

Encore on 34 Metropolitan District No. 2

FINANCIAL STATEMENTS AND  
REPORT OF INDEPENDENT  
CERTIFIED PUBLIC ACCOUNTANTS

December 31, 2016



**RECEIVED**

*By the Office of the State Auditor at 12:58 pm, Oct 13, 2017*

TABLE OF CONTENTS

	<u>Page</u>
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS	3
BASIC FINANCIAL STATEMENTS	
GOVERNMENTAL FUND BALANCE SHEET/ STATEMENT OF NET POSITION	6
STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE/STATEMENT OF ACTIVITIES	7
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND	8
NOTES TO FINANCIAL STATEMENTS	9



REPORT OF INDEPENDENT CERTIFIED  
PUBLIC ACCOUNTANTS

Board of Directors  
Encore on 34 Metropolitan District No. 2

***Report on the Financial Statements***

We have audited the accompanying basic financial statements of the governmental activities and the governmental fund of the Encore on 34 Metropolitan District No. 2 (the "District"), as of and for the year ended December 31, 2016, 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.

***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on conducting our audit in accordance with auditing standards generally accepted in the United States of America as established by the *American Institute of Certified Public Accountants* ("US GAAS").

We conducted our audit in accordance with US GAAS. Those standards require that we plan and perform our audit to obtain reasonable assurance about whether these financial statements are free of material misstatement.

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

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

### ***Opinions on the Financial Statements***

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the governmental fund of the Encore on 34 Metropolitan District No. 2, as of December 31, 2016, and the respective changes in financial position thereof, and the respective budgetary comparison for the general fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### *Management's Discussion and Analysis*

The Board of Directors has omitted the Management's Discussion and Analysis information 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 part of the basic financial statements, is required by the Government Accounting Standards Board, who considers it to be an essential part of the 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.

*Marc, James and Associates, PC*

Highlands Ranch, Colorado  
September 29, 2017

*BASIC FINANCIAL STATEMENTS*

Encore on 34 Metropolitan District No. 2

GOVERNMENTAL FUND BALANCE SHEET/STATEMENT OF NET POSITION

December 31, 2016

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
<b>ASSETS</b>			
Property taxes receivable	\$ 116,609	\$ -	\$ 116,609
Due from County Treasurer	<u>4,957</u>	<u>-</u>	<u>4,957</u>
Total assets	<u><u>\$ 121,566</u></u>	-	121,566
<b>LIABILITIES</b>			
Due to District No. 1	\$ 4,957	-	4,957
<b>DEFERRED INFLOWS</b>			
Property taxes	116,609	-	116,609
<b>FUND BALANCE/NET POSITION</b>			
Total fund balance	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities, deferred inflows and fund balance	<u><u>\$ 121,566</u></u>	<u>(121,566)</u>	<u>-</u>
Total net position		<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

The accompanying notes are an integral part of these financial statements

Encore on 34 Metropolitan District No. 2

STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE/STATEMENT OF ACTIVITIES

Year ended December 31, 2016

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
<b>EXPENDITURES</b>			
Operations			
County Treasurer's fee	\$ 14,903	\$ -	\$ 14,903
<b>GENERAL REVENUES</b>			
Property taxes	745,133	-	745,133
Specific ownership taxes	59,829	-	59,829
Interest	37	-	37
	<u>804,999</u>	<u>-</u>	<u>804,999</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	790,096	-	790,096
<b>OTHER SOURCES AND USES</b>			
Transfer to District No. 1	<u>(790,096)</u>	<u>-</u>	<u>(790,096)</u>
<b>CHANGE IN FUND BALANCE</b>	-	-	-
<b>CHANGE IN NET ASSETS</b>		-	-
<b>FUND BALANCE/NET POSITION</b>			
Beginning of the year	<u>-</u>	<u>-</u>	<u>-</u>
End of the year	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

