

TWO BRIDGES METROPOLITAN DISTRICT

Financial Statements

Year Ended December 31, 2018

with

Independent Auditors' Report

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Dazzio & Associates, PC

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Two Bridges Metropolitan District
Douglas County, Colorado

We have audited the accompanying financial statements of the governmental activities and each major fund of the Two Bridges Metropolitan District as of and for the year December 31, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Two Bridges Metropolitan District, as of December 31, 2018, and the respective changes in financial position and the budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Two Bridges Metropolitan District's basic financial statements. The Schedules of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual, for the Debt Service and Capital Projects Funds (the Supplemental Information) and the Summary of Assessed Valuation, Mill Levy and Property Taxes Collected (the Continuing Disclosure Annual Financial Information) are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Supplemental Information was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplemental Information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Continuing Disclosure Annual Financial Information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Dussio & Associates, P.C.

September 3, 2019

Two Bridges Metropolitan District

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

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
ASSETS						
Cash and investments	\$ 4,500	\$ -	\$ -	\$ 4,500	\$ -	\$ 4,500
Cash and investments - restricted	2,700	544,723	5,011	552,434	-	552,434
Receivable - County Treasurer	798	-	-	798	-	798
Property taxes receivable	21,882	71,383	-	93,265	-	93,265
Developer receivable	44,532	-	21,702	66,234	(15,754)	50,480
Prepaid expenses	350	-	-	350	-	350
Capital assets not being depreciated	-	-	-	-	9,230,746	9,230,746
Total Assets	<u>\$ 74,762</u>	<u>\$ 616,106</u>	<u>\$ 26,713</u>	<u>\$ 717,581</u>	<u>9,214,992</u>	<u>9,932,573</u>
LIABILITIES						
Accounts payable	\$ 52,880	\$ -	\$ 26,713	\$ 79,593	-	79,593
Accrued interest	-	-	-	-	29,224	29,224
Long-term liabilities:						
Due in more than one year	-	-	-	-	11,913,624	11,913,624
Total Liabilities	<u>52,880</u>	<u>-</u>	<u>26,713</u>	<u>79,593</u>	<u>11,942,848</u>	<u>12,022,441</u>
DEFERRED INFLOWS OF RESOURCES						
Deferred property taxes	21,882	71,383	-	93,265	-	93,265
Total Deferred Inflows of Resources	<u>21,882</u>	<u>71,383</u>	<u>-</u>	<u>93,265</u>	<u>-</u>	<u>93,265</u>
FUND BALANCES/NET POSITION						
Fund Balances:						
Nonspendable:						
Prepays	350	-	-	350	(350)	-
Restricted:						
Emergencies	2,700	-	-	2,700	(2,700)	-
Debt service	-	544,723	-	544,723	(544,723)	-
Unassigned	(3,050)	-	-	(3,050)	3,050	-
Total Fund Balances	<u>-</u>	<u>544,723</u>	<u>-</u>	<u>544,723</u>	<u>(544,723)</u>	<u>-</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 74,762</u>	<u>\$ 616,106</u>	<u>\$ 26,713</u>	<u>\$ 717,581</u>		
Net Position:						
Restricted for:						
Emergencies					2,700	2,700
Debt service					515,499	515,499
Unrestricted					(2,701,332)	(2,701,332)
Total Net Position					<u>\$ (2,183,133)</u>	<u>\$ (2,183,133)</u>

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

Two Bridges Metropolitan District

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES/STATEMENT OF ACTIVITIES GOVERNMENTAL FUNDS For the Year Ended December 31, 2018

