

PALISADE METROPOLITAN DISTRICT NO. 2

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED DECEMBER 31, 2019

**PALISADE METROPOLITAN DISTRICT NO. 2
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YEAR ENDED DECEMBER 31, 2019**

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Board of Directors
Palisade Metropolitan District No. 2
Broomfield County, Colorado

Independent Auditors' Report

We have audited the accompanying financial statements of the governmental activities and each major fund of the Palisade Metropolitan District No. 2, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Palisade Metropolitan District No. 2 as of December 31, 2019, 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

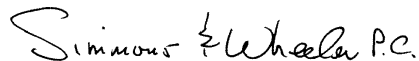
Required Supplementary Information

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 opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Palisade Metropolitan District No. 2's basic financial statements. The supplementary 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 supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the 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 supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.



Englewood, CO
September 30, 2020

BASIC FINANCIAL STATEMENTS

PALISADE METROPOLITAN DISTRICT NO. 2
STATEMENT OF NET POSITION
DECEMBER 31, 2019

| | Governmental Activities |
|--|----------------------------|
| ASSETS | |
| Cash and Investments | \$ 425,061 |
| Cash and Investments - Restricted | 28,526,188 |
| Due from Other Districts | 42,708 |
| Accounts Receivable - County Treasurer | 25,780 |
| Property Taxes Receivable | 9,793 |
| Developer Advance Receivable | 22,791 |
| Prepaid Expenses | 3,446 |
| Capital Assets, Not Being Depreciated: | |
| Construction in Progress | 2,029,934 |
| Total Assets | 31,085,701 |
| DEFERRED INFLOWS OF RESOURCES | |
| Deferred Cost of Refunding | 174,810 |
| Total Deferred Inflows of Resources | 174,810 |
| LIABILITIES | |
| Accounts Payable | 48,110 |
| Accrued Interest Payable | 407,144 |
| Noncurrent Liabilities: | |
| Due Within One Year | 825,000 |
| Due in More Than One Year | 50,099,828 |
| Total Liabilities | 51,380,082 |
| DEFERRED INFLOWS OF RESOURCES | |
| Property Tax Revenue | 9,793 |
| Total Deferred Inflows of Resources | 9,793 |
| NET POSITION | |
| Restricted For: | |
| Emergency Reserves | 4,400 |
| Debt Service | 44,160 |
| Capital Projects | 2,089,921 |
| Unrestricted | (20,228,795) |
| Total Net Position | \$ (18,090,314) |

See accompanying Notes to Basic Financial Statements.

**PALISADE METROPOLITAN DISTRICT NO. 2
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2019**

| | | Program Revenues | | | Net Revenues (Expenses) and Change in Net Position |
|---|----------------------------|--|--|----------------------------|---|
| Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | |
| FUNCTIONS/PROGRAMS | | | | | |
| Primary Government: | | | | | |
| Governmental Activities: | | | | | |
| General Government | \$ 4,342,535 | \$ - | \$ 131,215 | \$ - | \$ (4,211,320) |
| Interest and Related Costs on Long-Term Debt | 659,156 | - | 906,297 | - | 247,141 |
| Total Governmental Activities | \$ 5,001,691 | \$ - | \$ 1,037,512 | \$ - | (3,964,179) |
| GENERAL REVENUES | | | | | |
| | | | | | 10,884 |
| | | | | | 32,347 |
| | | | | | 55,294 |
| | | | | | 271,262 |
| | | | | | 554,535 |
| | | | | | 924,322 |
| CHANGE IN NET POSITION | | | | | (3,039,857) |
| | | | | | (15,050,457) |
| NET POSITION - END OF YEAR | | | | | \$ (18,090,314) |

See accompanying Notes to Basic Financial Statements.

**PALISADE METROPOLITAN DISTRICT NO. 2
BALANCE SHEET
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2019**

| ASSETS | General | Debt Service | Capital Projects | Total Governmental Funds |
|--|----------------|---------------------|----------------------|--------------------------------|
| Cash and Investments | \$ 425,061 | \$ - | \$ - | \$ 425,061 |
| Cash and Investments - Restricted | 4,400 | 4,006,976 | 24,514,812 | 28,526,188 |
| Due from Other Funds | 105,405 | 4,293 | - | 109,698 |
| Due from Other Districts | - | 42,708 | - | 42,708 |
| Accounts Receivable - County Treasurer | 939 | 24,841 | - | 25,780 |
| Property Taxes Receivable | 2,431 | 7,362 | - | 9,793 |
| Developer Advance Receivable | - | - | 22,791 | 22,791 |
| Prepaid Expenses | 3,446 | - | - | 3,446 |
| | 541,682 | \$ 4,086,180 | \$ 24,537,603 | \$ 29,165,465 |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES | | | | |
| LIABILITIES | | | | |
| Accounts Payable | 10,969 | \$ - | \$ 22,610 | \$ 33,579 |
| Due to Other Funds | - | - | 109,698 | 109,698 |
| Due to Other Districts | - | 14,531 | - | 14,531 |
| Total Liabilities | 10,969 | 14,531 | 132,308 | 157,808 |
| DEFERRED INFLOWS OF RESOURCES | | | | |
| Property Tax Revenue | 2,431 | 7,362 | - | 9,793 |
| Total Deferred Inflows of Resources | 2,431 | 7,362 | - | 9,793 |
| FUND BALANCES | | | | |
| Nonspendable: | | | | |
| Prepaid Expenses | 3,446 | - | - | 3,446 |
| Restricted For: | | | | |
| Emergencies (TABOR) | 4,400 | - | - | 4,400 |
| Debt Service | - | 4,064,287 | - | 4,064,287 |
| Capital Projects | - | - | 26,444,345 | 26,444,345 |
| Unassigned | 520,436 | - | - | 520,436 |
| Total Fund Balances | 528,282 | 4,064,287 | 26,444,345 | 31,036,914 |
| Total Liabilities, Deferred Inflows of Resources, and Fund Balances | 541,682 | \$ 4,086,180 | \$ 26,576,653 | |