The accompanying notes are an integral part of these financial statements

Encore on 34 Metropolitan District No.2

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

Year ended December 31, 2016

	<u>Original Budget</u>	<u>Amended and Final Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES:				
Property taxes	\$745,133	\$745,133	\$745,133	\$ -
Specific ownership taxes	55,885	59,829	59,829	-
Interest	-	37	37	-
	<u>801,018</u>	<u>804,999</u>	<u>804,999</u>	<u>-</u>
Total revenues				
EXPENDITURES				
OPERATIONS				
County Treasurer's fee	14,903	14,903	14,903	-
	<u>14,903</u>	<u>14,903</u>	<u>14,903</u>	<u>-</u>
REVENUES IN EXCESS OF EXPENDITURES	786,115	790,096	790,096	-
OTHER SOURCES AND USES				
Transfer to District No. 1	(786,115)	(790,096)	(790,096)	-
	<u>(786,115)</u>	<u>(790,096)</u>	<u>(790,096)</u>	<u>-</u>
CHANGE IN FUND BALANCE	<u>\$ -</u>	<u>\$ -</u>	-	<u>\$ -</u>
FUND BALANCE				
Beginning balance			<u>-</u>	
Ending balance			<u>\$ -</u>	

The accompanying notes are an integral part of these financial statements

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Encore on 34 Metropolitan District No. 2 (the “District”) conform to the accounting principles generally accepted in the United States of America (“US GAAP”) as applicable to governmental entities. The following is a summary of the more significant policies consistently applied in the preparation of the basic financial statements of the District.

*1. Reporting Entity*

The District was formed, in connection with Encore on 34 Metropolitan District No. 1 (“District No. 1”), and Encore on 34 Metropolitan District No. 3 (“District No. 3”), pursuant to the Colorado Special District Act, Article 1 of Title 32 of the Colorado Revised Statutes, in November 2014 as a quasi-municipal corporation and a political subdivision of the State of Colorado. The District is governed by a seven-member Board of Directors. The District is located in the Town of Johnstown, in Larimer County, Colorado.

The District was formed to provide for the planning, design, acquisition, construction, installation, relocation, redevelopment and financing of public improvements for a Planned Unit Development referred to as Encore (the “Development”) from proceeds of debt issued by the District. The District is designated as the Commercial District, District No. 1 is the Operating District and District No. 3 is the Residential District. As required by US GAAP, these financial statements present the activities of the District, which is legally separate and financially independent of other state and local government entities. The District has no component units as defined by Governmental Accounting Standards Board (“GASB”), Statement No. 14, *The Reporting Entity* and GASB No. 39, *Determining Whether Certain Organizations are Component Units*.

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

*2. Measurement Focus and Financial Reporting Framework*

The accompanying financial statements are presented in accordance with GASB Statement No 34, *Special Purpose Governments*.

*Government-wide Financial Statements*

The government-wide financial statements, the Statement of Net Position and the Statement of Activities, report information on the accrual basis of accounting related to the *governmental-type activities* of the District, which rely to a significant extent on property, specific ownership taxes and charges for services. The Statement of Activities demonstrates the degree to which expenses of the *governmental-type activities* are supported by property, specific ownership taxes and charges for services.

*Governmental Fund Financial Statements*

The governmental fund financial statements are prepared 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 if the revenues are collectible within the current period or soon thereafter to pay liabilities of the current period. For that purpose, the District considers revenues to be available if they are expected to be collected within 60 days of the end of the current fiscal period.

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *continued*

*2. Measurement Focus and Financial Reporting Framework - continued*

*Governmental Funds*

The District maintains one governmental fund. The governmental fund information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance for the general fund.

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

*3. Cash and Cash Equivalents*

The District considers cash and cash equivalents to include cash on hand, unrestricted demand deposits and money market accounts, as applicable.

*4. Fair Value of Financial Instruments*

The District's financial instruments include accounts receivable. The District estimates that the fair value of these financial instruments as of December 31, 2016, do not differ materially from the aggregate carrying values used in the accompanying financial statements. The carrying amount of these financial instruments approximates the fair value due to the short maturity of these financial instruments.

*5. Use of Estimates*

The preparation of financial statements in conformity with US GAAP involves the use of District management's estimates that affect the reported amounts of assets and liabilities as of the date of the financial statements, and the reported amounts of revenue and expenses as applicable, during the reporting period. These estimates are based upon District management's best judgment, after considering past events and assumptions about future events. Actual results could differ from those estimates.

*6. Deferred Inflows of Resources*

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 fund balance/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. Property taxes are recognized as an inflow of resources in the period that the amounts become available.

