

AVIATION STATION NORTH METROPOLITAN DISTRICT NO. 2

Financial Statements

Year Ended December 31, 2019

with

Independent Auditor's Report

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Independent Auditor's Report

Board of Directors
Aviation Station North Metropolitan District No. 2
Denver County, Colorado

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Aviation Station North Metropolitan District No. 2 (the "District") 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; 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 generally accepted in the United States. 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 Aviation Station North 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.

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. In our opinion, such information is fairly stated in all material respects in relation to the financial statements as a whole.

Wipfli LLP

July 27, 2020
Lakewood, Colorado

Aviation Station North Metropolitan District No. 2

BALANCE SHEET/STATEMENT OF NET POSITION
GOVERNMENTAL FUNDS
December 31, 2019

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
ASSETS						
Cash and investments - restricted	\$ -	\$ 5,244,733	\$ 15,014,826	\$ 20,259,559	\$ -	\$ 20,259,559
Receivable - County Treasurer	892	290	-	1,182	-	1,182
Property taxes receivable	70,024	350,119	-	420,143	-	420,143
PIF receivable	<u>-</u>	<u>6,311</u>	<u>-</u>	<u>6,311</u>	<u>-</u>	<u>6,311</u>
Total Assets	<u>\$ 70,916</u>	<u>\$ 5,601,453</u>	<u>\$ 15,014,826</u>	<u>\$ 20,687,195</u>	<u>-</u>	<u>20,687,195</u>
LIABILITIES						
Payable to District No. 1	\$ 892	\$ 290	\$ -	\$ 1,182	-	1,182
Accrued interest	-	-	-	-	264,112	264,112
Long-term liabilities:						
Due in more than one year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>30,538,849</u>	<u>30,538,849</u>
Total Liabilities	<u>892</u>	<u>290</u>	<u>-</u>	<u>1,182</u>	<u>30,802,961</u>	<u>30,804,143</u>
DEFERRED INFLOWS OF RESOURCES						
Deferred property taxes	<u>70,024</u>	<u>350,119</u>	<u>-</u>	<u>420,143</u>	<u>-</u>	<u>420,143</u>
Total Deferred Inflows of Resources	<u>70,024</u>	<u>350,119</u>	<u>-</u>	<u>420,143</u>	<u>-</u>	<u>420,143</u>
FUND BALANCES/NET POSITION						
Fund Balances:						
Restricted:						
Emergencies	20	-	-	20	(20)	-
Debt service	-	5,251,044	-	5,251,044	(5,251,044)	-
Capital projects	-	-	15,014,826	15,014,826	(15,014,826)	-
Unassigned	<u>(20)</u>	<u>-</u>	<u>-</u>	<u>(20)</u>	<u>20</u>	<u>-</u>
Total Fund Balances	<u>-</u>	<u>5,251,044</u>	<u>15,014,826</u>	<u>20,265,870</u>	<u>(20,265,870)</u>	<u>-</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 70,916</u>	<u>\$ 5,601,453</u>	<u>\$ 15,014,826</u>	<u>\$ 20,687,195</u>		
Net Position:						
Restricted for:						
Emergencies					20	20
Debt service					4,986,932	4,986,932
Capital projects					15,014,826	15,014,826
Unrestricted					<u>(925,319)</u>	<u>(925,319)</u>
Total Net Position					<u>\$ (10,537,091)</u>	<u>\$ (10,537,091)</u>

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

Aviation Station North Metropolitan District No. 2

STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES/STATEMENT OF ACTIVITIES
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2019

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
EXPENDITURES						
Bond issuance costs	\$ -	\$ -	\$ 1,010,829	\$ 1,010,829	\$ -	\$ 1,010,829
Treasurer's fees	1,054	343	-	1,397	-	1,397
Transfer to District No. 1	111,945	36,381	9,019,073	9,167,399	-	9,167,399
Bond interest expense	-	435,698	-	435,698	251,688	687,386
Total Expenditures	112,999	472,422	10,029,902	10,615,323	251,688	10,867,011
GENERAL REVENUES						
Property taxes	105,444	34,269	-	139,713	-	139,713
PIF income	-	6,311	-	6,311	-	6,311
Specific ownership taxes	7,555	2,455	-	10,010	-	10,010
Interest income	-	41,231	132,655	173,886	-	173,886
Total General Revenues	112,999	84,266	132,655	329,920	-	329,920
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	-	(388,156)	(9,897,247)	(10,285,403)	(251,688)	(10,537,091)
OTHER FINANCING SOURCES (USES)						
Bond proceeds	-	-	29,794,000	29,794,000	(29,794,000)	-
Premium on bonds	-	-	757,273	757,273	(757,273)	-
Transfers (to)/from other funds	-	5,639,200	(5,639,200)	-	-	-
Total Other Financing Sources (Uses)	-	5,639,200	24,912,073	30,551,273	(30,551,273)	-
NET CHANGES IN FUND BALANCES	-	5,251,044	15,014,826	20,265,870	(20,265,870)	
CHANGE IN NET POSITION					(10,537,091)	(10,537,091)
FUND BALANCES/NET POSITION:						
BEGINNING OF YEAR	-	-	-	-	-	-
END OF YEAR	\$ -	\$ 5,251,044	\$ 15,014,826	\$ 20,265,870	\$ (30,802,961)	\$ (10,537,091)

