’s”). Specifically, Kevamra had previously entered into various agreements with Children’s whereby Children’s agreed to promptly pay all taxes, assessments, fees and other lawful charges levied by the District, or alternatively to pay the District an amount equivalent to the fees assessments or taxes if it is deemed that Children’s is tax exempt (“Children’s PILOT”). Pursuant to the Children’s Agreement, the District has the right to enforce and collect the Children’s PILOT.

Declaration of Covenants Relating to Payments in Lieu of Ad Valorem Taxes

The District, Kevamra and The Oxford Fund/NARA-CO, LLC (“Oxford”) entered into a Declaration of Covenants Relating to Payments in Lieu of Ad Valorem Taxes on July 12, 2011 (“Declarations”), whereby Kevamra and Oxford agreed that if (1) any tax exempt entity becomes an owner of the property that is the subject of the Declarations, or (2) any owner that is taxable subsequently becomes tax exempt, then such property shall be subject to a payment in lieu of taxes (“PILOT”). The amount of the PILOT payment shall be an amount equal to what would have been derived from the District’s operations and maintenance mill levy and debt service mill levy plus, during the term of the Reimbursement Agreement, an amount equal to the Amendment Revenues, prorated of any portion of the year during which a change in status occurs. The Declarations terminate upon the later of dissolution of the District or repayment of all obligations under bonds issued by the District.

Facilities Fee Resolution

On November 13, 2008 the District adopted Facilities Fee Resolution No. 2008-11-05, as amended on June 23, 2010 and as further amended on November 13, 2014 (“Fee Resolution”). Pursuant to the Fee Resolution, the District imposed a Facilities Fee on (i) each Commercial Unit, as defined in the Fee Resolution, constructed in the District in the amount of \$.50 per square foot, and (ii) each Multifamily Residential Unit, as defined in the Fee Resolution, in the amount of \$1,000 on each Multifamily Residential Unit (collectively, the “Fee”). The Fee is due and payable on or before the date of issuance of a building permit. A written request may be made to the District for a deferral of the payment to an alternative date. Any request will be

Palisade Metropolitan District No. 2

Notes to Financial Statements

December 31, 2018

considered on a case by case basis by the District. While the Series 2016 Bonds are still outstanding the District agrees to not alter, defer or reduce the amount of the Fee.

Capital Pledge Agreement

On September 1, 2016, the District and District No. 1 entered into a Capital Pledge Agreement (“2016 Capital Pledge Agreement”), whereby District No. 1 pledged certain revenues to the payment of the Series 2016 Bonds.

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.

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.

Palisade Metropolitan District No. 2

Notes to Financial Statements

December 31, 2018

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.

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; and,
- 2) governmental funds report long-term debt payments as expenditures, however, in the statement of activities, the payment of long-term debt is recorded as a decrease of long-term liabilities.

SUPPLEMENTAL INFORMATION

Palisade Metropolitan District No. 2

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

For the Year Ended December 31, 2018

	Original & Final		Variance
	<u>Budget</u>	<u>Actual</u>	Favorable (Unfavorable)
REVENUES			
Property taxes	\$ 8,129	\$ 8,115	\$ (14)
Specific ownership taxes	18,000	19,395	1,395
BURA Revenue	903,259	904,829	1,570
Payment in lieu of taxes	120,956	120,956	-
Sales and use tax less prior year overpayment	70,000	(102,623)	(172,623)
Interest income	<u>23,000</u>	<u>77,939</u>	<u>54,939</u>
Total Revenues	<u>1,143,344</u>	<u>1,028,611</u>	<u>(114,733)</u>
EXPENDITURES			
Treasurer's fees	8,000	121	7,879
Trustee fees	2,500	3,000	(500)
Bond interest expense	1,239,594	1,240,434	(840)
Miscellaneous	<u>1,500</u>	<u>-</u>	<u>1,500</u>
Total Expenditures	<u>1,251,594</u>	<u>1,243,555</u>	<u>8,039</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(108,250)	(214,944)	(106,694)
OTHER FINANCING SOURCES (USES)			
Transfer from District No. 1	<u>471,718</u>	<u>445,339</u>	<u>(26,379)</u>
Total Other Financing Sources (Uses)	<u>471,718</u>	<u>445,339</u>	<u>(26,379)</u>
NET CHANGE IN FUND BALANCE	363,468	230,395	(133,073)
FUND BALANCE:			
BEGINNING OF YEAR	<u>3,896,452</u>	<u>3,731,126</u>	<u>(165,326)</u>
END OF YEAR	<u>\$ 4,259,920</u>	<u>\$ 3,961,521</u>	<u>\$ (298,399)</u>

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

Palisade Metropolitan District No. 2

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

For the Year Ended December 31, 2018

	Original & Final		Variance
	<u>Budget</u>	<u>Actual</u>	Favorable (Unfavorable)
REVENUES			
Interest income	\$ 45,000	\$ 137,977	\$ 92,977
Total Revenues	<u>45,000</u>	<u>137,977</u>	<u>92,977</u>
EXPENDITURES			
Developer advances - principal	900,000	-	900,000
Capital outlay	<u>5,000,000</u>	<u>1,116,681</u>	<u>3,883,319</u>
Total Expenditures	<u>5,900,000</u>	<u>1,116,681</u>	<u>4,783,319</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(5,855,000)	(978,704)	4,876,296
OTHER FINANCING SOURCES (USES)			
Transfer from District No. 1	<u>-</u>	<u>20,000</u>	<u>20,000</u>
Total Other Financing Sources (Uses)	<u>-</u>	<u>20,000</u>	<u>20,000</u>
NET CHANGE IN FUND BALANCE	(5,855,000)	(958,704)	4,896,296
FUND BALANCE:			
BEGINNING OF YEAR	<u>6,707,686</u>	<u>8,541,520</u>	<u>1,833,834</u>
END OF YEAR	<u>\$ 852,686</u>	<u>\$ 7,582,816</u>	<u>\$ 6,730,130</u>

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