

Harmony Technology Park Metropolitan District No. 2

Financial Statements

Year Ended December 31, 2017

with

Independent Auditor's Report

C O N T E N T S

	<u>Page</u>
<u>Independent Auditor's Report</u>	I
<u>Basic Financial Statements</u>	
Balance Sheet/Statement of Net Position - Governmental Funds	1
Statement of Revenues, Expenditures and Changes in Fund Balances/Statement of Activities - Governmental Funds	2
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund	3
Notes to Financial Statements	4
<u>Supplemental Information</u>	
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual – Debt Service Fund	18
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Capital Projects Fund	19
Summary of Assessed Valuation, Mill Levy and Property Taxes Collected	20

Board of Directors
Harmony Technology Park Metropolitan District No. 2
Larimer County, Colorado

Independent Auditors' Report

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Harmony Technology Park Metropolitan District No. 2 (the "District") as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Harmony Technology Park Metropolitan District No. 2 as of December 31, 2017, and the respective changes in financial position and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

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

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

Stratagem PC
Certified Public Accountants
Lakewood, Colorado

September 29, 2018

Harmony Technology Park Metropolitan District No. 2

BALANCE SHEET/STATEMENT OF NET POSITION - GOVERNMENTAL FUNDS December 31, 2017

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>
ASSETS						
Cash and investments	\$ 140,489	\$ -	\$ -	\$ 140,489	\$ -	\$ 140,489
Cash and investments - restricted	1,792	1,132,539	568,571	1,702,902	-	1,702,902
Receivable - County Treasurer	866	-	-	866	-	866
Property taxes receivable	46,911	140,734	-	187,645	-	187,645
Prepaid expenses	4,543	-	-	4,543	-	4,543
Capital assets not being depreciated	-	-	-	-	1,303,079	1,303,079
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Assets	<u>\$ 194,601</u>	<u>\$ 1,273,273</u>	<u>\$ 568,571</u>	<u>\$ 2,036,445</u>	<u>1,303,079</u>	<u>3,339,524</u>
LIABILITIES						
Accounts payable	\$ 2,647	\$ -	\$ -	\$ 2,647	-	2,647
Accrued interest on bonds	-	-	-	-	44,544	44,544
Long-term liabilities:						
Due in more than one year	-	-	-	-	10,952,249	10,952,249
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Liabilities	<u>2,647</u>	<u>-</u>	<u>-</u>	<u>2,647</u>	<u>10,996,793</u>	<u>10,999,440</u>
DEFERRED INFLOWS OF RESOURCES						
Deferred property taxes	46,911	140,734	-	187,645	-	187,645
	<u>46,911</u>	<u>140,734</u>	<u>-</u>	<u>187,645</u>	<u>-</u>	<u>187,645</u>
Total Deferred Inflows of Resources	<u>46,911</u>	<u>140,734</u>	<u>-</u>	<u>187,645</u>	<u>-</u>	<u>187,645</u>
FUND BALANCE/NET POSITION						
Nonspendable:						
Prepays	4,543	-	-	4,543	(4,543)	-
Restricted:						
Emergencies	1,792	-	-	1,792	(1,792)	-
Debt service	-	1,132,539	-	1,132,539	(1,132,539)	-
Capital projects	-	-	568,571	568,571	(568,571)	-
Unassigned	138,708	-	-	138,708	(138,708)	-
	<u>138,708</u>	<u>-</u>	<u>-</u>	<u>138,708</u>	<u>-</u>	<u>-</u>
Total Fund Balances	<u>145,043</u>	<u>1,132,539</u>	<u>568,571</u>	<u>1,846,153</u>	<u>(1,846,153)</u>	<u>-</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 194,601</u>	<u>\$ 1,273,273</u>	<u>\$ 568,571</u>	<u>\$ 2,036,445</u>		
Restricted for:						
Emergencies					1,792	1,792
Debt service					1,087,995	1,087,995
Capital projects					568,571	568,571
Unrestricted					<u>(9,505,919)</u>	<u>(9,505,919)</u>
Total Net Position (Deficit)					<u>\$ (7,847,561)</u>	<u>\$ (7,847,561)</u>