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

Aviation Station North Metropolitan District No. 2

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

For the Year Ended December 31, 2019

	Original & Final <u>Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
REVENUES			
Property taxes	\$ 105,114	\$ 105,444	\$ 330
Specific ownership taxes	<u>7,830</u>	<u>7,555</u>	<u>(275)</u>
Total Revenues	<u>112,944</u>	<u>112,999</u>	<u>55</u>
EXPENDITURES			
Treasurer's fees	1,577	1,054	523
Transfer to District No. 1	111,321	111,945	(624)
Emergency reserve	<u>46</u>	<u>-</u>	<u>46</u>
Total Expenditures	<u>112,944</u>	<u>112,999</u>	<u>(55)</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.

AVIATION STATION NORTH METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2019

Note 1: Summary of Significant Accounting Policies

The accounting policies of the Aviation Station North Metropolitan District No. 2 (District), located in the City and County of Denver, Colorado (Denver), 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, a quasi-municipal corporation and political subdivision of the State of Colorado, was organized on May 29, 2013, and is governed pursuant to the provisions of the Colorado Special District Act (Title 32, Article 1, Colorado Revised Statutes). The District's service area is generally located south of 71st Avenue, north of 56th Avenue, west of Tower Road and east of Pena Boulevard, in Denver, Colorado. The District was established to provide for the planning, design, acquisition, construction, installation, relocation, operation and maintenance, repair and replacement of all public infrastructure and services within and without the 61st Avenue Aviation Station (the Project), including without limitation, all streets, safety protection, water, sewer, storm drainage, transportation, mosquito control and park and recreation facilities (the Improvements). The District was organized under a multiple district structure with Aviation Station North Metropolitan Districts No. 1 and No. 3 through 6 (collectively, the Aviation Districts), and in conjunction with Smith Metropolitan District No. 1 through 4 (collectively, the Smith Districts). Through the execution of a Memorandum of Understanding (MOU), Aviation Station North Metropolitan District No. 1 (Aviation 1) will finance, own, acquire, operate, and maintain any or all of the Improvements and services needed to serve the Project with financing provided by the District and/or Aviation Station North Metropolitan District Nos. 3-6. On July 27, 2015, Aviation 1 and Aviation Station North Metropolitan District No. 5 (Aviation 5) executed a Partial Termination of MOU, whereby Aviation 5 was released from further obligations and rights to services established under the MOU, with the exception of certain agreements related to Pena Station Improvements and related financing.

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.

AVIATION STATION NORTH METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2019

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.

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.

AVIATION STATION NORTH METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2019

The District reports the following major governmental funds:

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

Debt Service Fund – The Debt Service Fund is used to account for 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 2019, the District amended its total appropriations in the Debt Service Fund from \$35,796 to \$700,000 due to an increase in interest expense resulting from the issuance of bonds, and in the Capital Projects Fund from \$0 to \$25,000,000 due to costs relating to the issuance of bonds, and transfers of bond proceeds to Aviation 1.

During 2019, the District's expenditures in the General Fund exceeded the total amount appropriated, this may be in violation of State budget law.

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, 2019, 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.

AVIATION STATION NORTH METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2019

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

Estimates

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

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. At December 31, 2019, the District did not have any capital assets.

AVIATION STATION NORTH METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2019

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 \$20 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 \$5,251,044 is restricted for the payment of the debt service costs associated with the Series 2019A Bonds (see Note 3).

AVIATION STATION NORTH METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2019

The restricted fund balance in the Capital Projects Fund in the amount of \$15,014,826 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 of 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.

