

Powhatan Road Metropolitan District No. 2

Financial Statements

Year Ended December 31, 2019

with

Independent Auditors' Report

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HIRATSUKA & ASSOCIATES, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Powhaton Road Metropolitan District No. 2
Arapahoe County, Colorado

We have audited the accompanying financial statements of the governmental activities and each major fund of the Powhaton Road Metropolitan District No. 2 (the District), Arapahoe County, Colorado, as of and for the year ended December 31, 2019, 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 (U.S. GAAP); 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 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 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 that 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 financial position of the governmental activities and each major fund of Powhaton Road Metropolitan District No. 2, Arapahoe County, Colorado, as of December 31, 2019, and the respective changes in financial position and the budgetary comparison for the General Fund for the year then ended in conformity with U.S. GAAP.

Other Matters

Required Supplementary Information

Management has not presented Management's Discussion and Analysis. Such missing information, although not a part of the basic financial statements, is required by GASB, 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 the missing information.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Capital Projects Fund, Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Debt Service Fund and Summary of Assessed Valuation, Mill Levy and Property Taxes Collected were presented for the purpose of additional analysis and were not a required part of the financial statements.

The Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Capital Projects Fund, Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Debt Service Fund and Summary of Assessed Valuation, Mill Levy and Property Taxes Collected are the responsibility of management and were derived from and relate 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 the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Hiratsuka & Associates, LLP

September 29, 2020
Wheat Ridge, Colorado

Powhatan Road 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>	Statement of <u>Net Position</u>
ASSETS						
Cash and investments - restricted	\$ -	\$ 2,024,607	\$ -	\$ 2,024,607	\$ -	\$ 2,024,607
Receivable - County Treasurer	541	-	-	541	-	541
Property taxes receivable	139,872	437,100	-	576,972	-	576,972
Receivable District No. 1	<u>42,333</u>	<u>-</u>	<u>-</u>	<u>42,333</u>	<u>-</u>	<u>42,333</u>
Total Assets	<u>\$ 182,746</u>	<u>\$ 2,461,707</u>	<u>\$ -</u>	<u>\$ 2,644,453</u>	<u>-</u>	<u>2,644,453</u>
LIABILITIES						
Accrued interest	\$ -	\$ -	\$ -	\$ -	140,816	140,816
Long-term liabilities:						
Due in more than one year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,925,000</u>	<u>10,925,000</u>
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,065,816</u>	<u>11,065,816</u>
DEFERRED INFLOWS OF RESOURCES						
Deferred property taxes	<u>139,872</u>	<u>437,100</u>	<u>-</u>	<u>576,972</u>	<u>-</u>	<u>576,972</u>
Total Deferred Inflows of Resources	<u>139,872</u>	<u>437,100</u>	<u>-</u>	<u>576,972</u>	<u>-</u>	<u>576,972</u>
FUND BALANCES/NET POSITION						
Fund Balances:						
Restricted:						
Emergencies	59	-	-	59	(59)	-
Debt service	-	2,024,607	-	2,024,607	(2,024,607)	-
Unassigned	<u>42,815</u>	<u>-</u>	<u>-</u>	<u>42,815</u>	<u>(42,815)</u>	<u>-</u>
Total Fund Balances	<u>42,874</u>	<u>2,024,607</u>	<u>-</u>	<u>2,067,481</u>	<u>(2,067,481)</u>	<u>-</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 182,746</u>	<u>\$ 2,461,707</u>	<u>\$ -</u>	<u>\$ 2,644,453</u>		
Net Position:						
Restricted for:						
Emergencies					59	59
Debt service					1,883,791	1,883,791
Unrestricted					<u>(10,882,185)</u>	<u>(10,882,185)</u>
Total Net Position					<u>\$ (8,998,335)</u>	<u>\$ (8,998,335)</u>

