

PAINTED PRAIRIE METROPOLITAN DISTRICT NO. 2

Financial Statements

Year Ended December 31, 2018

with

Independent Auditors' Report

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Board of Directors  
Painted Prairie Metropolitan District No. 2  
Arapahoe County, Colorado

Independent Auditors' Report

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and each major fund of Painted Prairie Metropolitan District No. 2 (the "District") 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards general 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 from material misstatement.

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

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

## **Opinion**

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 Painted Prairie 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**

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's financial statements as a whole. The supplemental information as listed in the table of contents is presented for the purposes of legal compliance and additional analysis and is not a required part of the financial statements. The supplemental information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Stratagem PC*  
*Certified Public Accountants*  
*Lakewood, Colorado*

September 30, 2019

**Painted Prairie Metropolitan District No. 2**

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

|   | <u>General</u> | <u>Debt<br/>Service</u> | <u>Capital<br/>Projects</u> | <u>Total</u>         | <u>Adjustments</u>    | <u>Statement<br/>of<br/>Net Position</u> |
|---|----------------|-------------------------|-----------------------------|----------------------|-----------------------|--|
| <b>ASSETS</b>   |                |                         |                             |                      |                       |  |
| Investments - restricted  | \$ -           | \$ 3,499,491            | \$ 10,442,427               | \$ 13,941,918        | \$ -                  | \$ 13,941,918                            |
| Property taxes receivable   | 79             | 394                     | -                           | 473                  | -                     | 473                                      |
| <b>Total Assets</b>   | <b>\$ 79</b>   | <b>\$ 3,499,885</b>     | <b>\$ 10,442,427</b>        | <b>\$ 13,942,391</b> | <b>-</b>              | <b>13,942,391</b>                        |
| <b>LIABILITIES</b>  |                |                         |                             |                      |                       |  |
| Payble to District #1   | \$ -           | \$ -                    | \$ 1,194,231                | \$ 1,194,231         | -                     | 1,194,231                                |
| Accrued interest  | -              | -                       | -                           | -                    | 68,928                | 68,928                                   |
| Long-term liabilities:  |                |                         |                             |                      |                       |  |
| Due in more than one year   | -              | -                       | -                           | -                    | 15,846,566            | 15,846,566                               |
| <b>Total Liabilities</b>  | <b>-</b>       | <b>-</b>                | <b>1,194,231</b>            | <b>1,194,231</b>     | <b>15,915,494</b>     | <b>17,109,725</b>                        |
| <b>DEFERRED INFLOWS OF RESOURCES</b>  |                |                         |                             |                      |                       |  |
| Deferred property taxes   | 79             | 394                     | -                           | 473                  | -                     | 473                                      |
| <b>Total Deferred Inflows of Resources</b>                                    | <b>79</b>      | <b>394</b>              | <b>-</b>                    | <b>473</b>           | <b>-</b>              | <b>473</b>                               |
| <b>FUND BALANCES/NET POSITION</b>   |                |                         |                             |                      |                       |  |
| Fund Balances:  |                |                         |                             |                      |                       |  |
| Restricted:   |                |                         |                             |                      |                       |  |
| Emergencies   | 120            | -                       | -                           | 120                  | (120)                 | -  |
| Debt service  | -              | 3,499,491               | -                           | 3,499,491            | (3,499,491)           | -  |
| Capital projects  | -              | -                       | 9,248,196                   | 9,248,196            | (9,248,196)           | -  |
| Unassigned  | (120)          | -                       | -                           | (120)                | 120                   | -  |
| <b>Total Fund Balances</b>  | <b>-</b>       | <b>3,499,491</b>        | <b>9,248,196</b>            | <b>12,747,687</b>    | <b>(12,747,687)</b>   | <b>-</b>                                 |
| <b>Total Liabilities, Deferred Inflows of Resources<br/>and Fund Balances</b> | <b>\$ 79</b>   | <b>\$ 3,499,885</b>     | <b>\$ 10,442,427</b>        | <b>\$ 13,942,391</b> |                       |  |
| Net Position:   |                |                         |                             |                      |                       |  |
| Restricted for:   |                |                         |                             |                      |                       |  |
| Emergencies   |                |                         |                             |                      | 120                   | 120                                      |
| Debt service  |                |                         |                             |                      | 3,430,563             | 3,430,563                                |
| Capital projects  |                |                         |                             |                      | 9,248,196             | 9,248,196                                |
| Unrestricted  |                |                         |                             |                      | (925,419)             | (925,419)                                |
| <b>Total Net Position</b>   |                |                         |                             |                      | <b>\$ (3,167,807)</b> | <b>\$ (3,167,807)</b>                    |

