

Palisade Park North 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 Park North 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 Park North 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 Park North 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 Park North 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  
August 26, 2019

**Palisade Park North 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>	Statement of <u>Net Position</u>
<b>ASSETS</b>						
Cash and investments	\$ 30,214	\$ -	\$ -	\$ 30,214	\$ -	\$ 30,214
Cash and investments - restricted	2,000	599,566	3,343,065	3,944,631	-	3,944,631
Receivable County Treasurer	93	-	-	93	-	93
Property taxes receivable		2	-	2	-	2
Prepaid expenses	2,858	-	-	2,858	-	2,858
Due from other funds	8,552	-	-	8,552	(8,552)	-
Capital assets not being depreciated	-	-	-	-	458,330	458,330
<b>Total Assets</b>	<u>\$ 43,717</u>	<u>\$ 599,568</u>	<u>\$ 3,343,065</u>	<u>\$ 3,986,350</u>	<u>449,778</u>	<u>4,436,128</u>
<b>LIABILITIES</b>						
Accounts payable	\$ 2,242	\$ -	\$ 449,778	\$ 452,020	-	452,020
Accrued interest on bonds	-	-	-	-	53,645	53,645
Due to other funds	-	-	8,552	8,552	(8,552)	-
Long-term liabilities:						
Due in more than one year	-	-	-	-	4,377,219	4,377,219
<b>Total Liabilities</b>	<u>2,242</u>	<u>-</u>	<u>458,330</u>	<u>460,572</u>	<u>4,422,312</u>	<u>4,882,884</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Deferred property taxes	-	2	-	2	-	2
<b>Total Deferred Inflows of Resources</b>	<u>-</u>	<u>2</u>	<u>-</u>	<u>2</u>	<u>-</u>	<u>2</u>
<b>FUND BALANCE</b>						
Nonspendable:						
Prepays	2,858	-	-	2,858	(2,858)	-
Restricted:						
Emergencies	2,000	-	-	2,000	(2,000)	-
Debt service	-	599,566	-	599,566	(599,566)	-
Capital projects	-	-	2,884,735	2,884,735	(2,884,735)	-
Unassigned	36,617	-	-	36,617	(36,617)	-
<b>Total Fund Balances</b>	<u>41,475</u>	<u>599,566</u>	<u>2,884,735</u>	<u>3,525,776</u>	<u>(3,525,776)</u>	<u>-</u>
<b>Total Liabilities, Deferred Inflows of Resource and Fund Balances</b>	<u>\$ 43,717</u>	<u>\$ 599,568</u>	<u>\$ 3,343,065</u>	<u>\$ 3,986,350</u>		
<b>NET POSITION</b>						
Restricted for:						
Emergencies					2,000	2,000
Debt service					545,921	545,921
Capital projects					2,884,735	2,884,735
Unrestricted					(3,879,414)	(3,879,414)
<b>Total Net Position (Deficit)</b>					<u>\$ (446,758)</u>	<u>\$ (446,758)</u>