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
EXPENDITURES						
Accounting and audit	\$ 22,203	\$ -	-	\$ 22,203	\$ -	\$ 22,203
Election expense	1,227	-	-	1,227	-	1,227
Insurance	9,872	-	-	9,872	-	9,872
Legal	44,043	-	-	44,043	-	44,043
Management fees	37,090	-	-	37,090	-	37,090
Covenant control	10,032	-	-	10,032	-	10,032
Miscellaneous	3,900	-	-	3,900	-	3,900
Utilities	1,404	-	-	1,404	-	1,404
Landscape maintenance	64,824	-	-	64,824	-	64,824
Repairs	728	-	-	728	-	728
Trash	233	-	-	233	-	233
Treasurer's fees	1,182	-	-	1,182	-	1,182
Bond interest expense	-	49,230	-	49,230	29,224	78,454
Bond issuance costs	-	-	278,765	278,765	-	278,765
Capital improvements	-	-	608,704	608,704	(608,704)	-
Repay developer advances	-	-	2,846,229	2,846,229	(2,846,229)	-
Interest on developer advances	-	-	-	-	667,327	667,327
Total Expenditures	<u>196,738</u>	<u>49,230</u>	<u>3,733,698</u>	<u>3,979,666</u>	<u>(2,758,382)</u>	<u>1,221,284</u>
PROGRAM REVENUES						
Homeowner assessments	<u>1,100</u>	-	-	<u>1,100</u>	-	<u>1,100</u>
Total Program Revenues	<u>1,100</u>	-	-	<u>1,100</u>	-	<u>1,100</u>
Net Program Income (Expenses)	(195,638)	(49,230)	(3,733,698)	(3,978,566)	2,758,382	(1,220,184)
GENERAL REVENUES						
Property taxes	78,852	-	-	78,852	-	78,852
Specific ownership taxes	8,339	-	-	8,339	-	8,339
Interest and other income	<u>437</u>	<u>4,204</u>	<u>296</u>	<u>4,937</u>	-	<u>4,937</u>
Total General Revenues	<u>87,628</u>	<u>4,204</u>	<u>296</u>	<u>92,128</u>	-	<u>92,128</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES						
	(108,010)	(45,026)	(3,733,402)	(3,886,438)	2,758,382	(1,128,056)
OTHER FINANCING SOURCES (USES)						
Bond proceeds	-	-	3,723,000	3,723,000	(3,723,000)	-
Developer advances	48,694	-	600,151	648,845	(648,845)	-
Transfers (to)/from other funds	<u>-</u>	<u>589,749</u>	<u>(589,749)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>48,694</u>	<u>589,749</u>	<u>3,733,402</u>	<u>4,371,845</u>	<u>(4,371,845)</u>	<u>-</u>
NET CHANGES IN FUND BALANCES						
	(59,316)	544,723	-	485,407	(485,407)	
CHANGE IN NET POSITION						
					(1,128,056)	(1,128,056)
FUND BALANCES/NET POSITION:						
BEGINNING OF YEAR- RESTATED	<u>59,316</u>	<u>-</u>	<u>-</u>	<u>59,316</u>	<u>(1,114,393)</u>	<u>(1,055,077)</u>
END OF YEAR	<u>\$ -</u>	<u>\$ 544,723</u>	<u>-</u>	<u>\$ 544,723</u>	<u>\$ (2,727,856)</u>	<u>\$ (2,183,133)</u>

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

Two Bridges Metropolitan District

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

For the Year Ended December 31, 2018

	Original & Final		Variance
	<u>Budget</u>	<u>Actual</u>	<u>Favorable (Unfavorable)</u>
REVENUES			
Property taxes	\$ 78,852	\$ 78,852	\$ -
Specific ownership taxes	4,731	8,339	3,608
Interest income	-	437	437
Homeowner assessments	<u>7,200</u>	<u>1,100</u>	<u>(6,100)</u>
Total Revenues	<u>90,783</u>	<u>88,728</u>	<u>(2,055)</u>
EXPENDITURES			
Accounting and audit	17,555	22,203	(4,648)
Election expense	2,000	1,227	773
Insurance	3,639	9,872	(6,233)
Legal	20,000	44,043	(24,043)
Management fees	29,537	37,090	(7,553)
Covenant control	10,000	10,032	(32)
Wildlife management	2,000	-	2,000
Miscellaneous	1,800	3,900	(2,100)
Utilities	6,700	1,404	5,296
Landscape maintenance	54,200	64,824	(10,624)
Well maintenance	4,000	-	4,000
Snow removal	42,000	-	42,000
Detention ponds	9,000	-	9,000
Park and recreation expenses	5,000	-	5,000
Repairs	10,000	728	9,272
Trash	1,000	233	767
Treasurer's fees	1,183	1,182	1
Contingency	89,654	-	89,654
Emergency reserve	<u>7,361</u>	<u>-</u>	<u>7,361</u>
Total Expenditures	<u>316,629</u>	<u>196,738</u>	<u>119,891</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(225,846)	(108,010)	117,836
OTHER FINANCING SOURCES (USES)			
Developer advances	<u>154,587</u>	<u>48,694</u>	<u>(105,893)</u>
Total Other Financing Sources (Uses)	<u>154,587</u>	<u>48,694</u>	<u>(105,893)</u>
NET CHANGE IN FUND BALANCE	(71,259)	(59,316)	11,943
FUND BALANCE:			
BEGINNING OF YEAR	<u>71,259</u>	<u>59,316</u>	<u>(11,943)</u>
END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