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

Harmony Technology Park Metropolitan District No. 2

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES/STATEMENT OF ACTIVITIES - GOVERNMENTAL FUNDS

For the Year Ended December 31, 2017

	<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	\$ 11,953	\$ -	\$ -	\$ 11,953	\$ -	\$ 11,953
Insurance	4,731	-	-	4,731	-	4,731
Legal	25,834	-	-	25,834	-	25,834
Miscellaneous expenses	1,174	-	-	1,174	-	1,174
Treasurer's fees	2,458	-	-	2,458	-	2,458
Engineering	6,176	-	-	6,176	-	6,176
Directors Fees	1,100	-	-	1,100	-	1,100
Bond interest expense	-	112,844	-	112,844	44,544	157,388
Issuance costs	-	-	451,578	451,578	-	451,578
Organizational costs	-	-	73,867	73,867	-	73,867
Repayment of loan principal	-	-	7,250,815	7,250,815	(7,250,815)	-
Repayment of loan interest	-	-	1,414,029	1,414,029	(1,041,028)	373,001
Accepted improvement costs	-	-	3,982,567	3,982,567	(700,518)	3,282,049
Total Expenditures	<u>53,426</u>	<u>112,844</u>	<u>13,172,856</u>	<u>13,339,126</u>	<u>(8,947,817)</u>	<u>4,391,309</u>
GENERAL REVENUES						
Property taxes	122,852	-	-	122,852	-	122,852
Specific ownership taxes	11,419	-	-	11,419	-	11,419
Interest income	127	258	118	503	-	503
Total General Revenues	<u>134,398</u>	<u>258</u>	<u>118</u>	<u>134,774</u>	<u>-</u>	<u>134,774</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	80,972	(112,586)	(13,172,738)	(13,204,352)	8,947,817	(4,256,535)
OTHER FINANCING SOURCES (USES)						
Bond proceeds	-	-	10,930,000	10,930,000	(10,930,000)	-
Developer advances	-	-	4,056,434	4,056,434	(4,056,434)	-
Conveyance to other governments	-	-	-	-	(2,591,817)	(2,591,817)
Transfers in/out	-	1,245,125	(1,245,125)	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>1,245,125</u>	<u>13,741,309</u>	<u>14,986,434</u>	<u>(17,578,251)</u>	<u>(2,591,817)</u>
NET CHANGES IN FUND BALANCES	80,972	1,132,539	568,571	1,782,082	(1,782,082)	
CHANGE IN NET POSITION					(6,848,352)	(6,848,352)
FUND BALANCES/NET POSITION:						
BEGINNING OF YEAR	64,071	-	-	64,071	(1,063,280)	(999,209)
END OF YEAR	<u>\$ 145,043</u>	<u>\$ 1,132,539</u>	<u>\$ 568,571</u>	<u>\$ 1,846,153</u>	<u>\$ (9,693,714)</u>	<u>\$ (7,847,561)</u>

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

Harmony Technology Park Metropolitan District No. 2

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

For the Year Ended December 31, 2017

	Original & Final		Variance
	Budget	Actual	Favorable (Unfavorable)
REVENUES			
Property taxes	\$ 122,852	\$ 122,852	\$ -
Specific ownership taxes	9,214	11,419	2,205
Interest income	15	127	112
Total Revenues	132,081	134,398	2,317
EXPENDITURES			
Accounting and audit	\$ 5,000	\$ 11,953	\$ (6,953)
Engineering	5,000	6,176	(1,176)
Insurance	4,000	4,731	(731)
Legal	15,000	25,834	(10,834)
Director's fees	1,000	1,100	(100)
Miscellaneous expenses	10	1,174	(1,164)
Treasurer's fees	2,457	2,458	(1)
Emergency reserve	974	-	974
Contingency	166,090	-	166,090
Total Expenditures	199,531	53,426	146,105
NET CHANGE IN FUND BALANCE	(67,450)	80,972	148,422
FUND BALANCE:			
BEGINNING OF YEAR	67,450	64,071	(3,379)
END OF YEAR	\$ -	\$ 145,043	\$ 145,043