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

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

| | |
|--|--------------|
| Bonds Payable | (49,608,000) |
| Developer Advance Payable | (879,189) |
| Premium on Bond Issuance | (286,698) |
| Accrued Interest Payable - Bonds | (407,144) |
| Accrued Interest Payable - Developer Advance | (150,941) |

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

2,029,934

Other long-term assets are not available to pay for current period expenditures and, therefore, are not reported in the funds.

| | |
|-----------------------|---------|
| Bond Issue Costs, Net | 174,810 |
|-----------------------|---------|

Net Position of Governmental Activities

\$ (18,090,314)

See accompanying Notes to Basic Financial Statements.

PALISADE METROPOLITAN DISTRICT NO. 2
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2019

| | General | Debt Service | Capital Projects | Total Governmental Funds |
|--|-------------------|---------------------|----------------------|--------------------------------|
| REVENUES | | | | |
| Property Taxes | \$ 3,747 | \$ 7,137 | \$ - | \$ 10,884 |
| Specific Ownership Taxes | 11,109 | 21,238 | - | 32,347 |
| Sales Tax | - | 55,294 | - | 55,294 |
| BURA Revenue | 112,351 | 785,341 | - | 897,692 |
| Payment in Lieu of Taxes | 18,864 | 120,956 | - | 139,820 |
| Net Investment Income | 20 | 97,143 | 174,099 | 271,262 |
| Total Revenues | <u>146,091</u> | <u>1,087,109</u> | <u>174,099</u> | <u>1,407,299</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| Accounting | 14,188 | - | - | 14,188 |
| Common Area Maintenance | 61,708 | - | - | 61,708 |
| County Treasurer's Fees | 56 | 107 | - | 163 |
| Electrical | 1,380 | - | - | 1,380 |
| Insurance And Bonds | 4,536 | - | - | 4,536 |
| Irrigation | 46,624 | - | - | 46,624 |
| Legal | 44,081 | - | 274,997 | 319,078 |
| Miscellaneous | 685 | - | - | 685 |
| Repairs and Replacement | 20,137 | - | - | 20,137 |
| Snow Removal | 10,875 | - | - | 10,875 |
| Debt Service: | | | | |
| Bond Interest | - | 1,318,849 | - | 1,318,849 |
| Bond Principal | - | 190,000 | - | 190,000 |
| Paying Agent/Trusee Fees | - | 3,000 | - | 3,000 |
| Bond Issuance | - | - | (1,019,525) | (1,019,525) |
| Capital Outlay | - | - | 2,029,934 | 2,029,934 |
| Total Expenditures | <u>204,270</u> | <u>1,511,956</u> | <u>1,285,406</u> | <u>3,001,632</u> |
| EXCESS OF REVENUES OVER (UNDER) | | | | |
| EXPENDITURES | (58,179) | (424,847) | (1,111,307) | (1,594,333) |
| OTHER FINANCING SOURCES (USES) | | | | |
| Bond Proceeds | - | - | 23,558,000 | 23,558,000 |
| Developer Advance | - | - | 1,235,666 | 1,235,666 |
| Repay Developer Advance | - | - | (960,669) | (960,669) |
| Transfer to District No. 1 | - | - | (3,860,161) | (3,860,161) |
| Transfer from District No. 1 | 26,922 | 527,613 | - | 554,535 |
| Total Other Financing Sources (Uses) | <u>26,922</u> | <u>527,613</u> | <u>19,972,836</u> | <u>20,527,371</u> |
| NET CHANGE IN FUND BALANCES | (31,257) | 102,766 | 18,861,529 | 18,933,038 |
| Fund Balances - Beginning of Year | <u>559,539</u> | <u>3,961,521</u> | <u>7,582,816</u> | <u>12,103,876</u> |
| FUND BALANCES - END OF YEAR | <u>\$ 528,282</u> | <u>\$ 4,064,287</u> | <u>\$ 26,444,345</u> | <u>\$ 31,036,914</u> |

See accompanying Notes to Basic Financial Statements.

**PALISADE METROPOLITAN DISTRICT NO. 2
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF THE GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2019**

Net Change in Fund Balances - Governmental Funds \$ 18,933,038

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

Governmental funds report capital outlays as expenditures. In the statement of activities, capital outlay is not reported as an expenditure. However, the statement of activities will report as depreciation expense, the allocation of the cost of any depreciable asset over the estimated useful life of the asset. Capital outlay, the conveyance of capital assets to other governments and depreciation expense in the current period are as follows:

Capital Assets Acquired 2,029,934

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

| | |
|--------------------------|--------------|
| Bond Proceeds | (23,558,000) |
| Principal Payment | 190,000 |
| Premium on Bond Issuance | 18,564 |
| Cost of Refunding | (11,318) |
| Developer Advance | (1,235,666) |
| Repay Developer Advance | 960,669 |

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

| | |
|---|-----------------|
| Accrued Interest on Bonds - Change in Liability | (303,845) |
| Accrued Interest on Developer Advance - Change in Liability | <u>(63,233)</u> |

Change in Net Position of Governmental Activities \$ (3,039,857)