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

Powhatan Road 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	\$ -	\$ -	\$ 483,738	\$ 483,738	\$ -	\$ 483,738
Transfer to District No. 1	414,000	-	8,035,203	8,449,203	-	8,449,203
Treasurer's fees	1,240	-	-	1,240	-	1,240
Bond interest expense	<u>-</u>	<u>426,688</u>	<u>-</u>	<u>426,688</u>	<u>140,816</u>	<u>567,504</u>
Total Expenditures	<u>415,240</u>	<u>426,688</u>	<u>8,518,941</u>	<u>9,360,869</u>	<u>140,816</u>	<u>9,501,685</u>
GENERAL REVENUES						
Property taxes	82,635	-	-	82,635	-	82,635
Specific ownership taxes	6,479	-	-	6,479	-	6,479
Interest income	-	41,045	4,191	45,236	-	45,236
Facility Fees	<u>369,000</u>	<u>-</u>	<u>-</u>	<u>369,000</u>	<u>-</u>	<u>369,000</u>
Total General Revenues	<u>458,114</u>	<u>41,045</u>	<u>4,191</u>	<u>503,350</u>	<u>-</u>	<u>503,350</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES						
	42,874	(385,643)	(8,514,750)	(8,857,519)	(140,816)	(8,998,335)
OTHER FINANCING SOURCES (USES)						
Bond proceeds	-	-	10,925,000	10,925,000	(10,925,000)	-
Transfers (to)/from other funds	<u>-</u>	<u>2,410,250</u>	<u>(2,410,250)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>-</u>	<u>2,410,250</u>	<u>8,514,750</u>	<u>10,925,000</u>	<u>(10,925,000)</u>	<u>-</u>
NET CHANGES IN FUND BALANCES						
	42,874	2,024,607	-	2,067,481	(2,067,481)	
CHANGE IN NET POSITION						
					(8,998,335)	(8,998,335)
FUND BALANCES/NET POSITION:						
BEGINNING OF YEAR	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
END OF YEAR	<u>\$ 42,874</u>	<u>\$ 2,024,607</u>	<u>-</u>	<u>\$ 2,067,481</u>	<u>\$ (11,065,816)</u>	<u>\$ (8,998,335)</u>

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

Powhaton Road 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

	<u>Original</u> <u>Budget</u>	<u>Final</u> <u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
REVENUES				
Property taxes	\$ 82,635	\$ 82,635	\$ 82,635	\$ -
Specific ownership taxes	6,700	6,200	6,479	279
Interest income	-	1,165	-	(1,165)
Facility Fees	<u>-</u>	<u>360,000</u>	<u>369,000</u>	<u>9,000</u>
Total Revenues	<u>89,335</u>	<u>450,000</u>	<u>458,114</u>	<u>8,114</u>
EXPENDITURES				
Transfer to District No. 1	45,000	447,557	414,000	33,557
Treasurer's fees	1,241	1,241	1,240	1
Contingency	43,059	1,165	-	1,165
Emergency reserve	<u>37</u>	<u>37</u>	<u>-</u>	<u>37</u>
Total Expenditures	<u>89,337</u>	<u>450,000</u>	<u>415,240</u>	<u>34,760</u>
NET CHANGE IN FUND BALANCE	(2)	-	42,874	42,874
FUND BALANCE:				
BEGINNING OF YEAR	<u>2</u>	<u>-</u>	<u>-</u>	<u>-</u>
END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 42,874</u>	<u>\$ 42,874</u>

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

Powhaton Road Metropolitan District No. 2

Notes to Financial Statements December 31, 2019

Note 1: Summary of Significant Accounting Policies

The accounting policies of the Powhaton Road Metropolitan District No. 2 (“District”), located in Arapahoe County, Colorado, conform to the accounting principles generally accepted in the United States of America (“GAAP”) as applicable to governmental units. The Governmental Accounting Standards Board (“GASB”) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant policies consistently applied in the preparation of financial statements.