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

Harmony Technology Park Metropolitan District No. 2

Notes to Financial Statements December 31, 2017

Note 1: Summary of Significant Accounting Policies

The accounting policies of the Harmony Technology Park Metropolitan District No. 2 (the “District”), located in the City of Fort Collins, Larimer County, Colorado, conform to the accounting principles generally accepted in the United States of America (“GAAP”) as applicable to governmental units. 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 in May 2010, concurrently with Harmony Technology Park Metropolitan District No. 1 (“District No. 1”) and Harmony Technology Park Metropolitan District No. 3, (“District No. 3”) as a quasi-municipal corporation and political subdivision established under the State of Colorado Special District Act. The District was established to finance and construct certain public infrastructure improvements that benefit the property owners and citizens of the District. Subsequent to year end, District No. 1 and District No. 3 passed a resolution to dissolve, and on May 15, 2018 both Districts were dissolved. The District's primary revenues are developer advances. The District is governed by an elected Board of Directors.

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

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 has no component units as defined by the Governmental Accounting Standards Board (“GASB”), Statement No. 14, *The Financial Reporting Entity* and GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*.

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

The District is not financially accountable for any other organization.

Harmony Technology Park Metropolitan District No. 2

Notes to Financial Statements December 31, 2017

Basis of Presentation

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

The government-wide financial statements (i.e. the governmental funds balance sheet/statement of net position and the governmental funds statement of revenues, expenditures, and changes in fund balances/statement of activities) report information on all of the governmental activities of the District. The statement of net position reports all financial and capital resources of the District. The difference between the (a) assets and deferred outflows of resources and the (b) liabilities and deferred inflows of resources of the District is reported as net position. The statement of activities demonstrates the degree to which expenditures/expenses of the governmental funds are supported by general revenues. For the most part, the effect of interfund activity has been removed from these statements.

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

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are collected.

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

Harmony Technology Park Metropolitan District No. 2

Notes to Financial Statements December 31, 2017

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.

The District amended its total appropriations in the Capital Projects Fund from \$4,500,000 to \$14,700,000 due to the acquisition by the District of infrastructure improvements and the repayment of prior developer advances. The District also amended its total appropriations in the Debt Service Fund from \$0 to \$120,000 as a result of the issuance of the Series 2017 Bonds.

Assets, Liabilities, Deferred Inflows/Inflows of Resources 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, 2017, 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 District are reported at fair value.

Harmony Technology Park Metropolitan District No. 2

Notes to Financial Statements December 31, 2017

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 under this category at December 31, 2017.

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

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items), are reported in the applicable governmental activities columns in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated acquisition value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the life of the asset are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable using the straight-line method. Depreciation on property that will remain assets of the District is reported on the Statement of Activities as a current charge. Improvements that will be conveyed to other governmental entities are classified as construction in progress and are not depreciated. Land and certain landscaping improvements are not depreciated. No depreciation expense was recognized during 2017.

Harmony Technology Park Metropolitan District No. 2

Notes to Financial Statements December 31, 2017

Property Taxes

Property taxes are levied by the District's Board of Directors. The levy is based on assessed valuations determined by the County Assessor generally as of January 1 of each year. The levy is normally set by December 15 by certification to the County Commissioners to put the tax lien on the individual properties as of January 1 of the following year. The County Treasurer collects the determined taxes during the ensuing calendar year. The taxes are payable by April or if in equal installments, at the taxpayers' election, in February and June. Delinquent taxpayers are notified in July or August and the sales of the resultant tax liens on delinquent properties are generally held in November or December. The County Treasurer remits the taxes collected monthly to the District.

Property taxes, net of estimated uncollectible taxes, are recorded initially as deferred inflows in the year they are levied and measurable since they are not normally available nor are they budgeted as a resource until the subsequent year. The deferred property taxes are recorded as revenue in the subsequent year when they are available or collected.

Long-Term Obligations

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

Fund Equity

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. Because circumstances differ among governments, not every government or every governmental fund will present all of these components. The following classifications make the nature and extent of the constraints placed on a government's fund balance more transparent:

Nonspendable Fund Balance

Nonspendable fund balance includes amounts that cannot be spent because they are either not spendable in form (such as inventory or prepaids) or are legally or contractually required to be maintained intact.