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

**Painted Prairie 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<br/>Service</u> | <u>Capital<br/>Projects</u> | <u>Total</u>  | <u>Adjustments</u> | <u>Statement<br/>of<br/>Activities</u> |
|--|----------------|-------------------------|-----------------------------|---------------|--------------------|--|
| EXPENDITURES   |                |                         |                             |               |                    |  |
| Bond issuance costs                                  | \$ -           | \$ -                    | \$ 514,515                  | \$ 514,515    | \$ -               | \$ 514,515                             |
| Bond interest expense                                | -              | 151,642                 | -                           | 151,642       | 68,170             | 219,812                                |
| Transfer to District No. 1                           | -              | -                       | 2,490,277                   | 2,490,277     | -                  | 2,490,277                              |
|  | <hr/>          | <hr/>                   | <hr/>                       | <hr/>         | <hr/>              | <hr/>                                  |
| Total Expenditures                                   | -              | 151,642                 | 3,004,792                   | 3,156,434     | 68,170             | 3,224,604                              |
| GENERAL REVENUES                                     |                |                         |                             |               |                    |  |
| Interest income                                      | -              | 13,803                  | 42,994                      | 56,797        | -                  | 56,797                                 |
|  | <hr/>          | <hr/>                   | <hr/>                       | <hr/>         | <hr/>              | <hr/>                                  |
| Total General Revenues                               | -              | 13,803                  | 42,994                      | 56,797        | -                  | 56,797                                 |
| EXCESS (DEFICIENCY) OF REVENUES<br>OVER EXPENDITURES |                |                         |                             |               |                    |  |
|  | -              | (137,839)               | (2,961,798)                 | (3,099,637)   | (68,170)           | (3,167,807)                            |
| OTHER FINANCING SOURCES (USES)                       |                |                         |                             |               |                    |  |
| Bond proceeds  | -              | -                       | 15,755,000                  | 15,755,000    | (15,755,000)       | -                                      |
| Bond premium   | -              | -                       | 92,324                      | 92,324        | (92,324)           | -                                      |
| Transfers (to)/from other funds                      | -              | 3,637,330               | (3,637,330)                 | -             | -                  | -                                      |
|  | <hr/>          | <hr/>                   | <hr/>                       | <hr/>         | <hr/>              | <hr/>                                  |
| Total Other Financing Sources (Uses)                 | -              | 3,637,330               | 12,209,994                  | 15,847,324    | (15,847,324)       | -                                      |
| NET CHANGES IN FUND BALANCES                         |                |                         |                             |               |                    |  |
|  | -              | 3,499,491               | 9,248,196                   | 12,747,687    | (12,747,687)       |  |
| CHANGE IN NET POSITION                               |                |                         |                             |               |                    |  |
|  |                |                         |                             |               | (3,167,807)        | (3,167,807)                            |
| FUND BALANCES/NET POSITION:                          |                |                         |                             |               |                    |  |
| BEGINNING OF YEAR                                    | -              | -                       | -                           | -             | -                  | -                                      |
|  | <hr/>          | <hr/>                   | <hr/>                       | <hr/>         | <hr/>              | <hr/>                                  |
| END OF YEAR  | \$ -           | \$ 3,499,491            | 9,248,196                   | \$ 12,747,687 | \$ (15,915,494)    | \$ (3,167,807)                         |