**PALISADE METROPOLITAN DISTRICT NO. 2
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL
YEAR ENDED DECEMBER 31, 2019**

| | Original Budget | Final Budget | Actual Amounts | Variance with Final Budget Positive (Negative) |
|--|--------------------------|--------------------------|--------------------------|---|
| REVENUES | | | | |
| Property Taxes | \$ 3,744 | \$ 3,744 | \$ 3,747 | \$ 3 |
| Specific Ownership Taxes | 8,750 | 8,750 | 11,109 | 2,359 |
| BURA Revenue | 111,076 | 111,076 | 112,351 | 1,275 |
| Payment in Lieu of Taxes | 18,864 | 18,864 | 18,864 | - |
| Net Investment Income | 30 | 30 | 20 | (10) |
| Total Revenues | <u>142,464</u> | <u>142,464</u> | <u>146,091</u> | <u>3,627</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| Accounting | 17,000 | 17,000 | 14,188 | 2,812 |
| Annual Planting | 5,000 | 5,000 | - | 5,000 |
| Audit | 6,000 | 6,000 | - | 6,000 |
| Barn Maintenance | 2,000 | 2,000 | - | 2,000 |
| Common Area Maintenance | 30,000 | 65,000 | 61,708 | 3,292 |
| Contingency | 3,500 | 3,500 | - | 3,500 |
| County Treasurer's Fees | 1,000 | 1,000 | 56 | 944 |
| Electrical | 5,000 | 5,000 | 1,380 | 3,620 |
| Insurance And Bonds | 5,000 | 5,000 | 4,536 | 464 |
| Irrigation | 30,000 | 40,000 | 46,624 | (6,624) |
| Legal | 30,000 | 45,000 | 44,081 | 919 |
| Miscellaneous | 1,500 | 1,500 | 685 | 815 |
| Miscellaneous Maintenance | 1,000 | 1,000 | - | 1,000 |
| Operational Reserves | 9,050 | 9,050 | - | 9,050 |
| Pond Maintenance | 10,000 | 10,000 | - | 10,000 |
| Repairs and Replacement | 1,000 | 15,000 | 20,137 | (5,137) |
| Snow Removal | 5,000 | 9,000 | 10,875 | (1,875) |
| Winter Watering | 4,000 | 4,000 | - | 4,000 |
| Total Expenditures | <u>166,050</u> | <u>244,050</u> | <u>204,270</u> | <u>39,780</u> |
| EXCESS OF REVENUES OVER (UNDER) EXPENDITURES | (23,586) | (101,586) | (58,179) | 43,407 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfer from District No. 1 | 30,500 | 45,000 | 26,922 | (18,078) |
| Total Other Financing Sources (Uses) | <u>30,500</u> | <u>45,000</u> | <u>26,922</u> | <u>(18,078)</u> |
| EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES | 6,914 | (56,586) | (31,257) | 25,329 |
| Fund Balance - Beginning of Year | <u>533,069</u> | <u>405,866</u> | <u>559,539</u> | <u>153,673</u> |
| FUND BALANCE - END OF YEAR | <u><u>\$ 539,983</u></u> | <u><u>\$ 349,280</u></u> | <u><u>\$ 528,282</u></u> | <u><u>\$ 179,002</u></u> |

See accompanying Notes to Basic Financial Statements.

PALISADE METROPOLITAN DISTRICT NO. 2
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 1 DEFINITION OF REPORTING ENTITY

Palisade Metropolitan District No. 2 (the District), a quasi-municipal corporation and political subdivision of the State of Colorado, was organized by order and decree of the District Court on August 16, 2007, and is governed pursuant to provisions of the Colorado Special District Act (Title 32, Article 1, Colorado Revised Statutes). The District operates under a Service Plan approved by the City and County of Broomfield, Colorado (Broomfield). The District's service area is located in Broomfield County, Colorado. The District was established to finance and construct certain public infrastructure improvements that benefit the citizens of the District. The District's primary revenues are property taxes. The District is governed by an elected Board of Directors. On September 12, 2006, Broomfield approved the District's Service Plan (the Original Service Plan). On December 2, 2014, Broomfield approved the First Amended and Restated Service Plan for the District (the Amended Service Plan), which is intended to modify, replace, restate, and supersede the Original Service Plan in its entirety.

The District follows the Governmental Accounting Standards Board (GASB) accounting pronouncements which provide guidance for determining which governmental activities, organizations and functions should be included within the financial reporting entity. GASB pronouncements set forth the financial accountability of a governmental organization's elected governing body as the basic criterion for including a possible component governmental organization in a primary government's legal entity. Financial accountability includes, but is not limited to, appointment of a voting majority of the organization's governing body, ability to impose its will on the organization, a potential for the organization to provide specific financial benefits or burdens and fiscal dependency.

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

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The more significant accounting policies of the District are described as follows:

Government-Wide and Fund Financial Statements

The government-wide financial statements include the statement of net position and the statement of activities. These financial statements include all of the activities of the District. The effect of interfund activity has been removed from these statements. Governmental activities are normally supported by property taxes and intergovernmental revenues.

The statement of net position reports all financial and capital resources of the District. The difference between the assets, deferred outflow of resources, liabilities, and deferred inflow of resources of the District is reported as net position.

PALISADE METROPOLITAN DISTRICT NO. 2
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government-Wide and Fund Financial Statements (Continued)

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of 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 major sources of revenue subject to accrual are property taxes and interest. All other revenue items are considered to be measurable and available only when cash is received by the District. Expenditures, other than interest on long-term obligations, are recorded when the liability is incurred or the long-term obligation is paid.

The District reports the following major governmental funds:

The General Fund is the District's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

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

The Capital Projects Fund is used to account for financial resources to be used for the acquisition and construction of capital equipment and facilities.