Definition of Reporting Entity

The District was initially organized as Sand Creek Ranch Metropolitan District No. 2 on January 9, 2004 as a quasi-municipal organization established under the State of Colorado Special District Act. On May 31, 2013 an order was recorded to change the name of the District from Sand Creek Ranch Metropolitan District No. 2 to Powhaton Road Metropolitan District No. 2. The District was organized in conjunction with Powhaton Road Metropolitan District No. 1 (formerly known as Sand Creek Ranch Metropolitan District No. 1) (“District No. 1”), Powhaton Road Metropolitan District No. 3 (formerly known as Sand Creek Ranch Metropolitan District No. 3) (“District No. 3”), Powhaton Road Metropolitan District No. 4 (formerly known as Starfall Metropolitan District No. 2) (“District No. 4”), Powhaton Road Metropolitan District No. 5 (formerly known as Starfall Metropolitan District No. 2) (“District No. 5”), Powhaton Road Metropolitan District No. 6 (formerly known as Trails at First Creek Metropolitan District No. 2) (“District No. 6”), and Powhaton Road Metropolitan District No. 7 (formerly known as Trails at First Creek Metropolitan District No. 2) (“District No. 7”) and, together with the District, District No. 1, District No. 3, District No. 4, District No. 5, District No. 6 and District No. 7, the “Districts”) pursuant to an Amended and Restated Service Plan for the Districts approved by the City Council of the City of Aurora on July 22, 2013 (the “Service Plan”). The Districts were formed for the purpose of financing the construction of part or all of the Public Improvements for the use and benefit of all anticipated inhabitants and taxpayers of the Districts. The District is governed by an elected Board of Directors.

As required by GAAP, these financial statements present the activities of the District, which is legally separate and financially independent of other state and local governments. The District follows the GASB Statement No. 61, *The Financial Reporting Entity: Omnibus, which amended GASB Statement No. 24, The Financial Reporting Entity* and GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, which provides 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.

Powhatan Road Metropolitan District No. 2

Notes to Financial Statements December 31, 2019

Financial accountability includes, but is not limited to, appointment of a voting majority of the organization's governing body, ability to impose its will on the organization, a potential for the organization to provide specific financial benefits or burdens and fiscal dependency. The pronouncements also require including a possible component unit if it would be misleading to exclude it.

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

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

Basis of Presentation

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

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.

Powhaton Road Metropolitan District No. 2

Notes to Financial Statements December 31, 2019

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 developer advances. Expenditures, other than interest on long-term obligations, are recorded when the liability is incurred or the long-term obligation is paid.

The District reports the following major governmental funds:

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

Debt Service Fund – The Debt Service Fund is used to account for all financial resources that are restricted, committed or assigned to expenditures for principal, interest and other debt related costs.

Capital Projects Fund – The Capital Projects Fund is used to account for all financial resources that are restricted, committed or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other assets.

Budgetary Accounting

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

During 2019, the District amended its total appropriations in the General Fund from \$89,337 to \$450,000 due to increased transfers to Powhaton Road Metropolitan District No. 1 and its total appropriations in the Debt Service Fund from \$202,250 to \$450,000 due to increased bond interest expenditures.

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.

Powhatan Road Metropolitan District No. 2

Notes to Financial Statements December 31, 2019

Deposits and Investments

The District's cash and cash equivalents are considered to be cash on hand and short-term investments with maturities of three months or less from the date of acquisition. Investments for the government are reported at fair value.

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

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 does not have any 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 type of item that qualifies for reporting in this category. This item is deferred property taxes. Deferred property taxes are deferred and recognized as an inflow of resources in the period that the amounts become available.

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities.

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:

Powhatan Road Metropolitan District No. 2

Notes to Financial Statements December 31, 2019

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.

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. Only positive amounts are reported in the General Fund, all other funds can report negative amounts.