AVIATION STATION NORTH METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements
December 31, 2019

Note 2: Cash and Investments

As of December 31, 2019, cash is classified in the accompanying financial statements as follows:
Statement of Net Position:

Cash and investments - restricted	\$ <u>20,259,559</u>
Total	\$ <u>20,259,559</u>

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

COLOTRUST	\$ <u>20,259,559</u>
Total	\$ <u>20,259,559</u>

Deposits

Custodial Credit Risk

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

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

Investments

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.

AVIATION STATION NORTH METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2019

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.

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

COLOTRUST

The local government investment pool, Colorado Local Government Liquid Asset Trust ("COLOTRUST") is rated AAAM by Standard & Poor's with a weighted average maturity of under 60 days. COLOTRUST is an investment trust/joint venture established for local government entities in Colorado to pool surplus funds. The State Securities Commissioner administers and enforces all State statutes governing COLOTRUST. COLOTRUST records its investments at fair value and the District records its investment in COLOTRUST using the net asset value method. COLOTRUST operates similarly to a money market fund with each share maintaining a value of \$1.00. COLOTRUST offers shares in two portfolios, COLOTRUST PRIME and COLOTRUST PLUS+. Both investments consist of U.S. Treasury bills and notes and repurchase agreements collateralized by U.S. Treasury securities. COLOTRUST PLUS+ may also invest in certain obligations of U.S. government agencies, highest rated commercial paper and repurchase agreements collateralized by certain obligations of U.S. government agencies. Designated custodian banks provide safekeeping and depository services to COLOTRUST. Substantially all securities owned by COLOTRUST are held by the Federal Reserve Bank in the accounts maintained for the custodian banks. The custodians' internal records identify the investments owned by COLOTRUST. At December 31, 2019, the District had \$20,259,559 invested in COLOTRUST.

Note 3: Long Term Debt

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

\$25,015,000 Limited Tax General Obligation Refunding and Improvement Bonds, Series 2019A and \$4,779,000 Subordinate Limited Tax General Obligation Bonds, Series 2019B

On July 23, 2019, the District issued \$25,015,000 Limited Tax General Obligation Refunding and Improvement Bonds, Series 2019A (Series 2019A Bonds) and \$4,779,000 Subordinate Limited Tax General Obligation Bonds, Series 2019B (Series 2018B Bonds), together (the Bonds), for the purpose of funding a portion of the costs of acquiring, constructing and/or installing certain public improvements, refunding the Hensel Loan as defined in Note 4, paying the cost of issuance of the Bonds, and, with respect to the Series 2019A Bonds only, funding the Refunding Project (as defined in the Limited Offering Memorandum), paying the cost of issuance of the Bonds, funding a reserve fund and funding capitalized interest.

AVIATION STATION NORTH METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements
December 31, 2019

The Series 2019A Bonds bear interest at the rates of 4.000% to 5.000%, payable semiannually on each June 1 and December 1, commencing on December 1, 2019 and mature on December 1, 2048. The Series 2019B Bonds bear interest at the rate of 7.750%, payable annually on December 15, commencing on December 15, 2019, to the extent that Subordinate Pledged Revenue is available, and mature on December 15, 2048. The Series 2019A Bonds are subject to a mandatory sinking fund redemption commencing on December 1, 2022 and are subject to optional 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 September 1, 2024, upon payment of par, accrued interest, and a redemption premium that ranges between 0% and 3%. The 2019B Bonds are subject to optional mandatory redemption prior to maturity at the prices and upon the terms set forth in the Limited Offering Memorandum.

The Series 2019A Bonds are secured by the Senior Property Tax Revenue, the portion of the Specific Ownership Tax which is collected as a result of the Senior Required Mill Levy, all Senior PILOT revenue, all Pledged PIF Revenue and any other legally available moneys as determined by the District. The Series 2019A Bonds are also secured by the Senior Reserve Fund. The Series 2019B Bonds are secured by the Subordinate Property Tax Revenue, the portion of the Specific Ownership Tax which is collected as a result of the Subordinate Required Mill Levy all Subordinate PILOT revenue, all Subordinate Pledged PIF Revenue and any other legally available monies as determined by the District.

The 2019B bonds are “cash flow” bonds meaning that no regularly scheduled principal payments are due prior to the maturity date, and interest not paid will accrue and compound until there is sufficient Subordinate Pledged Revenue for payment. In the event any amounts due and owing on the 2019B Bonds remain outstanding on December 15, 2058, such amounts shall be deemed discharged and shall no longer be due and outstanding.