PALISADE METROPOLITAN DISTRICT NO. 2
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budgets

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

The District amended its annual budget for the year ended December 31, 2019.

Pooled Cash and Investments

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

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.

Equity

Net Position

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

PALISADE METROPOLITAN DISTRICT NO. 2
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Equity (Continued)

Fund Balance

Fund balance for governmental funds should be reported in classifications that comprise a hierarchy based on the extent to which the government is bound to honor constraints on the specific purposes for which spending can occur. Governmental funds report up to five classifications of fund balance: nonspendable, restricted, committed, assigned, and unassigned. Because circumstances differ among governments, not every government or every governmental fund will present all of these components. The following classifications describe the relative strength of the spending constraints:

Nonspendable Fund Balance – The portion of fund balance that cannot be spent because it is either not in spendable form (such as prepaid amounts or inventory) or legally or contractually required to be maintained intact.

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

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

Assigned Fund Balance – The portion of fund balance that is constrained by the government's intent to be used for specific purposes, but is neither restricted nor committed. Intent is expressed by the board of directors to be used for a specific purpose. Constraints imposed on the use of assigned amounts are more easily removed or modified than those imposed on amounts that are classified as committed.

Unassigned Fund Balance – The residual portion of fund balance that does not meet any of the criteria described above.

If more than one classification of fund balance is available for use when an expenditure is incurred, it is the District's practice to use the most restrictive classification first.

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.

**PALISADE METROPOLITAN DISTRICT NO. 2
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 3 CASH AND INVESTMENTS

Cash and investments as of December 31, 2019 are classified in the accompanying financial statements as follows:

Statement of Net Position:

| | |
|-----------------------------------|----------------------|
| Cash and Investments | \$ 425,061 |
| Cash and Investments - Restricted | 28,526,188 |
| Total Cash and Investments | <u>\$ 28,951,249</u> |

Cash and investments as of December 31, 2019 consist of the following:

| | |
|--------------------------------------|----------------------|
| Deposits with Financial Institutions | \$ 576,698 |
| Investments - CSAFE | 28,374,551 |
| Total Cash and Investments | <u>\$ 28,951,249</u> |

Deposits with Financial Institutions

The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulators. Amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is determined by the PDPA. PDPA allows the institution to create a single collateral pool for all public funds. The pool for all the uninsured public deposits as a group is to be maintained by another institution or held in trust. The market value of the collateral must be at least 102% of the aggregate uninsured deposits.

The State Commissioners for banks and financial services are required by statute to monitor the naming of eligible depositories and reporting of the uninsured deposits and assets maintained in the collateral pools.

At December 31, 2019, the District's cash deposits had a bank balance of \$576,698 and a carrying balance of \$557,658.

Investments

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

The District generally limits its concentration of investments to those noted with an asterisk (*) below, which are believed to have minimal credit risk, minimal interest rate risk and no foreign currency risk. Additionally, the District is not subject to concentration risk or investment custodial risk disclosure requirements for investments that are in the possession of another party.

Colorado revised statutes limit investment maturities to five years or less unless formally approved by the Board of Directors. Such actions are generally associated with a debt service reserve or sinking fund requirements.

**PALISADE METROPOLITAN DISTRICT NO. 2
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 3 CASH AND INVESTMENTS (CONTINUED)

Investments (Continued)

Colorado statutes specify investment instruments meeting defined rating and risk criteria in which local governments may invest, which include:

- . Obligations of the United States, certain U.S. government agency securities, and securities of the World Bank
- . General obligation and revenue bonds of U.S. local government entities
- . Certain certificates of participation
- . Certain securities lending agreements
- . Bankers' acceptances of certain banks
- . Commercial paper
- . Written repurchase agreements and certain reverse repurchase agreements collateralized by certain authorized securities
- * Certain money market funds
- . Guaranteed investment contracts
- * Local government investment pools

Fair Value Measurement and Application

The District categorizes its fair value measurements 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, and Level 3 inputs are significant unobservable inputs. Investments not measured at fair value and not categorized include governmental money market funds (PFM Funds Governmental Select series), money market funds (generally held by Bank Trust Departments in their role as paying agent or trustee), CSAFE (which are recorded at amortized cost), and COLOTRUST (which are recorded at net asset value).

As of December 31, 2019, the District had the following investments:

| <u>Investment</u> | <u>Maturity</u> | <u>Amount</u> |
|--|-----------------------------------|----------------------|
| Colorado Local Government Liquid Asset Trust (CSAFE) | Weighted Average Under 60 Days | <u>\$ 28,374,551</u> |

PALISADE METROPOLITAN DISTRICT NO. 2
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 3 CASH AND INVESTMENTS (CONTINUED)

CSAFE

The District invested in the Colorado Surplus Asset Fund Trust (CSAFE) (the Trust), which 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 a custodian agreement. 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 custodian's internal records segregate investments owned by CSAFE. CSAFE is rated AAAM by Standard & Poor's. CSAFE records its investments at amortized cost and the District records its investments in CSAFE at net asset value as determined by amortized cost. There are no unrefunded commitments, the redemption frequency is daily, and there is no redemption notice period.

NOTE 4 LONG-TERM OBLIGATIONS

A description of the long-term obligations as of December 31, 2019, is as follows:

General Obligation Limited Tax and Revenue Bonds Series 2016

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

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

The Series 2016 Bonds are secured by (a) the Required Mill Levy, including any District No. 2 TIF produced as a result of the imposition of the Required Mill Levy; (b) District No. 1 Capital Revenue (including BURA Agreement Revenue); (c) BURA Agreement Revenue (subject to certain provisions with respect to Sales Tax Revenue); (d) the PILOT Revenue; (e) the portion of the Specific Ownership Tax which is collected as a result of the imposition of the Required Mill Levy; and (f) any other legally available moneys which the District determines, in its absolute discretion, to transfer to the Trustee for application as Pledged Revenue. The Series 2016 Bonds are also secured by the Reserve Fund and the Surplus Fund.