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

**Palisade Park North 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>
<b>EXPENDITURES</b>						
Accounting and audit	\$ 4,600	\$ -	\$ -	\$ 4,600	\$ -	\$ 4,600
Office expenses	19	-	-	19	-	19
Insurance	3,021	-	-	3,021	-	3,021
Legal	14,940	-	-	14,940	-	14,940
Treasurer's fees	6	-	-	6	-	6
Bond interest expense	-	125,422	-	125,422	53,645	179,067
Bond issuance costs	-	-	277,716	277,716	-	277,716
Capital outlay	-	-	458,330	458,330	(458,330)	-
Developer advances - interest	-	-	-	-	4,571	4,571
<b>Total Expenditures</b>	<u>22,586</u>	<u>125,422</u>	<u>736,046</u>	<u>884,054</u>	<u>(400,114)</u>	<u>483,940</u>
<b>GENERAL REVENUES</b>						
Property taxes	428	-	-	428	-	428
Specific ownership taxes	1,023	-	-	1,023	-	1,023
BURA TIF revenue	15,426	-	-	15,426	-	15,426
Interest income	-	9,535	46,234	55,769	-	55,769
<b>Total General Revenues</b>	<u>16,877</u>	<u>9,535</u>	<u>46,234</u>	<u>72,646</u>	<u>-</u>	<u>72,646</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>(5,709)</b>	<b>(115,887)</b>	<b>(689,812)</b>	<b>(811,408)</b>	<b>400,114</b>	<b>(411,294)</b>
<b>OTHER FINANCING SOURCES (USES)</b>						
Bond Proceeds	-	-	4,290,000	4,290,000	(4,290,000)	-
Developer advances	52,648	-	-	52,648	(52,648)	-
Transfers in/(out)	-	715,453	(715,453)	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<u>52,648</u>	<u>715,453</u>	<u>3,574,547</u>	<u>4,342,648</u>	<u>(4,342,648)</u>	<u>-</u>
<b>NET CHANGES IN FUND BALANCES</b>	<b>46,939</b>	<b>599,566</b>	<b>2,884,735</b>	<b>3,531,240</b>	<b>(3,531,240)</b>	
<b>CHANGE IN NET POSITION</b>					<b>(411,294)</b>	<b>(411,294)</b>
<b>FUND BALANCES/NET POSITION:</b>						
BEGINNING OF YEAR	<u>(5,464)</u>	<u>-</u>	<u>-</u>	<u>(5,464)</u>	<u>(30,000)</u>	<u>(35,464)</u>
END OF YEAR	<u>\$ 41,475</u>	<u>\$ 599,566</u>	<u>\$ 2,884,735</u>	<u>\$ 3,525,776</u>	<u>\$ (3,972,534)</u>	<u>\$ (446,758)</u>

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

**Palisade Park North 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		Variance
	<u>Budget</u>	<u>Actual</u>	Favorable (Unfavorable)
<b>REVENUES</b>			
Property taxes	\$ 429	\$ 428	\$ (1)
Specific ownership taxes	1,200	1,023	(177)
BURA TIF revenue	<u>15,854</u>	<u>15,426</u>	<u>(428)</u>
Total Revenues	<u>17,483</u>	<u>16,877</u>	<u>(606)</u>
<b>EXPENDITURES</b>			
Accounting and audit	19,000	4,600	14,400
Office expenses	600	19	581
Insurance	2,500	3,021	(521)
Legal	18,000	14,940	3,060
Treasurer's fees	6	6	-
Maintenance	2,000	-	2,000
Emergency reserve	<u>2,000</u>	<u>-</u>	<u>2,000</u>
Total Expenditures	<u>44,106</u>	<u>22,586</u>	<u>21,520</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(26,623)	(5,709)	20,914
<b>OTHER FINANCING SOURCES (USES)</b>			
Developer advances	<u>30,000</u>	<u>52,648</u>	<u>22,648</u>
Total Other Financing Sources (Uses)	<u>30,000</u>	<u>52,648</u>	<u>22,648</u>
NET CHANGE IN FUND BALANCE	3,377	46,939	43,562
<b>FUND BALANCE:</b>			
BEGINNING OF YEAR	<u>778</u>	<u>(5,464)</u>	<u>(6,242)</u>
END OF YEAR	<u>\$ 4,155</u>	<u>\$ 41,475</u>	<u>\$ 37,320</u>

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

Palisade Park North Metropolitan District No. 2

Notes to Financial Statements  
December 31, 2018

Note 1: Summary of Significant Accounting Policies

The accounting policies of the Palisade Park North 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 is a quasi-municipal corporation and political subdivision of the State of Colorado created pursuant to the Special District Act. The District organized on September 13, 2016, pursuant to the recordation of an Order and Decree Creating the District, Issuing Certificates of Election and Releasing Bonds. The District's Service Plan, as approved by Broomfield on March 22, 2016, and was amended pursuant to a First Amended and Restated Service Plan approved by Broomfield on August 22, 2017 (the "Service Plan"), the District is authorized to finance and construct certain public infrastructure improvements that benefit the citizens of the District. The District's primary revenues are bond proceeds and developer advances. The District is governed by an elected Board of Directors.