TWO BRIDGES METROPOLITAN DISTRICT

Notes to Financial Statements
December 31, 2018

Note 1: Summary of Significant Accounting Policies

The accounting policies of the Two Bridges Metropolitan District (“District”), located in Douglas County, Colorado, conform to the accounting principles generally accepted in the United States of America (“GAAP”) as applicable to governmental units. The Governmental Accounting Standards Board (“GASB”) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant policies consistently applied in the preparation of financial statements.

Definition of Reporting Entity

The District was organized on December 10, 2009, as a quasi-municipal organization established under the State of Colorado Special District Act. The District operates pursuant to a service plan approved by the Douglas County (the “County”) on September 15, 2009 (the “Service Plan”). The District was established to provide for the construction and completion of a part or all of the public improvements for the use and benefit of the residents and property owners within the service area. The District is governed by an elected Board of Directors.

The District was originally organized under the name of High Prairie Polo Club Metropolitan District No. 2 (District No. 2) along with High Prairie Polo Club Metropolitan District No. 1 (District No. 1). The Service Plan called for District No. 1 to serve as the Servicing District and District No. 2 to serve as the financing District. The District changed its name to Two Bridges Metropolitan District, effective August 25, 2016, pursuant to an Order Granting Petition for Name Change, dated August 24, 2016, which order was recorded on August 25, 2016. On November 7, 2017, an Amended and Restated Service Plan For Two Bridges Metropolitan District was approved by the County eliminating the separate financing and service districts. Agreements executed under the name “High Prairie Polo Club Metropolitan District No. 2” are considered to be the same as those executed under the Two Bridges Metropolitan District. District No. 1 was dissolved pursuant to an Order and Decree Dissolving District, dated October 27, 2016, effective upon recording on November 3, 2016.

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.

TWO BRIDGES METROPOLITAN DISTRICT

Notes to Financial Statements December 31, 2018

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.

TWO BRIDGES METROPOLITAN DISTRICT

Notes to Financial Statements December 31, 2018

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The material sources of revenue subject to accrual are property taxes and interest. Expenditures, other than interest on long-term obligations, are recorded when the liability is incurred or the long-term obligation is paid.

The District reports the following major governmental funds:

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

Debt Service Fund – The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

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

Budgetary Accounting

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

During 2018, the District amended its total appropriations in the Debt Service Fund from \$0 to \$49,230 and in the Capital Projects Fund from \$407,065 to \$3,759,000 due to the issuance of the Series 2018 Bonds. However, the District accepted improvements from the Developer which required the District's expenditures in the Capital Projects Fund to exceed the total appropriations by \$564,447; this may be a violation of State Budget Law.

TWO BRIDGES METROPOLITAN DISTRICT

Notes to Financial Statements December 31, 2018

Assets, Liabilities and Net Position

Fair Value of Financial Instruments

The District's financial instruments include cash and cash equivalents, accounts receivable and accounts payable. The District estimates that the fair value of all financial instruments at December 31, 2018, does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying balance sheet. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

Deposits and Investments

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

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

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.

TWO BRIDGES METROPOLITAN DISTRICT

Notes to Financial Statements
December 31, 2018

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 and not included in the calculation of net investment in capital assets. Land and certain landscaping improvements are not depreciated.