The nonspendable fund balance in the General Fund in the amount of \$4,543 represents prepaid expenditures.

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 \$1,792 of the General Fund balance has been restricted in compliance with this requirement.

Harmony Technology Park Metropolitan District No. 2

Notes to Financial Statements December 31, 2017

The restricted fund balance in the Debt Service Fund in the amount of \$1,132,539 is restricted for the payment of the debt service costs associated with the Series 2017 Bonds (see Note 4).

The restricted fund balance in the Capital Projects Fund in the amount of \$568,571 is restricted for the payment of the costs for capital improvements within the District.

Committed Fund Balance

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

Assigned Fund Balance

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

Unassigned Fund Balance

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

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.

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.

Harmony Technology Park Metropolitan District No. 2

Notes to Financial Statements
December 31, 2017

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, 2017, cash and investments are classified in the accompanying financial statements as follows:

Statement of Net Position:	
Cash and investments	\$ 140,489
Cash and investments - restricted	<u>1,702,902</u>
Total	<u>\$1,843,391</u>

Cash and investments as of December 31, 2017 consist of the following:

Deposits with financial institutions	\$ 142,281
Investment in Morgan Stanley Institutional Liquidity Funds	<u>1,701,110</u>
Total	<u>\$1,843,391</u>

Deposits

Custodial Credit Risk

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

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

Investments

Credit Risk

The District 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.

Harmony Technology Park Metropolitan District No. 2

Notes to Financial Statements
December 31, 2017

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.

As of December 31, 2017, the District had the following investments:

Fidelity Investments Money Market Treasury Portfolio – Class III Fund

During 2017, the District’s funds that were included in the trust accounts at UMB Bank were invested in the Morgan Stanley Institutional Liquidity Funds Government Securities Portfolio. This fund is a money market fund and each share is equal in value to \$1.00. The fund is AAAM rated and invests exclusively in U.S. Treasury securities and repurchase agreements collateralized by U.S. Treasury securities. The maturity of the underlying securities is 6 days or less. As of December 31, 2017, the District has \$1,701,110 invested in the fund, all of which was restricted for the repayment of bond principal and interest.

Note 3: Capital Assets

An analysis of the changes in capital assets for the year ended December 31, 2017 follows:

Governmental Type Activities:	Balance 1/1/2017	Additions	Deletions	Balance 12/31/2017
Capital assets not being depreciated:				
Construction in progress	\$2,591,817	\$ -	\$2,591,817	\$ -
Easements	<u>602,561</u>	<u>700,518</u>	<u>-</u>	<u>1,303,079</u>
Total capital assets not being depreciated	<u>3,194,378</u>	<u>700,518</u>	<u>2,591,817</u>	<u>1,303,079</u>
Government type assets, net	<u>\$3,194,378</u>	<u>\$ 700,518</u>	<u>\$2,591,817</u>	<u>\$ 1,303,079</u>

Harmony Technology Park Metropolitan District No. 2

Notes to Financial Statements
December 31, 2017

Upon completion and acceptance, all fixed assets excluding storm/detention ponds will be conveyed by the District to other local governments. The District will not be responsible for maintenance of improvements conveyed to other local governments.

Note 4: Long Term Debt

A description of the long-term obligations as of December 31, 2017, is as follows:

\$10,930,000 General Obligation (Limited Tax Convertible to Unlimited Tax) Bonds, Series 2017

On September 15, 2017, the District issued \$10,930,000 General Obligation (Limited Tax Convertible to Unlimited Tax) Bonds, Series 2017 (“Series 2017 Bonds”), for the purpose of: (i) funding and reimbursing a portion of the costs of organizing the District and of acquiring, construction and installing certain Public Infrastructure; (ii) funding the Reserve Fund; (iii) funding a portion of the interest to accrue on the Series 2017 Bonds; and (iv) paying the cost of issuance. The Series 2017 Bonds bear interest at the rates ranging between 4.5% and 5.0% payable semiannually on each June 1 and December 1, commencing on December 1, 2017. The Series 2017 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, 2022, upon payment of par, accrued interest, and a redemption premium that ranges between 0% and 3%.