**PALISADE METROPOLITAN DISTRICT NO. 2
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 4 LONG-TERM OBLIGATIONS (CONTINUED)

Subordinate General Obligation Limited Tax and Revenue Bonds Series 2019

On October 10, 2019, the District issued \$23,558,000 of Subordinate General Obligation Limited Tax and Revenue Bonds, Series 2019 (Series 2019 Bonds), for the purpose of funding and reimbursing a portion of the costs of certain public infrastructure and paying the costs of issuance of the Series 2019 Bonds. The Series 2019 Bonds bear interest at rate of 7.250% payable annually on December 15 each year, commencing on December 15, 2019.

The Series 2019 Bonds are subject to mandatory redemption to the extent Pledged Revenue is available therefore and are subject to redemption prior to maturity, at the option of the District, as a whole or in integral multiples of \$1,000, commencing on December 15, 2024, upon payment of par, accrued interest, and a redemption premium that ranges between 0% and 3%.

The Series 2019 Bonds are “cash flow” bonds secured by the Pledged Revenue consisting of the following, net of any costs of collection: (a) the Sales Tax Revenue; (b) the Subordinate Required Mill Levy, including any District No. 2 TIF produced from the imposition of the Subordinate Required Mill Levy; (c) any Additional PILOT Revenue; (d) collectively, any District No. 1 Capital Revenue, BURA Agreement Revenue (exclusive of the Sales Tax Revenue and as and to the extent received by the District), and PILOT Revenue, remaining in each Fiscal Year after the payment of any Senior Bonds (including the Series 2016 Bonds); (e) the portion of the Specific Ownership Tax which is collected as a result of the imposition of the Subordinate Required Mill Levy; and (f) any other legally available moneys which the District determines, in its absolute discretion, to transfer to the Trustee for application as Pledged Revenue. Excluding Sales Tax Revenue, the Series 2019 Bonds are secured by the Pledged Revenue on a subordinate basis to the Series 2016 Bonds.

The following is an analysis of changes in long-term debt for the period ending December 31, 2019:

| | Balance - January 1, 2019 | Additions | Deletions | Balance - December 31, 2019 | Due Within One Year |
|-----------------------|---------------------------------|----------------------|---------------------|-----------------------------------|------------------------|
| Series 2016 Bonds | \$ 26,240,000 | \$ - | \$ 190,000 | \$ 26,050,000 | \$ 825,000 |
| Series 2019 Sub-Bonds | - | 23,558,000 | - | 23,558,000 | - |
| Developer Advance: | | | | | |
| Operations | 31,372 | - | - | 31,372 | - |
| Operations - Interest | 23,352 | 3,134 | - | 26,486 | - |
| Capital | 572,820 | 1,235,666 | 960,669 | 847,817 | - |
| Capital - Interest | 64,356 | 60,099 | - | 124,455 | - |
| Total | 26,931,900 | 24,856,899 | 1,150,669 | 50,638,130 | 825,000 |
| Premium | 305,262 | - | 18,564 | 286,698 | - |
| Total | <u>\$ 27,237,162</u> | <u>\$ 24,856,899</u> | <u>\$ 1,169,233</u> | <u>\$ 50,924,828</u> | <u>\$ 825,000</u> |

**PALISADE METROPOLITAN DISTRICT NO. 2
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 4 LONG-TERM OBLIGATIONS (CONTINUED)

**Subordinate General Obligation Limited Tax and Revenue Bonds Series 2019
(Continued)**

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

| <u>Year Ending December 31.</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|---------------------------------|----------------------|----------------------|----------------------|
| 2020 | \$ 825,000 | \$ 1,231,281 | \$ 2,056,281 |
| 2021 | 915,000 | 1,195,188 | 2,110,188 |
| 2022 | 995,000 | 1,155,156 | 2,150,156 |
| 2023 | 1,035,000 | 1,111,625 | 2,146,625 |
| 2024 | 1,120,000 | 1,066,344 | 2,186,344 |
| 2025-2029 | 5,575,000 | 4,539,626 | 10,114,626 |
| 2030-2034 | 2,575,000 | 3,646,720 | 6,221,720 |
| 2035-2039 | 3,585,000 | 2,917,750 | 6,502,750 |
| 2040-2044 | 4,945,000 | 1,892,250 | 6,837,250 |
| 2045-2046 | 4,480,000 | 389,250 | 4,869,250 |
| Total | <u>\$ 26,050,000</u> | <u>\$ 19,145,190</u> | <u>\$ 45,195,190</u> |

Debt Authorization

As of December 31, 2019, the District had remaining voted debt authorization of approximately \$211,548,051. The District has not budgeted to issue any new debt during 2020. Pursuant to the Amended Service Plan, the District cannot issue debt in excess of \$52,000,000, of which \$1,885,843 remains. Issuance of debt in excess of \$52,000,000 shall be considered a material modification of the Amended Service Plan which shall be subject to statutory procedures set forth in section 32-1-207.C.R.S.

NOTE 5 NET POSITION

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

Restricted net position consists of assets that are restricted for use either externally imposed by creditors, grantors, contributors, or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The District had a restricted net position as of December 31, 2019, as follows:

| | |
|-------------------------------|---------------------|
| Restricted Net Position: | |
| Emergencies | \$ 4,400 |
| Debt Service | 44,160 |
| Capital Projects | 2,089,921 |
| Total Restricted Net Position | <u>\$ 2,138,481</u> |

The District has a deficit in unrestricted net position. This deficit amount is a result of the District being responsible for the repayment of bonds issued for public improvements.