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:

TWO BRIDGES METROPOLITAN DISTRICT

Notes to Financial Statements December 31, 2018

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 \$2,700 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 \$544,723 is restricted for the payment of the debt service costs associated with the Series 2018A Bonds (see Note 4).

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.

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.

TWO BRIDGES METROPOLITAN DISTRICT

Notes to Financial Statements December 31, 2018

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.

The District has a deficit in unrestricted net position. The deficit amount is a result of accrued interest on Developer advances.

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 Deposits and Investments

As of December 31, 2018, cash is classified in the accompanying financial statements as follows:

Statement of Net Position:

Cash and investments	\$ 4,500
Cash and investments - restricted	<u>552,434</u>
Total	<u>\$ 556,934</u>

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

Deposits with financial institutions	\$ 7,200
COLOTRUST	<u>549,734</u>
Total	<u>\$ 556,934</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.

TWO BRIDGES METROPOLITAN DISTRICT

Notes to Financial Statements
December 31, 2018

Investments

Credit Risk

The District has not adopted a formal investment policy; however, the District follows state statutes regarding investments. Colorado statutes specify the types of investments meeting defined rating and risk criteria in which local governments may invest. These investments include obligations of the United States and certain U.S. Government agency entities, certain money market funds, guaranteed investment contracts, and local government investment pools.

Custodial and Concentration of Credit Risk

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

Interest Rate Risk

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

Investment Valuation

Certain investments are measured at fair value within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The District's investment is not required to be categorized within the fair value hierarchy. This investment's value is calculated using the net asset value method (NAV) per share.

As of December 31, 2018, 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, 2018, the District had \$549,734 invested in COLOTRUST.

TWO BRIDGES METROPOLITAN DISTRICT

Notes to Financial Statements
December 31, 2018

Note 3: Capital Assets

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

<u>Governmental Type Activities:</u>	<u>Balance 1/1/2018</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12/31/2018</u>
<u>Capital assets not being depreciated:</u>				
Construction in progress	<u>\$8,622,042</u>	<u>\$ 608,704</u>	<u>\$ -</u>	<u>\$9,230,746</u>
Total capital assets not being depreciated	<u>8,622,042</u>	<u>608,704</u>	<u>-</u>	<u>9,230,746</u>
Government type assets, net	<u>\$8,622,042</u>	<u>\$ 608,704</u>	<u>\$ -</u>	<u>\$9,230,746</u>

Note 4: Long Term Debt

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

\$3,215,000 General Obligation Limited Tax Bonds, Series 2018A and \$508,000 Subordinate General Obligation Limited Tax Bonds, Series 2018B

On August 23, 2018, the District issued \$3,215,000 General Obligation Limited Tax Tax Bonds, Series 2018A (“Series 2018A Bonds”) and \$508,000 Subordinate General Obligation Limited Tax Bonds, Series 2018B (“Series 2018B Bonds”), for the purpose of financing paying or reimbursing public improvements and paying the cost of issuance of the Bonds, and, with respect to the Series 2018A Bonds only, funding a reserve fund and funding capitalized interest. The Series 2018A Bonds bear interest at the rate of 5.625%, payable semiannually on each June 1 and December 1, commencing on December 1, 2018. The Series 2018B Bonds bear interest at the rate of 7.875%, payable annually on December 15, commencing on December 15, 2018, to the extent that Subordinate Pledged Revenue is available. The Series 2018A Bonds are subject to a mandatory sinking fund redemption commencing on December 1, 2022 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 2018A Bonds are secured by the Senior Required Mill Levy, the portion of the Specific Ownership Tax which is collected as a result of the Senior Required Mill Levy, and any other legally available moneys as determined by the District. The Series 2018A Bonds are also secured by the Senior Reserve Fund. The Series 2018B Bonds are secured by the Subordinate Required Mill Levy, the portion of the Specific Ownership Tax which is collected as a result of the Subordinate Required Mill Levy, the amount in the Senior Surplus Fun after the termination of such fund pursuant to the Senior Indenture, and any other legally available moneys as determined by the District.