For the classification of Governmental Fund balances, the District considers an expenditure to be made from the most restrictive first when more than one classification is available.

Net Position

Net Position represents the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources. The District can report three categories of net position, as follows:

Net investment in capital assets – consists of net capital assets, reduced by outstanding balances of any related debt obligations and deferred inflows of resources attributable to the acquisition, construction, or improvement of those assets and increased by balances of deferred outflows or resources related to those assets. The District has no balance to report at December 31, 2019.

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.

Powhaton Road Metropolitan District No. 2

Notes to Financial Statements
December 31, 2019

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

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

Note 2: Cash and Investments

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

Statement of Net Position:

Cash and investments -restricted	\$ <u>2,024,607</u>
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Cash and investments as of December 31, 2019, consist of the following:

COLOTRUST	\$ <u>2,024,607</u>
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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

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 are not required to be categorized within the fair value hierarchy. This investment’s value for COLOTRUST is calculated using the net asset value method (NAV) per share.

Powhaton Road Metropolitan District No. 2

Notes to Financial Statements December 31, 2019

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.

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 ventures established for local government entities in Colorado to pool surplus funds. The State Securities Commissioner administers and enforces all State statutes governing the Trust. COLOTRUST records its investments at fair value and the District records its investment in COLOTRUST using the net asset value method. The trusts operate similarly to a money market fund with each share maintaining a value of \$1.00. The Trust 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 the trusts. Substantially all securities owned by the trusts 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 \$2,024,607 invested in COLOTRUST.

Powhatan Road Metropolitan District No. 2

Notes to Financial Statements
December 31, 2019

Note 3: Long Term Debt

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

\$9,515,000 Limited Tax (Convertible to Unlimited Tax) General Obligation Bonds, Series 2019A and \$1,410,000 Subordinate Limited Tax General Obligation Bonds, Series 2019B

On February 14, 2019, the District issued its \$9,515,000 Limited Tax (Convertible to Unlimited Tax) General Obligation Bonds, Series 2019A (Series 2019A Bonds) and its \$1,410,000 Subordinate Limited Tax General Obligation Bonds, Series 2019B (“Series 2019B Bonds” and together with the Series 2019 A Bonds, the “Bonds”) for the purpose of funding and reimbursing a portion of the costs of acquiring, constructing and/or installing certain public infrastructure, paying the cost of issuance of the Bonds, and, with respect to the Series 2019A Bonds only, funding the Senior Reserve Fund and funding a portion of interest to accrue on the Series 2019A Bonds.

The Series 2019A Bonds bear interest at the rate of 5.625%, payable semiannually on each June 1 and December 1, commencing on June 1, 2019. 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. The Series 2019A Bonds are subject to a mandatory sinking fund redemption commencing on December 1, 2024 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, 2023, upon payment of par, accrued interest, and a redemption premium that ranges between 0% and 3%. The Series 2019B Bonds 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, 2023, upon payment of par, accrued interest, and a redemption premium that ranges between 0% and 3%.

The Series 2019A Bonds are secured by the Senior Required Mill Levy, the Capital Fees excluding the Facility Fees collected pursuant to the Facility Fee Resolution, the portion of the Specific Ownership Tax which is collected as a result of the Senior Required Mill Levy, 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 Required Mill Levy, the Subordinate Capital Fee Revenue, if any, the portion of the Specific Ownership Tax which is collected as a result of the Subordinate Required Mill Levy, the amounts, if any, in the Senior Surplus Fund after the termination of such fund pursuant to the Senior Indenture and any other legally available moneys as determined by the District.

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Notes to Financial Statements December 31, 2019

In the event that any amount of the principal of or interest on the Series 2019A Bonds remains unpaid after the application of all the Pledged Revenue available therefor on December 1, 2060 the Series 2019A Bonds and the lien of the Senior Indenture securing payment will be deemed discharged. In the event that any amount of the principal of or interest on the Series 2019B Bonds remains unpaid after the application of all the Pledged Revenue available therefor on December 15, 2060 the Series 2019B Bonds and the lien of the Subordinate Indenture securing payment will be deemed discharged.