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.

Basis of Presentation

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

Palisade Park North Metropolitan District No. 2

Notes to Financial Statements  
December 31, 2018

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.

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.

Palisade Park North Metropolitan District No. 2

Notes to Financial Statements  
December 31, 2018

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 Park North 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.

Capital assets

All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated. The capitalization threshold is \$5,000.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the life of the asset are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable using the straight-line method. Depreciation on property that will remain assets of the District is reported on the Statement of Activities as a current charge. Improvements that will be conveyed to other governmental entities are classified as construction in progress and are not depreciated. Land and certain landscaping improvements are not depreciated. No depreciation expense was recognized during 2018.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net 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 net 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.

Palisade Park North Metropolitan District No. 2

Notes to Financial Statements  
December 31, 2018

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 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 \$2,858 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 \$2,000 of the General Fund balance has been restricted in compliance with this requirement.

Palisade Park North Metropolitan District No. 2

Notes to Financial Statements  
December 31, 2018

The restricted fund balance in the Debt Service Fund in the amount of \$599,566 is restricted for the payment of the debt service costs associated with the Series 2018A Bonds (see Note 4).

The restricted fund balance in the Capital Projects Fund in the amount of \$2,884,735 is restricted for the payment of the costs for capital improvements.

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 fund 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 positions are available, the District will use the most restrictive net position first.

Palisade Park North Metropolitan District No. 2

Notes to Financial Statements  
December 31, 2018

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	\$ 30,214
Cash and investments - Restricted	<u>3,944,631</u>
Total	\$ <u>3,974,875</u>

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

Deposits with financial institutions	\$ 32,214
Investments – Csafe	<u>3,942,631</u>
	\$ <u>3,974,875</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.

Deposits

Investments

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 Park North Metropolitan District No. 2

Notes to Financial Statements  
December 31, 2018

Custodial and Concentration of Credit Risk

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

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.

Interest Rate Risk

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

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 \$3,942,631 invested in CSAFE

Note 3: Capital Assets

An analysis of the changes in capital assets for the year ended December 31, 2018 follows:

	Balance 1/1/2018	Additions	Deletions	Balance 12/31/2018
<u>Capital assets not being depreciated:</u>				
Construction in progress	\$ -	\$ 458,330	\$ -	\$ 458,330
Total capital assets not being depreciated	\$ -	\$ 458,330	\$ -	\$ 458,330

Palisade Park North Metropolitan District No. 2

Notes to Financial Statements  
December 31, 2018

Note 4: Long Term Debt

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

Facilities Funding and Acquisition Agreement

On April 6, 2018 with an effective date of September 13, 2016 the District and UF Kevamra 725, LLC (“Kevamra”) entered into a Facilities Funding and Acquisition Agreement (“FFAA”) whereby Kevamra agreed to make advances as needed for the fiscal years 2018 through 2021 in an amount not to exceed \$5,000,000 to the District for the purpose of funding the organizational expenses and construction and/or acquisition of public improvements. The District agreed to repay these advances together with accrued interest at the rate of 8% per annum. The FFAA does not constitute debt, but is an annual appropriations agreement intended to be repaid through a future bond issuance. The FFAA expires on December 31, 2048.

Operation Funding Agreement

On November 3, 2016, the District entered into an Operation Funding Agreement with Kevamra, as amended by that certain First Amendment dated November 16, 2017 (collectively, the "OFA") whereby Kevamra agreed to advance funds to the District for certain operation and maintenance expenses as needed for fiscal years 2016 through 2021 up to an aggregate amount of \$150,000. The District agreed to repay these advances, together with accrued interest at the rate of 8% per annum accruing from the date of deposit into the District’s bank account or from the direct payment by Kevamra. The District’s repayment of the advances under the OFA does not constitute a debt and is subject to annual appropriation by the District. Kevamra’s obligation to advance funds expires on March 31, 2022. The District’s obligation to repay advances expires on December 31, 2051.