The Series 2017 Bonds are secured by the Required Mill Levy, the Capital Fees, if any, the portion of the Specific Ownership Tax which is collected as a result of the Required Mill Levy, and any other legally available monies as determined by the District. The Series 2017 Bonds are also secured by the Reserve Fund which was funded with proceeds of the 2017 Bonds.

Harmony Technology Park Metropolitan District No. 2

Notes to Financial Statements
December 31, 2017

The following is a summary of the annual long-term debt principal and interest requirements for the Series 2017A Bonds.

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ -	\$ 534,525	\$ 534,525
2019	-	534,525	534,525
2020	-	534,525	534,525
2021	-	534,525	534,525
2022	145,000	534,525	679,525
2023-2027	910,000	2,564,850	3,474,850
2028-2032	1,340,000	2,322,975	3,662,975
2033-2037	1,885,000	1,957,750	3,842,750
2038-2042	2,630,000	1,416,500	4,046,500
2043-2047	4,020,000	653,188	4,673,188
	<u>\$ 10,930,000</u>	<u>\$ 11,587,888</u>	<u>\$ 22,517,888</u>

The following is an analysis of changes in long-term debt for the period ending December 31, 2017:

	<u>Balance</u>			<u>Balance</u>	<u>Current</u>
	<u>1/1/2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>12/31/2017</u>	<u>Portion</u>
Series 2017 Bonds	\$ -	\$ 10,930,000	\$ -	\$ 10,930,000	\$ -
Reimbursement Obligation	3,194,381	4,056,434	7,250,815	-	-
Interest on Reimbursement Obligation	<u>1,063,277</u>	<u>373,001</u>	<u>1,414,029</u>	<u>22,249</u>	<u>-</u>
Total	<u>\$ 4,257,658</u>	<u>\$ 15,359,435</u>	<u>\$ 8,664,844</u>	<u>\$ 10,952,249</u>	<u>\$ -</u>

Debt Authorization

As of December 31, 2017, the District had remaining voted debt authorization of approximately \$224,000,000. The District has not budgeted to issue any new debt during 2018. Per the District's Service Plan, the District can not issue debt in excess of \$14,800,000.

Note 5: Related Party

Some of the Board of Directors are employees, owners or are otherwise associated with the Landowner or MAV Development Company, the Manager of Harmony Technology Park, LLC (the "Developer") and may have conflicts of interest in dealing with the District. Management believes that all potential conflicts, if any, have been disclosed to the Board.

Harmony Technology Park Metropolitan District No. 2

Notes to Financial Statements
December 31, 2017

Note 6: Other Agreements

Resolution of the Board of Directors of Harmony Technology Park Metropolitan District No. 2
On October 28, 2015, the Board of Directors adopted policies and procedures regarding the acceptance of District eligible costs. The Accepted Improvements and related Accepted Costs were approved at \$7,250,815.

Funding and Reimbursement Agreement

On October 28, 2015, the District and the Developer entered into a Funding and Reimbursement Agreement whereby the Developer agreed to provide funding for operations and maintenance expenses of the District as needed up to \$100,000 per year but not more than \$500,000 total and the District agreed to reimburse the Developer for such advances, along with interest at 8% per annum. These funds shall be loaned to the District in one or a series of installments and shall be available to the District through December 31, 2020. This Agreement evidences the District's intent to repay the Developer for advances, however this Agreement shall not constitute a debt or indebtedness by the District within the meaning of any constitutional or statutory provision, nor shall it constitute a multi- fiscal year financial obligation. Repayment of advances is subject to annual appropriations by the District. As of December 31, 2017, there were no amounts owed under this agreement.

Note 7: 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.

Harmony Technology Park Metropolitan District No. 2

Notes to Financial Statements
December 31, 2017

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

On May 4, 2010, 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 8: 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 9: 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 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.