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

**Painted Prairie 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

|  | Final<br><u>Budget</u> | <u>Actual</u> | Variance<br>Favorable<br><u>(Unfavorable)</u> |
|--|------------------------|---------------|---|
| REVENUES   |                        |               |   |
| Property taxes                                       | \$ 120                 | \$ -          | \$ (120)                                      |
| Specific ownership taxes                             | <u>10</u>              | <u>-</u>      | <u>(10)</u>                                   |
| Total Revenues                                       | <u>130</u>             | <u>-</u>      | <u>(130)</u>                                  |
| EXPENDITURES   |                        |               |   |
| Accounting and audit                                 | 1,500                  | -             | 1,500   |
| Legal  | 2,500                  | -             | 2,500   |
| Treasurer's fees                                     | 2                      | -             | 2   |
| Contingency  | 880                    | -             | 880   |
| Emergency reserve                                    | <u>120</u>             | <u>-</u>      | <u>120</u>                                    |
| Total Expenditures                                   | <u>5,002</u>           | <u>-</u>      | <u>5,002</u>                                  |
| EXCESS (DEFICIENCY) OF REVENUES<br>OVER EXPENDITURES | (4,872)                | -             | 4,872   |
| OTHER FINANCING SOURCES (USES)                       |                        |               |   |
| Developer advances                                   | <u>4,872</u>           | <u>-</u>      | <u>(4,872)</u>                                |
| Total Other Financing Sources (Uses)                 | <u>4,872</u>           | <u>-</u>      | <u>(4,872)</u>                                |
| NET CHANGE IN FUND BALANCE                           | -                      | -             | -   |
| FUND BALANCE:  |                        |               |   |
| BEGINNING OF YEAR                                    | <u>-</u>               | <u>-</u>      | <u>-</u>                                      |
| END OF YEAR  | <u>\$ -</u>            | <u>\$ -</u>   | <u>\$ -</u>                                   |

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

## PAINTED PRAIRIE METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements  
December 31, 2018

### Note 1: Summary of Significant Accounting Policies

The accounting policies of the Painted Prairie Metropolitan District No. 2 (“District”), located in the City of Aurora (the “City”) in Arapahoe County, Colorado, 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 May 16, 2006, as a quasi-municipal organization established under the State of Colorado Special District Act. The District operates pursuant to a service plan approved by the City of Aurora on February 27, 2006. The District, along with the Painted Prairie Metropolitan Districts Nos. 1 and 3-9 (“Painted Prairie Districts”) collectively adopted an Amended and Restated Consolidated Service Plan dated May 25, 2017 (the “Service Plan”). The District was established to provide for the financing and constructing Public Improvements for the use and benefit of the residents and property owners within the service area. 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.

## PAINTED PRAIRIE 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.

## PAINTED PRAIRIE METROPOLITAN DISTRICT NO. 2

### Notes to Financial Statements December 31, 2018

Debt Service Fund – The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and 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. During 2018, the District amended its total appropriations in the Capital Projects Fund from \$0 to \$15,120,000 and in the Debt Service Fund from \$0 to \$185,180 due to the issuance of the Series 2018 Bonds (See Note 3).

#### 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.

## PAINTED PRAIRIE METROPOLITAN DISTRICT NO. 2

### Notes to Financial Statements December 31, 2018

#### 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.

#### 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 no items that qualify for reporting in this category.

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

#### Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items), are reported in the applicable governmental activities columns in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation. 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.

## PAINTED PRAIRIE METROPOLITAN DISTRICT NO. 2

### Notes to Financial Statements December 31, 2018

#### Property Taxes

Property taxes are levied by the District's Board of Directors. The levy is based on assessed valuations determined by the County Assessor generally as of January 1 of each year. The levy is normally set by December 15 by certification to the County Commissioners to put the tax lien on the individual properties as of January 1 of the following year. The County Treasurer collects the determined taxes during the ensuing calendar year. The taxes are payable by April 30 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.