Infrastructure Acquisition and Reimbursement Agreement

On February 1, 2019 the District and the Developer entered into an Infrastructure Acquisition Agreement (the "Acquisition Agreement") pursuant to which the District will agree to reimburse the Developer from the proceeds of loans or bonds issued by the District, and/or other legally available funds of the District not otherwise required for reasonable operating costs of the District for costs related to the provision of certain public infrastructure within and without the boundaries of the District that may be lawfully funded by the District under the Special District Act and the Service Plan, including a construction management fee not to exceed 8% and costs related to the formation of the District (the "District Eligible Costs").

The Acquisition Agreement sets forth the procedure for the District's acquisition of public infrastructure not otherwise being dedicated to other governmental entities and for the District's reimbursement of the Developer for District Eligible Costs, including, among other things issuance of a cost certification by the District's accountant or an engineer (after review of the invoices and other material presented to verify payment and substantiate the District Eligible Cost) declaring the total amount of District Eligible Costs associated with the public infrastructure proposed for acquisition or reimbursement (the "Cost Certification"), and a statement that the information is true and accurate and qualifies as a District Eligible Cost; with respect to public infrastructure not dedicated to other governmental entities, a requirement that the Developer's engineer or other appropriate design profession inspect the public infrastructure for compliance with applicable design and construction standards and issue an engineer's certification in form and substance reasonably acceptable to the District stating that the public infrastructure is fit for its intended purpose and that it was constructed substantially in accordance with its design (the "Engineer's Certification") and a requirement for the District Board to adopt a resolution evidencing its acceptance of the public infrastructure and providing for the payment of District Eligible Costs relating thereto, subject to receipt of a satisfactory Cost Certification and Engineer's Certification and satisfaction of any other conditions reasonably required by the District (the "Acquisition Resolution"). The Acquisition Agreement provides that once the District becomes obligated to reimburse the Developer for the District Eligible Costs under the terms of the Acquisition Agreement (such obligation is referred to as the "Repayment Obligation"), such Repayment Obligation is to bear simple interest at a rate of 8% per annum from the date any such Repayment Obligation is incurred, to the earlier of the date a Reimbursement Obligation (as defined below) is issued, or the date of payment of such amount in full.

Powhaton Road Metropolitan District No. 2

Notes to Financial Statements
December 31, 2019

The Acquisition Agreement provides that promptly upon a request from the Developer, but subsequent to adoption of the Acquisition Resolution, the District will tender the amount of the approved District Eligible Costs in the form of loans, reimbursement notes, bonds or other instruments (a “Reimbursement Obligation”) or proceeds, or both, and the Developer will convey the Public Infrastructure to the District by means of a bill of sale or other instrument of conveyance in form and substance reasonably acceptable to the District.

The District’s Repayment Obligation, once created in accordance with the Acquisition Agreement, will not constitute a debt or indebtedness of the District within the meaning of the Colorado Constitution and payment of all Repayment Obligations will be subject to annual appropriation by the District Board, except to the extent amounts due under the Acquisition Agreement have been converted into a Reimbursement Obligation, the payment of which will not be subject to annual appropriation. However, the Acquisition Agreement is expected to state that any Reimbursement Obligation under the Acquisition Agreement is to be subordinate to any bonded indebtedness of the District.