PALISADE METROPOLITAN DISTRICT NO. 2
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 6 RELATED PARTY

All of the Board of Directors are employees, owners, or are otherwise associated with Kevamra, LLC (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.

Operation Funding Agreement

On November 13, 2008, the District and Kevamra entered into an Operation Funding Agreement with an effective date of September 27, 2007 (OFA), whereby Kevamra agreed to provide funding for operations and maintenance expenses of the District as needed through 2010 up to \$125,000 and the District agreed to reimburse Kevamra for such advances, along with interest at 8% per annum. The OFA expires on December 31, 2027. On December 9, 2010, the District entered into a First Amendment to the OFA extending the term to include advances up to \$125,000 as are necessary through 2012. On November 15, 2012, the District entered into a Second Amendment to OFA extending the term to include advances up to \$125,000 as are necessary through 2013. The total amount funded through December 31, 2019 is \$31,372.

Facilities Funding and Acquisition Agreement

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

**PALISADE METROPOLITAN DISTRICT NO. 2
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 6 RELATED PARTY (CONTINUED)

Amended and Restated Intergovernmental Agreement for Cost Sharing

On August 25, 2016, the District and Palisade Metropolitan District No. 1 (District No. 1) entered into an Amended and Restated Intergovernmental Agreement for Cost Sharing with an effective date of January 1, 2014 (Amended IGA). The purpose of the Amended IGA is to identify and approve the allocation of the costs of the Completed Improvements as between the Districts, to evidence the agreement of District No. 1 to assume the obligation to reimburse Kevamra for the District No. 1 Allocated Improvement Costs (as defined in the Amended IGA) and the District No. 1 Direct Costs (as defined in the Amended IGA) pursuant to the District No. 1 Amended and Restated Facilities Funding and Acquisition Agreement with Kevamra and to evidence the agreement of the District to assume the obligation to reimburse Kevamra for the District No. 2 Allocated Improvement Costs (as defined in the Amended IGA) pursuant to the Amended FFAA. The Amended IGA also established the allocation between the District and District No. 1 for costs verified between the District and District No. 1 associated with the remaining public improvements to be constructed by the District for the benefit of the District and District No. 1.

NOTE 7 AGREEMENTS

Reimbursement Agreement

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

Additionally, BURA will deposit into a separate account and transfer to the Districts all property tax revenue paid to BURA as a result of the Districts' mill levies. The funds generated from the operating mill levy will be used by the Districts to pay for normal operating and maintenance expense, and the portion attributable to the debt service mill levy will be used for payment on the bonds. The debt service mill levy transfer will expire on the first to occur of the 25th anniversary of the Reimbursement Agreement or the defeasance in full of the bonds. The District's mill levies do not count against or otherwise reduce the Reimbursement Obligation.

PALISADE METROPOLITAN DISTRICT NO. 2
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 7 AGREEMENTS (CONTINUED)

Reimbursement Agreement (Continued)

On April 19, 2011 the Districts and BURA entered into Amendment No. 1 to the Reimbursement Agreement to acknowledge issuance of a Promissory Note by the District to finance certain specified public improvements (Amendment Improvements) for the benefit of certain property within the District (Amendment Property). Pursuant to Amendment No. 1, BURA agreed to pledge to the District for repayment of the Promissory Note that portion of increment revenues BURA receives as a result of 7.242 mills levied by Broomfield associated with the Amendment Property, and that portion of the increment revenues BURA receives as a result of the mill levy imposed by the Saint Vrain School District on the Amendment Property (Amendment Revenues).

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

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

Agreement Regarding Children's Payments in Lieu of Taxes

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

PALISADE METROPOLITAN DISTRICT NO. 2
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 7 AGREEMENTS (CONTINUED)

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

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

Facilities Fee Resolution

On November 13, 2008, the District adopted Facilities Fee Resolution No. 2008-11-05, as amended on June 23, 2010 and as further amended on November 13, 2014 (Fee Resolution). Pursuant to the Fee Resolution, the District imposed a Facilities Fee on (i) each Commercial Unit, as defined in the Fee Resolution, constructed in the District in the amount of \$.50 per square foot, and (ii) each Multifamily Residential Unit, as defined in the Fee Resolution, in the amount of \$1,000 on each Multifamily Residential Unit (collectively, the Fee). The Fee is due and payable on or before the date of issuance of a building permit. A written request may be made to the District for a deferral of the payment to an alternative date. Any request will be considered on a case-by-case basis by the District. While the Series 2016 Bonds and Series 2019 Bonds are still outstanding, the District agrees to not alter, defer, or reduce the amount of the Fee.

Amended and Restated Capital Pledge Agreement

On September 1, 2016, the District and District No. 1 entered into a Capital Pledge Agreement (2016 Pledge Agreement), whereby District No. 1 pledged certain revenues to the payment of the District's Series 2016 Bonds. On October 1, 2019, the District and District No. 1 entered into an Amended and Restated Capital Pledge Agreement (Restated Pledge Agreement), which amended and restated the 2016 Pledge Agreement in its entirety, in connection with the District's issuance of the Series 2019 Bonds. The Restated Pledge Agreement obligates District No. 1 to pledge the District No. 1 Capital Revenue (as defined in the Restated Pledge Agreement) to the payment of the Series 2016 Bonds and Series 2019 Bonds. The obligation of District No. 1 under the Restated Pledge Agreement constitutes a general obligation limited tax debt of District No. 1 in the principal amount of \$8,000,000, bearing interest at the rate of 7.00% per annum (due on each June 1 and December 1), maturing on December 15, 2049, and payable solely from the District No. 1 Capital Revenue; provided, however, the total payments made by District No. 1 to the District pursuant to the Restated Pledge Agreement will not exceed \$24,301,000 (Revenue Limitation). The payment obligations of District No. 1 under the Restated Pledge Agreement continue until the earlier of the date when the Series 2016 Bonds and Series 2019 Bonds are no longer outstanding or the date on which District No. 1 has made payments thereunder equal to the Revenue Limitation.