#### 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.

#### 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.

#### 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 \$120 of the General Fund balance has been reserved in compliance with this requirement.

The restricted fund balance in the Debt Service Fund in the amount of \$3,499,491 is restricted for the payment of the debt service costs associated with the Series 2018 Bonds (see Note 3).

## PAINTED PRAIRIE METROPOLITAN DISTRICT NO. 2

### Notes to Financial Statements December 31, 2018

The restricted fund balance in the Capital Projects Fund in the amount of \$9,248,196 is restricted for the payment of the costs for capital improvements within the District.

#### Committed Fund Balance

The portion of fund balance that can only be used for specific purposes pursuant to constraints imposed by a formal action of the government's highest level of decision-making authority, the Board of Directors. The constraint may be removed or changed only through formal action of the Board of Directors.

#### Assigned Fund Balance

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

#### Unassigned Fund Balance

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

#### 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.

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.

PAINTED PRAIRIE METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements  
December 31, 2018

Note 2: Investments

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

Statement of Net Position:

|                          |                      |
|--------------------------|----------------------|
| Investments - restricted | \$ <u>13,941,918</u> |
| Total                    | \$ <u>13,941,918</u> |

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

|                              |                      |
|------------------------------|----------------------|
| Morgan Stanley Treasury Fund | \$ <u>13,941,918</u> |
| Total                        | \$ <u>13,941,918</u> |

Deposits

At December 31, 2018, the District had no deposits.

Investments

Credit Risk

The District has not adopted a formal investment policy; however, the District follows state statutes regarding 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 net asset value method (NAV) per share.

PAINTED PRAIRIE METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements  
December 31, 2018

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

Morgan Stanley Treasury Fund

During 2018, the District's funds that were in the trust accounts at the UMB Bank were invested in the Morgan Stanley Treasury Fund. This fund is a money market fund and each share is equal in value to \$1.00. The fund is AAAM rated and invests exclusively in U.S. Treasury securities and repurchase agreements collateralized by U.S. Treasury securities. The maturity of the underlying securities is 26 days or less. As of December 31, 2018, the District has \$13,941,918 invested in the fund, all of which was restricted for the repayment of bond principal and interest and capital improvements.

Note 3: Long-Term Debt

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

\$15,755,000 Limited Tax General Obligation Bonds, Series 2018

On September 25, 2018, the District issued \$15,755,000 Limited Tax General Obligation Bonds, Series 2018 ("Series 2018 Bonds") for the purpose of i) paying for a portion of the costs of designing, acquiring, constructing, and installing certain public improvements, ii) fully funding a Reserve Fund, iii) funding capitalized interest to come due on the Series 2018 Bonds through June 2021 and iv) paying the cost of issuance of the Series 2018 Bonds. The Series 2018 Bonds bear interest at the rate of 5.25%, payable semiannually on each June 1 and December 1, commencing on December 1, 2018. The Series 2018 Bonds are subject to a mandatory sinking fund redemption commencing on December 1, 2023 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, 2022, upon payment of par, accrued interest, and a redemption premium that ranges between 0% and 3%.

The Series 2018 Bonds are secured by the Required Mill Levy, the portion of the Specific Ownership Tax which is collected as a result of the Senior Required Mill Levy, and any other legally available monies.