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

	Balance 1/1/2019	Additions	Deletions	Balance 12/31/2019	Current Portion
Series 2019A Bonds	\$ -	\$ 9,515,000	\$ -	\$ 9,515,000	\$ -
Series 2019B Bonds	-	1,410,000	-	1,410,000	-
Total	<u>\$ -</u>	<u>\$10,925,000</u>	<u>\$ -</u>	<u>\$10,925,000</u>	<u>\$ -</u>

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

	Principal	Interest	Total
2020	\$ -	\$ 535,219	\$ 535,219
2021	-	535,219	535,219
2022	-	535,219	535,219
2023	-	535,219	535,219
2024	70,000	535,219	605,219
2025-2029	720,000	2,583,000	3,303,000
2030-2034	1,145,000	2,335,781	3,480,781
2035-2039	1,690,000	1,956,375	3,646,375
2040-2044	2,440,000	1,400,906	3,840,906
2045-2048	3,450,000	565,594	4,015,594
	<u>\$ 9,515,000</u>	<u>\$ 11,517,751</u>	<u>\$ 21,032,751</u>

Powhatan Road Metropolitan District No. 2

Notes to Financial Statements December 31, 2019

Due to the uncertainty of timing of payments under the Series 2019B Bonds, no related schedules of expected principal and interest payments are presented.

Debt Authorization

As of December 31, 2019, the District had remaining voted debt authorization of approximately \$845,575,000. The District has not budgeted to issue new debt during 2020. Per the District's Service Plan, the Districts, can not issue aggregate debt in excess of \$200,000,000.

Note 4: District Agreements

District Coordinating Services IGA

The Districts entered in to a District Coordinating Services Agreement dated October 10, 2017 and made effective as of January 1, 2017 (the "District IGA") for the purpose of establishing their respective obligations with respect to coordination, oversight and funding of certain administrative costs of the Districts and costs related to the continued operation and maintenance of certain of the Public Improvements within the Districts. Pursuant to the District IGA, the District No. 1 will act as the "Coordinating District" and the other Districts, will act as "Financing Districts."

Under the District IGA, the Coordinating District will perform the administrative services described in the District IGA on behalf of the Financing Districts and will own, operate and maintain all Public Improvements within the boundaries of the Districts that are not otherwise dedicated or conveyed to the City, the County or other public entity or owner's association. The Financing Districts are responsible for all costs, fees, charges and expenses incurred by the Coordinating District in providing its services. The District IGA sets forth procedures for developing an annual budget which sets forth costs associated with the administration, operation and maintenance services provided by the Coordinating District and the allocation of costs of such services among each Financing District. The costs of such services may be funded by property taxes imposed by each Financing District within its respective boundary and by fees established from time to time by the Coordinating District. The District IGA provides that any Financing District may terminate the Acquisition Agreement as it relates to the provision of administrative services upon 90 days' written notice to the Coordinating District. Any Financing District may also terminate the District IGA as it relates to the provision of operations and maintenance services after it provides written notice to the other Districts and enters into a termination agreement approved by the other Districts which, among other required provisions, contains provisions relating to paying any outstanding obligations of the Coordinating District incurred prior to the proposed date of termination.

Powhaton Road Metropolitan District No. 2

Notes to Financial Statements December 31, 2019

Facility Fee Resolution

On August 3, 2018, the District adopted a Resolution Concerning the Imposition of the Facilities Fee which was recorded in the real property records of the County on August 7, 2018 (the “Facilities Fees Resolution”), pursuant to which the District imposed a one-time fee in the amount of \$3,000 on each residential unit, including condominium, townhome, and any other attached dwelling unit and detached single family dwelling unit located within the District’s boundaries (the “Facilities Fees”). A Facilities Fee is due and owing upon issuance of a building permit for any residential unit and revenue generated by the Facilities Fees is required to be used by the District solely for the purpose of paying the costs of acquisition, installation, construction, repair, operations and maintenance of Public Improvements. The Facilities Fees constitute the Excluded Fees for purposes of the Indentures (but solely to the extent not in excess of the amount imposed pursuant to the Facilities Fee Resolution, without amendment) and, therefore, are not pledged to the payment of the Bonds.

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 the District 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.

In November 2003 and November 2004, 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.