\$3,490,000 General Obligation (Limited Tax Convertible to Unlimited Tax) Bonds, Series 2018A and \$800,000 Subordinate General Obligation Limited Tax Bonds, Series 2018B

On April 11, 2018, the District issued \$3,490,000 of General Obligation (Limited Tax Convertible to Unlimited Tax) Bonds, Series 2018A (“Series 2018A Bonds”) and \$800,000 of Subordinate General Obligation Limited Tax Bonds, Series 2018B (“Series 2018B Bonds”) and collectively with the Series 2018A Bonds, the “Bonds”) for the purpose of funding and reimbursing a portion of the costs of certain public infrastructure, paying the costs of issuance of the Bonds, and, with respect to the Series 2018A Bonds only, funding the Senior Reserve Fund and funding a portion of interest to accrue on the Series 2018A Bonds. The Series 2018A Bonds and the Series 2018B Bonds were issued pursuant to two separate indentures of trust (respectively the “Series 2018A Indenture” and the “Series 2018B Indenture”) The Series 2018A Bonds bear interest at the rate of 5.625%, payable semiannually on each June 1 and December 1, commencing on June 1, 2018. The Series 2018B Bonds bear interest at the rate of 7.875%, payable annually on December 15, commencing on December 15, 2018, to the extent that Subordinate Pledged Revenue is available. The Series 2018A Bonds mature on December 1, 2047 and the Series 2018B Bonds mature on December 15, 2047.

Palisade Park North Metropolitan District No. 2

Notes to Financial Statements  
December 31, 2018

The Series 2018A Bonds are subject to a mandatory sinking fund redemption commencing on December 1, 2022, and are subject to optional redemption prior to maturity, commencing on December 1, 2023, upon payment of par, accrued interest, and a redemption premium that ranges between 0% and 3%. The Series 2018B Bonds are subject to a mandatory sinking fund redemption from Subordinate Pledged Revenue, if any, on deposit in the Subordinate Bond Fund, and are subject to optional redemption prior to maturity, commencing on December 15, 2023, upon payment of par, accrued interest, and a redemption premium that ranges between 0% and 3%.

The Series 2018A Bonds are secured by the (a) the Senior Required Mill Levy, including any District TIF (as defined in the Series 2018A Indenture) produced as a result of the imposition of the Senior Required Mill Levy; (b) the Capital Fees (as defined in the Series 2018A Indenture), if any, which includes the Facilities Fees (as defined in the Series 2018B Indenture); (c) Reimbursement Agreement Revenue (as defined in the Series 2018A Indenture); (d) the portion of the Specific Ownership Tax which is collected as a result of the imposition of the Senior Required Mill Levy; and (e) any other legally available moneys which the District determines, in its absolute discretion, to transfer to the Trustee for application as Senior Pledged Revenue. The Series 2018A Bonds are also secured by the Senior Reserve Fund and the Senior Surplus Fund.

The Series 2018B Bonds are secured by and payable solely from and to the extent of the Subordinate Pledged Revenue (as defined in the Series 2018A Indenture), consisting of moneys derived by the District from the following sources, net of any costs of collection: (i) the Subordinate Required Mill Levy (as defined in the Series 2018B Indenture), including any Subordinate District TIF (as defined in the Series 2018B Indenture) produced as a result of the imposition of the Subordinate Required Mill Levy; (ii) the Subordinate Capital Fee Revenue (as defined in the Series 2018B Indenture), if any; (iii) the Reimbursement Agreement Revenue, after deduction of any amount thereof used, paid, pledged, or otherwise applied to the payment of any Senior Bonds, including the Series 2018A Bonds; (iv) the portion of the Specific Ownership Tax which is collected as a result of the imposition of the Subordinate Required Mill Levy; (v) the amount, if any, in the Surplus Fund after the termination of such fund pursuant to the Series 2018A Indenture; and (vi) any other legally available moneys which the District determines, in its absolute discretion, to transfer to the Trustee for application as Subordinate Pledged Revenue.