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

|  | Balance<br>1/1/2018 | Additions           | Deletions     | Balance<br>12/31/2018 | Current<br>Portion |
|--|---------------------|---------------------|---------------|-----------------------|--------------------|
| Limited Tax General Obligation<br>Bonds, Series 2018 | \$ -                | \$15,755,000        | \$ -          | \$15,755,000          | \$ -               |
| Premium on Series 2018 Bonds                         | -                   | 92,324              | 758           | 91,566                | -                  |
| Total  | <u>\$ -</u>         | <u>\$15,847,324</u> | <u>\$ 758</u> | <u>\$15,846,566</u>   | <u>\$ -</u>        |

PAINTED PRAIRIE METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements  
December 31, 2018

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

|           | <u>Principal</u>     | <u>Interest</u>      | <u>Total</u>        |
|-----------|----------------------|----------------------|---------------------|
| 2019      | \$ -                 | \$ 827,138           | \$ 827,138          |
| 2020      | -                    | 827,138              | 827,138             |
| 2021      | -                    | 827,138              | 827,138             |
| 2022      | -                    | 827,138              | 827,138             |
| 2023      | 145,000              | 827,138              | 972,138             |
| 2024-2028 | 1,150,000            | 3,988,688            | 5,138,688           |
| 2029-2033 | 1,760,000            | 3,625,388            | 5,385,388           |
| 2034-2038 | 2,590,000            | 3,081,225            | 5,671,225           |
| 2039-2043 | 3,640,000            | 2,297,138            | 5,937,138           |
| 2044-2048 | 6,470,000            | 1,201,463            | 7,671,463           |
|           | <u>\$ 15,755,000</u> | <u>\$ 18,329,592</u> | <u>\$34,084,592</u> |

Debt Authorization

A majority of the qualified electors of the District authorized the issuance of indebtedness in the amount not to exceed \$1,500,000,000. Pursuant to the Service Plan, the District is permitted to issue bond indebtedness of up to \$900,000,000. As of December 31, 2018, the District had \$884,245,000 remaining authority under the Service Plan.

Note 4: Other Agreements

Facilities Funding and Acquisition

On February 5, 2018, the Painted Prairie Districts entered into a Facilities Funding and Acquisition Agreement with Painted Prairie Owner Phase 1, LLC, a Delaware limited liability company (the “Developer”) (the “FFAA”). The FFAA provides that, the Developer may i) construct Public Improvements with the District on behalf of the District, and subject to future acquisition and reimbursement by the District, or ii) may provide advances to the District so that the District is able to construct Public Improvements. The District agreed to reimburse the advances together with interest at 6%, subject to annual appropriations and budget approval from legally available funds.

Operations Reimbursement Agreement

On February 5, 2018, the District entered into a Operations Reimbursement Agreement with the Developer (“ORA”). The Developer agreed to advance funds for operating expenses until December 31, 2018. The District agreed that it will, from available sources, reimburse the Developer for all Operating Advances together with simple interest at a rate of 8% per annum.

## PAINTED PRAIRIE METROPOLITAN DISTRICT NO. 2

### Notes to Financial Statements December 31, 2018

#### Painted Prairie IGA

The Painted Prairie Districts have entered into an Intergovernmental Agreement dated July 26, 2018 (the “PPIGA”). The PPIGA provides that Painted Prairie District No.1 (“District No.1”) will serve as the coordinating or operating district for the construction of all Public Improvements serving the Painted Prairie Development. Accordingly, District No.1 will own and/or maintain all Public Improvements of the Painted Prairie Districts that are not otherwise dedicated to the City or another governmental entity. Pursuant to the PPIGA; District No. 1 will be generally responsible for coordinating the financing, construction, ownership, operation, and maintenance of the Public Improvements on behalf of the other Painted Prairie Districts.

#### System Development Fees

The Painted Prairie Districts have adopted a resolution adopting a system development fee on all property within the respective Painted Prairie Districts (the “System Development Fee”). The System Development Fee is due and payable on each lot or unit at such time as the City issues a building permit for such lot or unit. For single family (detached and attached), the System Development Fee per unit or lot is \$1,800 if paid on or before December 31, 2018 and shall increase on each January 1 thereafter, at a rate of three percent (3%) annually. The System Development Fees are not pledged to the payment of the Series 2018 Bonds.