TWO BRIDGES METROPOLITAN DISTRICT

Notes to Financial Statements
December 31, 2018

The 2018B 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 2017B Bonds remain outstanding on December 16, 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, 2018:

	Balance 1/1/2018	Additions	Deletions	Balance 12/31/2018	Current Portion
General Obligation Limited Tax Bonds Series 2018A	\$ -	\$ 3,215,000	\$ -	\$ 3,215,000	\$ -
Subordinate General Obligation Limited Tax Bonds Series 2018B	-	508,000	-	508,000	-
Developer Advances					
Operations					
Principal	149,164	17,533	-	166,697	-
Interest	5,672	12,742	-	18,414	-
Capital					
Principal	8,584,203	615,557	1,415,924	7,783,836	-
Interest	997,396	654,585	1,430,305	221,676	-
Total	<u>\$9,736,435</u>	<u>\$ 5,023,418</u>	<u>\$2,846,229</u>	<u>\$11,913,624</u>	<u>\$ -</u>

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

	Principal	Interest	Total
2019	\$ -	\$ 180,844	\$ 180,844
2020	-	180,844	180,844
2021	-	180,844	180,844
2022	10,000	180,844	190,844
2023	30,000	180,281	210,281
2024-2028	220,000	870,750	1,090,750
2029-2033	345,000	795,656	1,140,656
2034-2038	520,000	679,781	1,199,781
2039-2043	750,000	509,063	1,259,063
2044-2048	1,340,000	255,750	1,595,750
	<u>\$ 3,215,000</u>	<u>\$ 4,014,657</u>	<u>\$7,229,657</u>

TWO BRIDGES METROPOLITAN DISTRICT

Notes to Financial Statements December 31, 2018

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

Debt Authorization

A majority of the qualified electors of the District authorized the issuance of indebtedness in the amount not to exceed \$220,000,000 for indebtedness for improvements. Pursuant to the Service Plan, the District is permitted to issue bond indebtedness of up to \$8,000,000. As of December 31, 2018, the District had \$4,277,000 remaining authority under the Service Plan. The District did not budget to issue debt in 2019.

Note 5: Other Agreements

Operation Funding Agreement

The District and Lokal Two Bridges, LLC (the Developer) entered into a 2016 Operation Funding Agreement on July 8, 2016, with an effective date of June 15, 2016. The 2016 OFA was amended on November 4, 2016 to fund 2016 and 2017 (2016 – 2017 OFA). The 2016 – 2017 OFA provides for the Developer to provide funding to the District for operation and maintenance expenses of the District for fiscal year 2016 and 2017, up to \$190,688, together with simple interest at the rate of the current Bond Buyer 20-Bond GO Index plus four percent (4%), up to a maximum of 8% per annum. The obligation of the Developer to advance funds under the 2016 – 2017 OFA will expire upon advance to the District of amounts sufficient to pay expenses incurred in 2016 and 2017. In the event the District has not reimbursed the Developer for any Developer Advances made pursuant to the 2016 – 2017 OFA on or before December 31, 2057, any amount of principal and accrued interest outstanding on such date shall be deemed to be forever discharged and satisfied in full. Reimbursement payments made under the 2016 – 2017 OFA are applied first to accrued interest and then to principal. The 2016 – 2017 OFA provides that the obligation under the 2016 – 2017 OFA shall not constitute a debt or indebtedness of the District within the meaning of any constitutional or statutory provision, nor shall it constitute a multiple fiscal year financial obligation, and the making of any reimbursement hereunder shall be at all times subject to annual appropriation by the District in its absolute discretion. On June 6, 2018, the 2016 – 2017 OFA was amended to provide funding to the District for operation and maintenance expenses of the District through 2018, up to \$304,164. On November 7, 2018 the OFA was amended to provide funding to the District for operations and maintenance expenses of the District through 2019 up to \$306,411.

Facilities Funding and Reimbursement Agreement

On July 8, 2016, with an effective date of June 15, 2016, the District entered into a Facilities Funding and Reimbursement Agreement (FFRA) with the Developer (the District and the Developer known collectively as the Parties).

Previously, High Prairie Polo Club Metropolitan District No. 1 (District No. 1) issued an \$8,000,000 promissory note dated January 10, 2010 (Note) and entered into that certain Improvement Acquisition and Reimbursement Agreement dated January 10, 2010 with High Prairie Polo Construction Company, Inc. (IARA).