Powhaton Road 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: Interfund and Operating Transfers

The transfer of \$2,410,250 from the Capital Projects Fund to Debt Service Fund was transferred for the purpose of providing funds for future interest payments and establishing a reserve fund on the Series 2019A Bonds. See Note 3

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

The Governmental Funds Balance Sheet/Statement of Net Position includes an adjustments column. The adjustments may have the following elements:

- 1) Long-term liabilities such as bonds payable and accrued bond interest payable are not due and payable in the current period and, therefore, are not in the funds.

The Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances/Statement of Activities includes an adjustments column. The adjustments may have the following elements:

- 1) Governmental funds report interest expense on the modified accrual basis; however, interest expense is reported on the full accrual method on the Statement of Activities;
- 2) governmental funds report developer advances and/or bond proceeds as revenue; and,
- 3) governmental funds report long-term debt payments as expenditures, however, in the statement of activities, the payment of long-term debt is recorded as a decrease of long-term liabilities.

SUPPLEMENTAL INFORMATION

Powhatan Road 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 (Unfavorable)
REVENUES				
Interest income	\$ 446	\$ 30,000	\$ 41,045	\$ 11,045
Total Revenues	<u>446</u>	<u>30,000</u>	<u>41,045</u>	<u>11,045</u>
EXPENDITURES				
Bond interest expense	197,250	450,000	426,688	23,312
Trustee fees	<u>5,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Expenditures	<u>202,250</u>	<u>450,000</u>	<u>426,688</u>	<u>23,312</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(201,804)	(420,000)	(385,643)	34,357
OTHER FINANCING SOURCES (USES)				
Transfers (to)/from other funds	<u>2,392,075</u>	<u>2,410,250</u>	<u>2,410,250</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>2,392,075</u>	<u>2,410,250</u>	<u>2,410,250</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	2,190,271	1,990,250	2,024,607	34,357
FUND BALANCE:				
BEGINNING OF YEAR	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
END OF YEAR	<u>\$ 2,190,271</u>	<u>\$ 1,990,250</u>	<u>\$ 2,024,607</u>	<u>\$ 34,357</u>

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

Powhatan Road 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 & Final <u>Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
REVENUES			
Interest income	\$ -	\$ 4,191	\$ 4,191
Total Revenues	-	4,191	4,191
EXPENDITURES			
Transfer to District No. 1	8,200,005	8,035,203	164,802
Bond issuance costs	426,920	483,738	(56,818)
Interest on developer advances	-	-	-
Total Expenditures	8,626,925	8,518,941	107,984
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES			
	(8,626,925)	(8,514,750)	112,175
OTHER FINANCING SOURCES (USES)			
Bond proceeds	11,019,000	10,925,000	(94,000)
Transfers (to)/from other funds	(2,392,075)	(2,410,250)	(18,175)
Total Other Financing Sources (Uses)	8,626,925	8,514,750	(112,175)
NET CHANGE IN FUND BALANCE			
	-	-	-
FUND BALANCE:			
BEGINNING OF YEAR	-	-	-
END OF YEAR	\$ -	\$ -	\$ -

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

Powhatan Road Metropolitan District No. 2

SUMMARY OF ASSESSED VALUATION, MILL LEVY
AND PROPERTY TAXES COLLECTED
December 31, 2019

<u>Year Ended December 31,</u>	<u>Prior Year Assessed Valuation for Current Year Property Tax Levy</u>	<u>Mills Levied</u>			<u>Total Property Tax</u>		<u>Percent Collected to Levied</u>
		<u>Fund</u>	<u>Debt Service</u>	<u>Contractual</u>	<u>Levied</u>	<u>Collected</u>	
2019	\$ 1,377,258	60.000	0.000	0.000	\$ 82,635	\$ 82,635	100.00%
Estimated for year ending December 31, 2020	\$ 8,742,000	15.000	50.000	1.000	\$ 576,972		

NOTE

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