Harmony Technology Park Metropolitan District No. 2

Notes to Financial Statements
December 31, 2017

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 process 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 on the Statement of Activities;
- 3) governmental funds report developer advances and/or bond proceeds as revenue; and,
- 4) 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

Harmony Technology Park 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, 2017

	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Variance</u> <u>Favorable</u> <u>(Unfavorable)</u>
REVENUES				
Interest income	\$ -	\$ -	\$ 258	\$ 258
Total Revenues	<u>-</u>	<u>-</u>	<u>258</u>	<u>258</u>
EXPENDITURES				
Bond interest expense	\$ -	\$ 118,000	\$ 112,844	\$ 5,156
Trustee/paying agent fees	<u>-</u>	<u>2,000</u>	<u>-</u>	<u>2,000</u>
Total Expenditures	<u>-</u>	<u>120,000</u>	<u>112,844</u>	<u>7,156</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	-	(120,000)	(112,586)	7,414
OTHER FINANCING SOURCES (USES)				
Transfers in/out	<u>-</u>	<u>1,254,125</u>	<u>1,245,125</u>	<u>(9,000)</u>
Total Other Financing Sources (Uses)	<u>-</u>	<u>1,254,125</u>	<u>1,245,125</u>	<u>(9,000)</u>
NET CHANGE IN FUND BALANCE	-	1,134,125	1,132,539	(1,586)
FUND BALANCE:				
BEGINNING OF YEAR	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
END OF YEAR	<u>\$ -</u>	<u>\$ 1,134,125</u>	<u>\$ 1,132,539</u>	<u>\$ (1,586)</u>

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

Harmony Technology Park 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, 2017

	Original <u>Budget</u>	Final <u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
REVENUES				
Interest income	\$ -	\$ -	\$ 118	\$ 118
Total Revenues	<u>-</u>	<u>-</u>	<u>118</u>	<u>118</u>
EXPENDITURES				
Issuance costs	-	475,000	451,578	23,422
Organizational costs	-	74,000	73,867	133
Repayment of loan principal	-	7,300,000	7,250,815	49,185
Repayment of loan interest	-	1,420,000	1,414,029	5,971
Accepted improvement costs	<u>4,500,000</u>	<u>4,185,875</u>	<u>3,982,567</u>	<u>203,308</u>
Total Expenditures	<u>4,500,000</u>	<u>13,454,875</u>	<u>13,172,856</u>	<u>282,019</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES				
	(4,500,000)	(13,454,875)	(13,172,738)	282,137
OTHER FINANCING SOURCES (USES)				
Bond proceeds	-	10,930,000	10,930,000	-
Developer advances	4,500,000	4,056,434	4,056,434	-
Transfers in/out	<u>-</u>	<u>(1,245,125)</u>	<u>(1,245,125)</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>4,500,000</u>	<u>13,741,309</u>	<u>13,741,309</u>	<u>-</u>
NET CHANGE IN FUND BALANCE				
	-	286,434	568,571	282,137
FUND BALANCE:				
BEGINNING OF YEAR	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
END OF YEAR	<u>\$ -</u>	<u>\$ 286,434</u>	<u>\$ 568,571</u>	<u>\$ 282,137</u>

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

Harmony Technology Park Metropolitan District No. 2

SUMMARY OF ASSESSED VALUATION, MILL LEVY AND PROPERTY TAXES COLLECTED

December 31, 2017

Collection Year Ended <u>December 31,</u>	Prior Year Assessed Valuation for Current Year Property <u>Tax Levy</u>	<u>Mills Levied</u>		<u>Total Property Tax</u>		Percent Collected to Levied
		<u>General Fund</u>	<u>Debt Service</u>	<u>Levied</u>	<u>Collected</u>	
2013	\$ 1,422,000	0.000	10.000	\$ 14,220	\$ 14,220	100.00%
2014	\$ 1,426,770	10.000	0.000	\$ 14,268	\$ 14,268	100.00%
2015	\$ 2,034,860	15.000	0.000	\$ 30,523	\$ 30,523	100.00%
2016	\$ 4,528,721	20.000	0.000	\$ 90,574	\$ 90,574	100.00%
2017	\$ 4,914,067	25.000	0.000	\$ 122,852	\$ 122,852	100.00%
Estimated for year ending December 31, 2018	\$ 9,382,269	5.000	15.000	\$ 187,645		

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.