TWO BRIDGES METROPOLITAN DISTRICT

Notes to Financial Statements December 31, 2018

High Prairie Polo Club Metropolitan District No. 2 (District No. 2) adopted Resolution 2016-07-04 Acknowledging the Dissolution of High Prairie Polo Club Metropolitan District No. 1, which states that District No. 2 will assume any and all obligations of District No. 1, and perform all functions listed under the Service Plan, including the responsibility of reimbursement under the IARA and the Note. As explained in Note 1, above, District No. 2 changed its name to Two Bridges Metropolitan District (the District) in August 2016.

Pursuant to the FFRA, the Developer acknowledged the termination and extinguishment of the IARA and the Note as of the date of the FFRA. The FFRA provides that the District will reimburse the Developer for: (1) any advances made to the District for construction of Improvements and construction-related expenses associated with the costs of Improvements to be provided by the District for fiscal years 2016 through 2018, up to \$4,500,000, together with simple interest at the rate of the current Bond Buyer 20-Bond GO Index plus four percent (4%), up to a maximum of 8% per annum (Developer Advances); and (2) the principal formerly due under the Note, in the amount of \$5,926,812 (Initial Construction Advances), together with interest at the same rate of the Developer Advances beginning from January 11, 2016 until paid.

Under the FFRA, the District and Developer agreed that the payments by the District to the Developer shall credit first against accrued and unpaid interest due on Developer Advances, and then to the principal amount due on Developer Advances, and then to accrued and unpaid interest on the Initial Construction Advances, and then to the principal amount due on the Initial Construction Advances.

In the event the District has not reimbursed the Developer for any Developer Advances or Initial Construction Advances, plus any accrued and unpaid interest, by December 31, 2056, any amount of principal and accrued interest outstanding on such date shall be deemed to be forever discharged and satisfied in full. The FFRA provides that the obligations under the FFRA shall not constitute a debt or indebtedness of the District within the meaning of any constitutional or statutory provision, nor shall it constitute a multiple fiscal year obligation, and the making of any reimbursement thereunder shall be at all times subject to annual appropriation by the District.

Public Improvements Agreement

The District entered into a Public Improvements Agreement (PIA) with Douglas County dated September 17, 2016 outlining terms associated with the construction of certain public street, drainage, water, and sewer improvements defined in the PIA (the Public Improvements). Upon final acceptance of the Public Improvements, the County will assume full responsibility for repairs and maintenance of the Public Improvements except the water and sewer improvements.

TWO BRIDGES METROPOLITAN DISTRICT

Notes to Financial Statements
December 31, 2018

Rural Site Plan Improvements Agreement

The District entered into a Rural Site Plan Improvements Agreement (RSPIA) with Douglas County dated September 17, 2016 outlining terms associated with the construction of certain road, drainage, grading and erosion control, and other improvements defined in the RSPIA (the Rural Site Plan Improvements, or RSP). Upon final acceptance of the RSP, the District will retain full responsibility for repairs and maintenance of the RSP. The District entered into an Open Space Agreement (OSA) with the Developer and the County dated October 24, 2017 outlining the terms for the use of the RSP, including the amount of the RSP that must be used as open space.

Note 6: 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 8, 2016, a majority of the District’s electors authorized the District to collect and spend or retain in a reserve all currently levied taxes and fees of the District without regard to any limitations under Article X, Section 20 of the Colorado Constitution.

Note 7: 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.

TWO BRIDGES METROPOLITAN DISTRICT

Notes to Financial Statements December 31, 2018

The District pays annual premiums to the Pool for auto, public officials' liability, workers compensation, 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 8: Related Party

All of the Board of Directors are employees, owners or are otherwise associated with the Developer and may have conflicts of interest in dealing with the District. Management believes that all potential conflicts, if any, have been disclosed to the Board.

Note 9: Economic Dependency

The District has not yet established a revenue base sufficient to pay the District's operational expenditures. Until an independent revenue base is established, continuation of operations in the District will be dependent upon actions by the Developer to advance funds for operations of the District.