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

	Balance 1/1/2019	Additions	Deletions	Balance 12/31/2019	Current Portion
General Obligation Limited Tax Bonds Series 2019A	\$ -	\$25,015,000	\$ -	\$25,015,000	\$ -
Subordinate General Obligation Limited Tax Bonds Series 2019B	-	4,779,000	-	4,779,000	-
Premium on 2019A Bonds	-	757,273	12,424	744,849	-
Total	<u>\$ -</u>	<u>\$30,551,273</u>	<u>\$ 12,424</u>	<u>\$30,538,849</u>	<u>\$ -</u>

AVIATION STATION NORTH METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements
December 31, 2019

The following is a summary of the annual long-term debt principal and interest requirements for the Series 2019A Bonds.

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ -	\$ 1,225,400	\$ 1,225,400
2021	-	1,225,400	1,225,400
2022	5,000	1,225,400	1,230,400
2023	5,000	1,225,200	1,230,200
2024	350,000	1,225,000	1,575,000
2025-2029	2,175,000	5,894,000	8,069,000
2030-2034	3,160,000	5,327,750	8,487,750
2035-2039	4,500,000	4,410,750	8,910,750
2040-2044	6,260,000	3,118,500	9,378,500
2045-2048	<u>8,560,000</u>	<u>1,242,750</u>	<u>9,802,750</u>
	<u>\$ 25,015,000</u>	<u>\$ 26,120,150</u>	<u>\$ 51,135,150</u>

Because of the uncertainty of the timing of the principal and interest payment on the Series 2019B Bonds, no schedule of principal and interest payments is presented.

Debt Authorization

At an election held on November 5, 2013, the voters of the Aviation Districts and the Smith Districts authorized the issuance of general obligation debt in the total aggregate amount of \$500,000,000 (Aggregate Debt Cap). Pursuant to Intergovernmental Agreements Regarding Debt Allocation, executed in June and August 2015, the Aviation Districts, exclusive of Aviation 5, are allocated \$359,969,737 of the total \$500,000,000 Aggregate Debt Cap. Aviation 5 is allocated \$30,819,736 in total debt authorization and the Smith Districts were allocated the sum of \$109,210,527. As of December 31, 2019, the District had \$311,365,345 remaining authority under the Service Plan and the aforementioned Intergovernmental Agreements Regarding Debt Allocation.

Note 4: Other Agreements

Capital Pledge Agreements

On June 2, 2015, the District entered into a Capital Pledge Agreement with Aviation 1 and Hensel Phelps Construction Co. (General Contractor), whereby the District agreed to pledge certain revenues to the Aviation 1 to facilitate the repayment of the amount due under the Loan Agreement by and between Aviation 1 and General Contractor (Hensel Loan) from the imposition of a mill levy as determined each year pursuant to the Capital Pledge Agreement (Required Mill Levy). The Required Mill Levy is the ad valorem mill levy necessary to make required payments to the General Contractor under the Hensel Loan, provided that the mill levy would not cause the District to exceed the maximum amounts permitted under its Service Plan, the November 2013 election or any other applicable law. The District is required to remit the pledged revenues to Aviation 1 immediately upon receipt.

AVIATION STATION NORTH METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2019

On June 12, 2015, the District and Aviation 1 entered into a Capital Pledge Agreement (the Mill Levy 10 Pledge Agreement) whereby the District agreed to pledge certain revenues generated from the District's imposition of the Aviation Station Mill Levy Ten to Aviation 1 for the purpose of repayment of the Reimbursement Obligation (defined below).

On June 12, 2015, the District and Aviation 1 entered into a certain Capital Pledge Agreement (Mill Levy 3 Pledge Agreement) whereby the District agreed to pledge certain revenues generated from the District's imposition of the Aviation Station Mill Levy Three to Aviation 1 for the purpose of repayment of the Additional Reimbursement Obligation (defined below).

Project Improvements Reimbursement Agreement

On June 12, 2015, Aviation 1, Smith Metropolitan District No. 1 (Smith 1) and Denver, on behalf of the Department of Aviation (DIA), entered into a Project Improvements Reimbursement Agreement (PIRA) whereby Aviation 1 and Smith 1 set forth the terms of the payment of the Reimbursement Obligation (as defined in the PIRA). Denver agreed to fund a portion of the costs allocated to Aviation 1 and Smith 1 for certain project improvements in the amount of \$17,000,000. Both Aviation 1 and Smith 1 agreed to impose a mill levy of ten mills on all taxable property within their respective boundaries (the Aviation Station Mill Levy Ten and the Smith Mill Levy Ten, respectively) for the purpose of paying principal and interest on the Reimbursement Obligation on a joint and several basis. Further, the PIRA contemplates that at such time any real property is included within any of the Aviation Districts or the Smith Districts such applicable Aviation District or Smith District will be required to execute a pledge agreement whereby such district will agree to impose the Aviation Mill Levy Ten or the Smith Mill Levy Ten, as applicable, and remit the revenues therefrom to UMB Bank, n.a., pursuant to the Custodial Agreement (described below).