PALISADE METROPOLITAN DISTRICT NO. 2
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 7 AGREEMENTS (CONTINUED)

County Road 7 Escrow Account Letter Agreement

The District agreed pursuant to a letter agreement to Kevamra dated March 26, 2019 ("Escrow Letter Agreement") to requisition \$960,699.31 of bond proceeds from its Series 2016 Bonds (discussed [above/below]) to reimburse Kevamra for the District and Palisade Metropolitan District No. 1's share of the construction related expenses associated with the County Road 7 Improvements (as defined therein) in the amount of \$598,866.60 (defined therein as the "Verified Costs"), as such Verified Costs were determined to be reimbursable under the Amended FFAA, and to provide an additional \$361,832.71 (as defined therein as the "Unverified Amount") to Kevamra so that with the Verified Costs, Kevamra can place the entire \$960,699.31 in escrow to stay the execution of a jury award against Kevamra in a suit brought against Kevamra relative to the County Road 7 Improvements. Pursuant to the Escrow Letter Agreement, Kevamra agrees that if the jury award against Kevamra is overturned or decreased and/or all or any portion of the Unverified Amount is not certified as reimbursable under the Amended FFAA, Kevamra will return all or such portions of the Unverified Amount to the District and/or credit such amount to future construction related expenses to the extent the same are reimbursable pursuant to the terms of the Amended FFAA.

NOTE 8 RISK MANAGEMENT

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

The District is a member of the Colorado Special Districts Property and Liability Pool (the Pool). The Pool is an organization created by intergovernmental agreement to provide property, liability, public officials' liability, boiler and machinery, and workers' compensation coverage to its members. Settled claims have not exceeded this coverage in any of the past three fiscal years.

The District pays annual premiums to the Pool for liability, property and public officials' liability and workers' compensation coverage. In the event aggregated losses incurred by the Pool exceed amounts recoverable from reinsurance contracts and funds accumulated by the Pool, the Pool may require additional contributions from the Pool members. Any excess funds which the Pool determines are not needed for purposes of the Pool may be returned to the members pursuant to a distribution formula.

PALISADE METROPOLITAN DISTRICT NO. 2
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 9 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.

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

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.

SUPPLEMENTARY INFORMATION

**PALISADE METROPOLITAN DISTRICT NO. 2
DEBT SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL
YEAR ENDED DECEMBER 31, 2019**

| | Original Budget | Final Budget | Actual Amounts | Variance with Final Budget Positive (Negative) |
|--|---------------------|---------------------|---------------------|---|
| REVENUES | | | | |
| Property Taxes | \$ 7,131 | \$ 7,131 | \$ 7,137 | \$ 6 |
| Specific Ownership Tax | 18,000 | 18,000 | 21,238 | 3,238 |
| Sales Tax | 25,000 | 55,000 | 55,294 | 294 |
| BURA Revenue | 769,892 | 769,892 | 785,341 | 15,449 |
| Payment in Lieu of Taxes | 120,956 | 120,956 | 120,956 | - |
| Net Investment Income | 60,000 | 65,000 | 97,143 | 32,143 |
| Total Revenues | <u>1,000,979</u> | <u>1,035,979</u> | <u>1,087,109</u> | <u>51,130</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| County Treasurer's Fees | 8,000 | 18,000 | 107 | 17,893 |
| Miscellaneous | 1,500 | 1,500 | - | 1,500 |
| Capital Outlay: | | | | |
| Bond Interest | 1,239,594 | 1,325,000 | 1,318,849 | 6,151 |
| Bond Principal | 190,000 | 190,000 | 190,000 | - |
| Paying Agent/Trusee Fees | 2,500 | 5,000 | 3,000 | 2,000 |
| Total Expenditures | <u>1,441,594</u> | <u>1,539,500</u> | <u>1,511,956</u> | <u>27,544</u> |
| EXCESS OF REVENUES OVER (UNDER) EXPENDITURES | (440,615) | (503,521) | (424,847) | 78,674 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers from Palisade No. 1 | 890,000 | 575,000 | 527,613 | (47,387) |
| Total Other Financing Sources (Uses) | <u>890,000</u> | <u>575,000</u> | <u>527,613</u> | <u>(47,387)</u> |
| EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES | 449,385 | 71,479 | 102,766 | 31,287 |
| Fund Balance - Beginning of Year | <u>4,051,740</u> | <u>3,961,521</u> | <u>3,961,521</u> | <u>-</u> |
| FUND BALANCE - END OF YEAR | <u>\$ 4,501,125</u> | <u>\$ 4,033,000</u> | <u>\$ 4,064,287</u> | <u>\$ 31,287</u> |