Note 10: 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) Capital improvements used in government activities are not financial resources and, therefore are not reported in the funds; and,
- 2) long-term liabilities such as bonds payable, developer advances payable and accrued interest on bonds and developer advances 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 capital outlays as expenditures; however, in the statement of activities, the costs of those assets are held as construction in progress pending transfer to other governmental entities or depreciated over their useful lives;
- 2) 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,
- 3) governmental funds report developer advances and/or bond proceeds as revenue and report interest as expenditures; however, these are reported as changes to long-term liabilities on the government-wide financial statements.

SUPPLEMENTAL INFORMATION

Two Bridges Metropolitan District

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

For the Year Ended December 31, 2018

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES				
Interest income	\$ -	\$ 1,103	\$ 4,204	\$ 3,101
Total Revenues	<u>-</u>	<u>1,103</u>	<u>4,204</u>	<u>3,101</u>
EXPENDITURES				
Bond interest expense	<u>-</u>	<u>49,230</u>	<u>49,230</u>	<u>-</u>
Total Expenditures	<u>-</u>	<u>49,230</u>	<u>49,230</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES				
	-	(48,127)	(45,026)	3,101
OTHER FINANCING SOURCES (USES)				
Transfers (to)/from other funds	<u>-</u>	<u>589,495</u>	<u>589,749</u>	<u>254</u>
Total Other Financing Sources (Uses)	<u>-</u>	<u>589,495</u>	<u>589,749</u>	<u>254</u>
NET CHANGE IN FUND BALANCE	-	541,368	544,723	3,355
FUND BALANCE:				
BEGINNING OF YEAR	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
END OF YEAR	<u>\$ -</u>	<u>\$ 541,368</u>	<u>\$ 544,723</u>	<u>\$ 3,355</u>

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

Two Bridges Metropolitan District

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

For the Year Ended December 31, 2018

	Original <u>Budget</u>	Final <u>Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
REVENUES				
Interest and other income	\$ -	\$ -	\$ 296	\$ 296
Total Revenues	<u>-</u>	<u>-</u>	<u>296</u>	<u>296</u>
EXPENDITURES				
Legal	15,000	5,000	-	5,000
Bond issuance costs	-	287,276	278,765	8,511
Capital improvements	392,065	31,000	608,704	(577,704)
Repay developer advances	<u>-</u>	<u>2,846,229</u>	<u>2,846,229</u>	<u>-</u>
Total Expenditures	<u>407,065</u>	<u>3,169,505</u>	<u>3,733,698</u>	<u>(564,193)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES				
	(407,065)	(3,169,505)	(3,733,402)	(563,897)
OTHER FINANCING SOURCES (USES)				
Bond proceeds	-	3,723,000	3,723,000	-
Developer advances	407,065	36,000	600,151	564,151
Transfers (to)/from other funds	<u>-</u>	<u>(589,495)</u>	<u>(589,749)</u>	<u>(254)</u>
Total Other Financing Sources (Uses)	<u>407,065</u>	<u>3,169,505</u>	<u>3,733,402</u>	<u>563,897</u>
NET CHANGE IN FUND BALANCE				
	-	-	-	-
FUND BALANCE:				
BEGINNING OF YEAR	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

CONTINUING DISCLOSURE ANNUAL FINANCIAL INFORMATION - UNAUDITED

Two Bridges Metropolitan District

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

<u>Collection 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>Levied</u>	<u>Collected</u>	
2013	\$ 1,316,770	0.000	0.000	\$ -	\$ -	N/A
2014	\$ 1,152,970	0.000	0.000	\$ -	\$ -	N/A
2015	\$ 1,152,970	0.000	0.000	\$ -	\$ -	N/A
2016	\$ 976,320	0.000	0.000	\$ -	\$ -	N/A
2017	\$ 976,320	65.000	0.000	\$ 63,461	\$ 63,461	100.00%
2018	\$ 1,213,100	65.000	0.000	\$ 78,852	\$ 78,852	100.00%
Estimated for year ending December 31, 2019	\$ 1,434,840	15.250	49.750	\$ 93,265		

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.