Additional Project Improvements Reimbursement Agreement

On June 12, 2015, Aviation 1 and Denver, on behalf of DIA, entered into the Additional Project Improvements Reimbursement Agreement (the APIRA), whereby Denver agreed to fund a portion of Aviation 1's share of costs associated with additional public improvements in the amount of \$3,000,000 (the Additional Reimbursement Obligation) and Aviation 1 agreed to repay that amount. Aviation 1 agreed to impose a mill levy in the amount of 3 mills upon all taxable property within each of the Aviation Districts (the Aviation Station Mill Levy Three). Further, the APIRA contemplates that at such time any real property is included within any of the Aviation Districts such applicable Aviation District will be required to execute a pledge agreement whereby such district will agree to impose the Aviation Station Mill Levy Three and remit the revenues to Aviation 1 for the purpose of repaying the Additional Reimbursement Obligation.

AVIATION STATION NORTH METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2019

Custodial Agreement

On June 12, 2015, Aviation 1, Smith 1, the District, Denver and UMB Bank, n.a., entered into that certain Custodial Agreement relating to the Reimbursement Obligation (defined above) in the principal amount of \$17,000,000.00, as agreed to in the PIRA. The Custodial Agreement establishes the obligations of UMB Bank, n.a., as custodian of the Reimbursement Obligation Fund (as defined in the Custodial Agreement).

Facilities Funding, Construction and Operations Agreement

On July 8, 2019, the District, Aviation 1, Aviation Station North Metropolitan District No. 3 (Aviation 3), Aviation Station North Metropolitan District No. 4 and Aviation Station North Metropolitan District No. 6 entered into a Facilities Funding, Construction and Operations Agreement, effective January 1, 2019 (FFCOA). Pursuant to the FFCOA, Aviation 1 accepts responsibility for constructing, designing, financing and operating the Public Improvements (as defined in the FFCOA) that benefit the Aviation Districts and establishes the Aviation Districts' obligation to pay for the services and benefit of the Public Improvements received from Aviation 1 by the issuance of bonds and remittance of proceeds thereof to Aviation 1 or a pledge of revenues to Aviation 1 or the Issuing District.

Declaration of Covenants Imposing and Implementing the Aviation Station North Public Improvement Fee (the PIF Covenant)

On June 12, 2015, Rail Stop LLC (Developer) executed the PIF Covenant and caused the same to be recorded in the real property records of Denver County against real property located within the boundaries of the Aviation Station North Metropolitan Districts Nos. 1-4 and 6 (the PIF Covenant Area). The PIF Covenant was further amended in July, 2019. The PIF Covenant obligates retailers located within the PIF Covenant Area to collect a public improvement fee in the amount of 1% of all PIF Sales that occur within the PIF Covenant Area. A PIF Sale is a transaction which is either subject to lodging taxation pursuant to Denver's lodging tax ordinance or subject to a sales tax pursuant to Denver's sales tax ordinance (collectively, the PIF Revenues). Under the PIF Covenant, the PIF Revenues are intended to pay for eligible public improvements and may be pledged to repay bonded indebtedness of the District.

Senior Capital Pledge Agreement

On July 1, 2019, the District, and UMB Bank, n.a. entered into a Senior Capital Pledge Agreement (the Senior Pledge Agreement) whereby Aviation 3 agreed to pledge certain revenues generated from Aviation 3's imposition of the Senior Required Mill Levy (as defined in the Senior Pledge Agreement) to the District for the purpose of repayment of the Senior Payment Obligation (as defined in the Senior Pledge Agreement).

AVIATION STATION NORTH METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2019

Subordinate Capital Pledge Agreement

On July 1, 2019, the District, Aviation 3 and UMB Bank, n.a. entered into a Subordinate Capital Pledge Agreement (the Subordinate Pledge Agreement) whereby Aviation 3 agreed to pledge certain revenues generated from Aviation 3's imposition of the Subordinate Required Mill Levy (as defined in the Subordinate Pledge Agreement to the District for the purpose of repayment of the Subordinate Payment Obligation (as defined in the Subordinate Pledge Agreement).