Palisade Park North 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
GO Bonds					
Series 2018 A	\$ -	\$ 3,490,000	\$ -	\$ 3,490,000	\$ -
Series 2018 B	-	800,000	-	800,000	-
Developer Advance					
Operations	30,000	52,648	-	82,648	-
Operations - Interest	-	4,571	-	4,571	-
Total	<u>\$ 30,000</u>	<u>\$ 4,347,219</u>	<u>\$ -</u>	<u>\$ 4,377,219</u>	<u>\$ -</u>

The following is a summary of the annual long-term debt principal and interest requirements under the Series 2018A Bonds.

	Principal	Interest	Total
2019	\$ -	\$ 196,313	\$ 196,313
2020	-	196,313	196,313
2021	-	196,313	196,313
2022	10,000	196,313	206,313
2023	35,000	195,750	230,750
2024 - 2028	265,000	941,906	1,206,906
2029 - 2033	415,000	851,063	1,266,063
2034 - 2038	620,000	713,250	1,333,250
2039 - 2043	885,000	510,188	1,395,188
2044 - 2046	1,260,000	206,438	1,466,438
	<u>\$3,490,000</u>	<u>\$ 4,203,847</u>	<u>\$ 7,693,847</u>

Due to the uncertainty in the timing of the principal and interest payments on the Series 2018B Bonds no schedule of principal and interest payments is presented.

Debt Authorization

As of December 31, 2018, the District had \$725,710,000 of voted but unissued debt for providing public improvements remaining. The District has not budgeted to issue debt during 2019. The District's Service Plan limits its general obligation debt to \$5,000,000, of which \$710,000 remains available for use by the District.

Palisade Park North Metropolitan District No. 2

Notes to Financial Statements  
December 31, 2018

Note 5: 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 6: Agreements

Cooperation Agreement

On October 23, 2007, District No. 1 and the Broomfield Urban Renewal Authority ("BURA") entered into a Cooperation Agreement (as amended the "Cooperation Agreement"). On November 16, 2017, the parties entered into a First Amendment to the Cooperation Agreement to include the District and District No. 3 as parties to the Cooperation Agreement, to update the properties subject to the Cooperation Agreement and to update the public improvements subject to the Cooperation Agreement. Pursuant to the Cooperation Agreement, as amended, BURA agreed to deposit certain property tax increment revenues received as a result of the imposition of each Districts' debt service mill levy and each Districts' operations and maintenance mill levy (collectively, the "District Property TIF") into special funds to be used, in part, by each respective District to pay for debt service on bonds issued to pay for public improvements, including the District's Series 2018A Bonds and Series 2018B Bonds.

Reimbursement Agreement

On October 23, 2007, District No. 1 and Broomfield entered into a Reimbursement Agreement (the "Reimbursement Agreement"), which set forth the terms and conditions relating to the construction and financing of certain Public Improvements (as defined in the Reimbursement Agreement) to serve the Property (as defined in the Reimbursement Agreement). On November 16, 2017, the Reimbursement Agreement was amended to include the District and District No. 3 as parties to the Reimbursement Agreement, to update the properties subject to the Reimbursement Agreement and to update the Public Improvements eligible for reimbursement by Broomfield pursuant to the Reimbursement Agreement. Pursuant to the Reimbursement Agreement, each District is responsible for designing, financing, constructing, owning and maintaining certain Public Improvements until conveyance or dedication of such Public Improvements to Broomfield. Broomfield is required to design and construct to the edge of the Property and operate, at no cost to each District or any owners of property within such development, water and wastewater facilities in the capacity required to serve the Property at full build-out. The Reimbursement Agreement also provides that each District is to indemnify Broomfield, to the extent allowed by law, for all claims or suits for damages to property and injuries to persons arising from any of the District's construction activities under the Reimbursement Agreement. In exchange, Broomfield has agreed to deposit into a Special Fund the Sales Tax Revenues, Use Tax Revenues, and Service Expansion Fees to pay for certain Eligible Expenses of the District associated with the construction of such Public Improvements up to the Maximum Gross Reimbursement Obligation. Certain of such proceeds received by the District are pledged to the payment of the Series 2018A Bonds and Series 2018B Bonds.