#### Aurora IGA

The Painted Prairie Districts have entered into an Intergovernmental Agreement dated July 24, 2017 with the City (the “Aurora IGA”). The Aurora IGA contains, among other things, many of the limitations provided in the Service Plan. The Aurora IGA also prevents the Painted Prairie Districts from operating or maintaining any Public Improvements, other than park and recreation improvements, unless the provision of such operation and maintenance is pursuant to an intergovernmental agreement with the City.

The Aurora IGA provides that the District may not issue any debt until such time as (a) the City has approved the Painted Prairie Approved Development Plan; and (b) the Painted Prairie Districts have approved the imposition of the Aurora Regional Improvement Mill Levy (as defined in the Districts’ Service Plan). As of the date hereof, (a) the City has approved the Painted Prairie Approved Development Plan; and (b) the Painted Prairie Districts have approved the imposition of the Aurora Regional Improvement Mill Levy.

#### Note 5: 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.

## PAINTED PRAIRIE METROPOLITAN DISTRICT NO. 2

### Notes to Financial Statements December 31, 2018

Spending and revenue limits are determined based on the prior year's Fiscal Year Spending adjusted for allowable increases based upon inflation and local growth. Fiscal Year Spending is generally defined as expenditures plus reserve increases with certain exceptions. Revenue in excess of the Fiscal Year Spending limit must be refunded unless the voters approve retention of such revenue.

TABOR requires local governments to establish Emergency Reserves. These reserves must be at least 3% of Fiscal Year Spending (excluding bonded debt service). Local governments are not allowed to use the emergency reserves to compensate for economic conditions, revenue shortfalls, or salary or benefit increases.

The District's management believes it is in compliance with the provisions of TABOR. However, TABOR is complex and subject to interpretation. Many of the provisions, including the interpretation of how to calculate Fiscal Year Spending limits will require judicial interpretation.

On May 3, 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 6: Risk Management

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

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

#### Note 7: Related Parties

All of the Board of Directors are employees, owners or are otherwise associated with the Developer 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.

PAINTED PRAIRIE METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements  
December 31, 2018

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

The Government Funds Balance Sheet/Statement of Net Position includes an adjustments column. The adjustments has the following element:

- 1) Long-term liabilities such as bonds payable, and accrued interest on bonds 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 in the statement of activities; and,
- 2) governmental funds report developer advances and/or bond proceeds as revenue and report interest as expenditures; however, these are reported as changes to long-term liabilities on the government-wide financial statements.

SUPPLEMENTAL INFORMATION

**Painted Prairie 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

|  | <u>Original<br/>Budget</u> | <u>Final<br/>Budget</u> | <u>Actual</u>       | Variance<br>Favorable<br><u>(Unfavorable)</u> |
|--|----------------------------|-------------------------|---------------------|---|
| REVENUES   |                            |                         |                     |   |
| Interest income                                      | \$ -                       | \$ -                    | \$ 13,803           | \$ 13,803                                     |
| Total Revenues                                       | <u>-</u>                   | <u>-</u>                | <u>13,803</u>       | <u>13,803</u>                                 |
| EXPENDITURES   |                            |                         |                     |   |
| Bond interest expense                                | <u>-</u>                   | <u>185,180</u>          | <u>151,642</u>      | <u>33,538</u>                                 |
| Total Expenditures                                   | <u>-</u>                   | <u>185,180</u>          | <u>151,642</u>      | <u>33,538</u>                                 |
| EXCESS (DEFICIENCY) OF REVENUES<br>OVER EXPENDITURES | -                          | (185,180)               | (137,839)           | 47,341  |
| OTHER FINANCING SOURCES (USES)                       |                            |                         |                     |   |
| Transfers (to)/from other funds                      | <u>-</u>                   | <u>3,637,330</u>        | <u>3,637,330</u>    | <u>-</u>                                      |
| Total Other Financing Sources (Uses)                 | <u>-</u>                   | <u>3,637,330</u>        | <u>3,637,330</u>    | <u>-</u>                                      |
| NET CHANGE IN FUND BALANCE                           | -                          | 3,452,150               | 3,499,491           | 47,341  |
| FUND BALANCE:  |                            |                         |                     |   |
| BEGINNING OF YEAR                                    | <u>-</u>                   | <u>-</u>                | <u>-</u>            | <u>-</u>                                      |
| END OF YEAR  | <u>\$ -</u>                | <u>\$ 3,452,150</u>     | <u>\$ 3,499,491</u> | <u>\$ 47,341</u>                              |