Declaration of Payment in Lieu of Taxes (PILOT)

In July, 2019, the Developer executed and caused to be recorded in the real property records of the County of Denver, the PILOT. The PILOT named the District and Aviation 3 as beneficiaries thereof. The PILOT was recorded against the real property contained within the boundaries of the District and Aviation 3. The PILOT obligates any owner of real property that is exempt from taxation to pay the District or Aviation 3, as applicable, an annual amount of revenue that would be derived from the imposition of a debt service mill levy and operating mill levy of the District or Aviation 3, as applicable. The determination of the revenue will be based off the most recent certified assessed value of any tax-exempt property or property within the District or Aviation 3 owned by a Tax-Exempt Entity (as defined in the PILOT). The PILOT revenue may be pledged to the repayment of bonded indebtedness of the District or Aviation 3.

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.

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

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

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

On November 5, 2013, 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.

AVIATION STATION NORTH METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2019

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 Party

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

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 have the following elements:

- 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 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.

AVIATION STATION NORTH METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements
December 31, 2019

Note 9: Subsequent Events

The District has evaluated events from December 31, 2019 through the date the financial statements were issued and determined there are no subsequent events requiring disclosure.

SUPPLEMENTAL INFORMATION

Aviation Station North Metropolitan District No. 2

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

For the Year Ended December 31, 2019

	Original <u>Budget</u>	Final <u>Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
REVENUES				
Property taxes	\$ 34,162	\$ 34,162	\$ 34,269	\$ 107
PIF income	-	6,500	6,311	(189)
Specific ownership taxes	1,634	250	2,455	2,205
Interest income	<u>-</u>	<u>40,000</u>	<u>41,231</u>	<u>1,231</u>
Total Revenues	<u>35,796</u>	<u>80,912</u>	<u>84,266</u>	<u>3,354</u>
EXPENDITURES				
Bond interest expense	-	600,000	435,698	164,302
Treasurer's fees	512	512	343	169
Transfer to District No. 1	<u>35,284</u>	<u>99,488</u>	<u>36,381</u>	<u>63,107</u>
Total Expenditures	<u>35,796</u>	<u>700,000</u>	<u>472,422</u>	<u>227,578</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES				
	-	(619,088)	(388,156)	230,932
OTHER FINANCING SOURCES (USES)				
Transfers (to)/from other funds	<u>-</u>	<u>5,640,000</u>	<u>5,639,200</u>	<u>(800)</u>
Total Other Financing Sources (Uses)	<u>-</u>	<u>5,640,000</u>	<u>5,639,200</u>	<u>(800)</u>
NET CHANGE IN FUND BALANCE				
	-	5,020,912	5,251,044	230,132
FUND BALANCE:				
BEGINNING OF YEAR	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
END OF YEAR	<u>\$ -</u>	<u>\$ 5,020,912</u>	<u>\$ 5,251,044</u>	<u>\$ 230,132</u>

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

Aviation Station North Metropolitan District No. 2

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

For the Year Ended December 31, 2019

	Original <u>Budget</u>	Final <u>Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
REVENUES				
Interest income	\$ -	\$ 150,000	\$ 132,655	\$ (17,345)
Total Revenues	<u>-</u>	<u>150,000</u>	<u>132,655</u>	<u>(17,345)</u>
EXPENDITURES				
Bond issuance costs	-	1,050,000	1,010,829	39,171
Transfer to District No. 1	-	18,250,000	9,019,073	9,230,927
Total Expenditures	<u>-</u>	<u>19,300,000</u>	<u>10,029,902</u>	<u>9,270,098</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	-	(19,150,000)	(9,897,247)	9,252,753
OTHER FINANCING SOURCES (USES)				
Bond proceeds	-	30,560,000	29,794,000	(766,000)
Premium on bonds	-	-	757,273	757,273
Transfers (to)/from other funds	-	(5,700,000)	(5,639,200)	60,800
Total Other Financing Sources (Uses)	<u>-</u>	<u>24,860,000</u>	<u>24,912,073</u>	<u>52,073</u>
NET CHANGE IN FUND BALANCE	-	5,710,000	15,014,826	9,304,826
FUND BALANCE:				
BEGINNING OF YEAR	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
END OF YEAR	<u>\$ -</u>	<u>\$ 5,710,000</u>	<u>\$ 15,014,826</u>	<u>\$ 9,304,826</u>

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