Palisade Park North Metropolitan District No. 2

Notes to Financial Statements  
December 31, 2018

Facilities Fee Resolution

On April 2, 2018, the District adopted Resolution No. 2018-04-02; Facilities Fee Resolution as recorded with the Broomfield Clerk and Recorder on April 2, 2018 (“Fee Resolution”). Pursuant to the Fee Resolution, the District is authorized to impose a “Facilities Fee” in the amount of \$1,000 per single-family residential unit within the District. The Facilities 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 considered on a case by case basis by the District. While the Series 2018A Bonds and Series 2018B Bonds are outstanding the District agrees to not alter, defer or reduce the amount of the Facilities Fee, other than the possible deferral of payment to an alternative date as previously described in this paragraph.

Note 7: 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 May 3, 2016 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.

Palisade Park North Metropolitan District No. 2

Notes to Financial Statements  
December 31, 2018

Note 8: Risk Management

Except as provided in the Colorado Governmental Immunity Act, 24-10-101, et seq., C.R.S., 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.

Note 9: 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) capital improvements used in government activities are not financial resources and, therefore are not reported in the funds; and
- 2) 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.

Palisade Park North Metropolitan District No. 2

Notes to Financial Statements  
December 31, 2018

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 developer advances and/or bond proceeds as revenue; and,
- 3) 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 Park North 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 <u>(Unfavorable)</u>
REVENUES			
Interest income	\$ 8,000	\$ 9,535	\$ 1,535
Total Revenues	<u>8,000</u>	<u>9,535</u>	<u>1,535</u>
EXPENDITURES			
Bond interest expense	<u>190,000</u>	<u>125,422</u>	<u>64,578</u>
Total Expenditures	<u>190,000</u>	<u>125,422</u>	<u>64,578</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(182,000)	(115,887)	66,113
OTHER FINANCING SOURCES (USES)			
Transfers in/(out)	<u>705,000</u>	<u>715,453</u>	<u>10,453</u>
Total Other Financing Sources (Uses)	<u>705,000</u>	<u>715,453</u>	<u>10,453</u>
NET CHANGE IN FUND BALANCE	523,000	599,566	76,566
FUND BALANCE:			
BEGINNING OF YEAR	<u>-</u>	<u>-</u>	<u>-</u>
END OF YEAR	<u>\$ 523,000</u>	<u>\$ 599,566</u>	<u>\$ 76,566</u>

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

**Palisade Park North 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>	<u>Favorable</u> <u>(Unfavorable)</u>
<b>REVENUES</b>			
Interest income	\$ 14,000	\$ 46,234	\$ 32,234
Total Revenues	<u>14,000</u>	<u>46,234</u>	<u>32,234</u>
<b>EXPENDITURES</b>			
Bond issuance costs	190,000	277,716	(87,716)
Capital outlay	<u>2,500,000</u>	<u>458,330</u>	<u>2,041,670</u>
Total Expenditures	<u>2,690,000</u>	<u>736,046</u>	<u>1,953,954</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	(2,676,000)	(689,812)	1,986,188
<b>OTHER FINANCING SOURCES (USES)</b>			
Bond Proceeds	4,100,000	4,290,000	190,000
Transfers in/(out)	<u>(705,000)</u>	<u>(715,453)</u>	<u>(10,453)</u>
Total Other Financing Sources (Uses)	<u>3,395,000</u>	<u>3,574,547</u>	<u>179,547</u>
<b>NET CHANGE IN FUND BALANCE</b>	719,000	2,884,735	2,165,735
<b>FUND BALANCE:</b>			
BEGINNING OF YEAR	<u>-</u>	<u>-</u>	<u>-</u>
END OF YEAR	<u>\$ 719,000</u>	<u>\$ 2,884,735</u>	<u>\$ 2,165,735</u>

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