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

**Painted Prairie 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

|  | <u>Original</u> | <u>Final</u>       | <u>Actual</u>       | Variance<br>Favorable<br><u>(Unfavorable)</u> |
|--|-----------------|--------------------|---------------------|---|
|  | <u>Budget</u>   | <u>Budget</u>      |                     |   |
| REVENUES   |                 |                    |                     |   |
| Interest income                                      | \$ -            | \$ 40,000          | \$ 42,994           | \$ 2,994                                      |
| Total Revenues                                       | <u>-</u>        | <u>40,000</u>      | <u>42,994</u>       | <u>2,994</u>                                  |
| EXPENDITURES   |                 |                    |                     |   |
| Transfer to District No. 1                           | -               | 11,482,670         | 2,490,277           | 8,992,393                                     |
| Bond issuance costs                                  | <u>-</u>        | <u>-</u>           | <u>514,515</u>      | <u>(514,515)</u>                              |
| Total Expenditures                                   | <u>-</u>        | <u>11,482,670</u>  | <u>3,004,792</u>    | <u>8,477,878</u>                              |
| EXCESS (DEFICIENCY) OF REVENUES<br>OVER EXPENDITURES | -               | (11,442,670)       | (2,961,798)         | 8,480,872                                     |
| OTHER FINANCING SOURCES (USES)                       |                 |                    |                     |   |
| Bond proceeds  | -               | 15,755,000         | 15,755,000          | -   |
| Bond premium   | -               | -                  | 92,324              | 92,324  |
| Transfers (to)/from other funds                      | <u>-</u>        | <u>(3,637,330)</u> | <u>(3,637,330)</u>  | <u>-</u>                                      |
| Total Other Financing Sources (Uses)                 | <u>-</u>        | <u>12,117,670</u>  | <u>12,209,994</u>   | <u>92,324</u>                                 |
| NET CHANGE IN FUND BALANCE                           | -               | 675,000            | 9,248,196           | 8,573,196                                     |
| FUND BALANCE:  |                 |                    |                     |   |
| BEGINNING OF YEAR                                    | <u>-</u>        | <u>-</u>           | <u>-</u>            | <u>-</u>                                      |
| END OF YEAR  | <u>\$ -</u>     | <u>\$ 675,000</u>  | <u>\$ 9,248,196</u> | <u>\$ 8,573,196</u>                           |

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

**Painted Prairie Metropolitan District No. 2**

SUMMARY OF ASSESSED VALUATION, MILL LEVY  
AND PROPERTY TAXES COLLECTED  
December 31, 2018

| <u>Collection year</u>                               | <u>Assessed Value<br/>Net Assessed<br/>Value</u> | <u>Mills Levied</u>     |                    |                         | <u>Total Property Tax</u> |                  | <u>Percent<br/>Collected to<br/>Levied</u> |
|--|--|-------------------------|--------------------|-------------------------|---------------------------|------------------|--|
|  |  | <u>General<br/>Fund</u> | <u>Contractual</u> | <u>Debt<br/>Service</u> | <u>Levied</u>             | <u>Collected</u> |  |
| 2018   | \$ 2,390   | 50.000                  | 0.000              | 0.000                   | \$ 120                    | \$ -             | 0.00%                                      |
| Estimated for<br>year ending<br>December 31,<br>2019 | \$ 7,130   | 10.000                  | 1.105              | 55.277                  | \$ 473                    |                  |  |

**NOTE**

Property taxes collected in any one year include collection of delinquent property taxes levied and/or abatements or valuations in prior years. Information received from the County Treasurer does not permit identification of specific year assessment.