**PALISADE METROPOLITAN DISTRICT NO. 2
CAPITAL PROJECTS FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL
YEAR ENDED DECEMBER 31, 2019**

| | Original Budget | Final Budget | Actual Amounts | Variance with Final Budget Positive (Negative) |
|--|--------------------|----------------------|----------------------|---|
| REVENUES | | | | |
| Net Investment Income | \$ 70,000 | \$ 85,000 | \$ 174,099 | \$ 89,099 |
| Total Revenues | <u>70,000</u> | <u>85,000</u> | <u>174,099</u> | <u>89,099</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| Legal | - | - | 274,997 | (274,997) |
| Bond Issuance | - | 1,130,000 | 1,019,525 | (110,475) |
| Capital Outlay | 5,000,000 | 10,000,000 | 2,029,934 | 7,970,066 |
| Total Expenditures | <u>5,000,000</u> | <u>11,130,000</u> | <u>3,324,456</u> | <u>7,584,594</u> |
| EXCESS OF REVENUES OVER (UNDER) EXPENDITURES | (4,930,000) | (11,045,000) | (3,150,357) | (7,894,643) |
| OTHER FINANCING SOURCES (USES) | | | | |
| Bond Proceeds | - | 23,670,000 | 23,558,000 | (112,000) |
| Repay Developer Advance | (900,000) | (1,500,000) | (960,669) | 539,331 |
| Transfer to District No. 1 | - | - | (3,860,161) | (3,860,161) |
| Developer Advance | - | - | 1,235,666 | 1,235,666 |
| Total Other Financing Sources (Uses) | <u>(900,000)</u> | <u>22,170,000</u> | <u>19,972,836</u> | <u>(2,197,164)</u> |
| EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES | (5,830,000) | 11,125,000 | 16,822,479 | 5,697,479 |
| Fund Balance - Beginning of Year | <u>6,651,520</u> | <u>7,582,816</u> | <u>7,582,816</u> | <u>-</u> |
| FUND BALANCE - END OF YEAR | <u>\$ 821,520</u> | <u>\$ 18,707,816</u> | <u>\$ 24,405,295</u> | <u>\$ 5,697,479</u> |

OTHER INFORMATION

PALISADE METROPOLITAN DISTRICT NO. 2
SCHEDULE OF DEBT SERVICE REQUIREMENTS TO MATURITY
DECEMBER 31, 2019

\$26,240,000 General Obligation Bonds
Dated September 1, 2016
Interest Rate 4.375-5.000%
Principal Due December 1
Interest Payable December 1 and June 1

| Year Ending December 31, | Principal | Interest | Total |
|-----------------------------|----------------------|----------------------|----------------------|
| 2020 | \$ 825,000 | \$ 1,231,281 | \$ 2,056,281 |
| 2021 | 915,000 | 1,195,188 | 2,110,188 |
| 2022 | 995,000 | 1,155,156 | 2,150,156 |
| 2023 | 1,035,000 | 1,111,625 | 2,146,625 |
| 2024 | 1,120,000 | 1,066,344 | 2,186,344 |
| 2025 | 1,170,000 | 1,017,344 | 2,187,344 |
| 2026 | 1,260,000 | 966,156 | 2,226,156 |
| 2027 | 1,315,000 | 911,032 | 2,226,032 |
| 2028 | 1,415,000 | 853,500 | 2,268,500 |
| 2029 | 415,000 | 791,594 | 1,206,594 |
| 2030 | 455,000 | 773,438 | 1,228,438 |
| 2031 | 475,000 | 753,532 | 1,228,532 |
| 2032 | 515,000 | 732,750 | 1,247,750 |
| 2033 | 540,000 | 707,000 | 1,247,000 |
| 2034 | 590,000 | 680,000 | 1,270,000 |
| 2035 | 620,000 | 650,500 | 1,270,500 |
| 2036 | 675,000 | 619,500 | 1,294,500 |
| 2037 | 710,000 | 585,750 | 1,295,750 |
| 2038 | 770,000 | 550,250 | 1,320,250 |
| 2039 | 810,000 | 511,750 | 1,321,750 |
| 2040 | 875,000 | 471,250 | 1,346,250 |
| 2041 | 920,000 | 427,500 | 1,347,500 |
| 2042 | 990,000 | 381,500 | 1,371,500 |
| 2043 | 1,040,000 | 332,000 | 1,372,000 |
| 2044 | 1,120,000 | 280,000 | 1,400,000 |
| 2045 | 1,175,000 | 224,000 | 1,399,000 |
| 2046 | 3,305,000 | 165,250 | 3,470,250 |
| Total | <u>\$ 26,050,000</u> | <u>\$ 16,351,940</u> | <u>\$ 32,166,940</u> |

PALISADE METROPOLITAN DISTRICT NO. 2
SCHEDULE OF ASSESSED VALUATION, MILL LEVY, AND PROPERTY TAXES COLLECTED
DECEMBER 31, 2019

| Year Ended December 31, | Prior Year Assessed Valuation for Current Year Tax Levy | Mills Levied | Total Property Taxes | | Percent Collected to Levied |
|---|---|-----------------|----------------------|-----------|-----------------------------------|
| | | | Levied | Collected | |
| 2015 | \$ 231,672 | 50.000 | \$ 11,584 | \$ 12,591 | 108.69 % |
| 2016 | 255,160 | 60.000 | 15,309 | 15,322 | 100.08 |
| 2017 | 256,277 | 60.000 | 15,377 | 15,344 | 99.79 |
| 2018 | 238,303 | 62.018 | 14,780 | 14,754 | 99.82 |
| 2019 | 209,070 | 52.018 | 10,875 | 10,884 | 100.01 |
| Estimated for the Year Ending December 31, 2020 | \$ 202,613 | 48.336 | \$ 9,793 | | |

NOTE: Property taxes shown as collected in any one year include collection of delinquent property taxes or abatements of property taxes assessed in prior years. This presentation does not attempt to identify specific years of assessment.