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *continued*

7. *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.

NOTE B – BUDGET INFORMATION

The District's annual budget is prepared on a Non-GAAP basis for the District's General Fund. An annual appropriated budget is adopted at the total fund expenditure level and the annual appropriations lapse at the end of the District's fiscal year.

The District conforms to the following procedures, in accordance with the State of Colorado Revised Statutes, in the establishment of the budgetary information reflected in the accompanying financial statements.

On or before October 15, the District's Manager submits a proposed budget for the subsequent fiscal year to the District's Board of Directors. The budget sets forth all proposed expenditures for administration, operations, maintenance, debt service, and capital projects, as applicable, for the budget year; all anticipated revenues for the budget year; estimated beginning and ending fund balances; actual figures for the prior fiscal year and projected figures through the end of the current year; and a written budget message describing the important features of the budget.

Following receipt of the proposed budget, the District publishes notice of the hearing at which the adoption of the proposed budget will be considered, a statement that the proposed budget is available for inspection, and that any interested elector may file objections to the proposed budget prior to its adoption. The budget hearing is held at a regular or special Board of Directors' meeting.

Following the budget hearing, the Board of Directors adopts the budget and makes appropriations for the budget year. The District also certifies a mill levy for collection in the budget year. Because the District certifies a mill levy, the adoption of the budget, appropriations and certification of the mill levy must occur on or before December 15. Expenditures in excess of the amounts appropriated for a Fund or transfer of moneys between Funds must be approved by the Board of Directors in the same manner as the adoption of the budget.

For 2016, the budget of the General Fund was amended.

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE C – CASH AND INVESTMENTS

The Colorado Public Deposit Protection Act (“PDPA”) requires that all units of local government deposit cash in eligible public depositories. State regulators determine the eligibility. Amounts on deposit in excess of the Federal Deposit Insurance Corporation (“FDIC”) insurance levels must be collateralized. The eligible collateral is determined by the PDPA. The PDPA allows institutions 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 uninsured public deposits. The market value of the collateral must be equal to 102% of the aggregate uninsured public deposits.

As of December 31, 2016, to the extent applicable, the District’s deposit accounts were either insured by the FDIC or held in an eligible depository.

NOTE D - RELATED PARTIES AND AGREEMENTS

*Members of the Board of Directors*

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. District management believes that all potential conflicts, if any, have been properly disclosed.

*Intergovernmental Agreement (“IGA”) with District No. 1*

The District has an informal IGA with District No 1, under which the District levies and collects property taxes on property located within Encore and remits the property tax revenue, net of the County Treasurer's fees to District No.1. The entire mill levy was transferred to District No.1 to fund administrative and operating costs and to pay the annual debt service requirements to the extent moneys were available. Additional sources of revenue received and available to the District were also transferred to the District, including specific ownership taxes and interest earnings. For the year ended December 31, 2016, the District transferred \$790,096 to District No.1.

NOTE E – FUND BALANCE/NET POSITION

*Fund Balance*

The District utilizes the fund balance presentation as required under GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Fund balances are categorized as non-spendable, restricted, committed, assigned or unassigned.

*Non-spendable* – represents amounts that cannot be spent because they are either in non-spendable form or legally required to remain intact,

*Restricted* – represents amounts with external constraints placed on the use of these resources or imposed by enabling legislation,

*Committed* – represents amounts that can only be used for specific purposes imposed by a formal action of the District’s highest level of decision-making authority, the District’s Board of Directors. Committed resources cannot be used for any other purpose unless the District’s Board of Directors removes or changes the specific use by the same type of action used to commit those amounts, either by resolution or by ordinance,

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE E – FUND BALANCE/NET POSITION - *continued*

*Fund Balance - continued*

*Assigned* – represents amounts that the District intends to use for specific purposes as expressed by the District’s Board of Directors or a District official delegated the authority to assign amounts,

*Unassigned* – represents the residual classification for the general fund or deficit balances in other funds, as applicable.

Amounts are considered to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) amounts are available. Unrestricted amounts are considered to have been spent when an expenditure is incurred for purposes for which amounts in any of these unrestricted fund balances classifications could be used.

As of December 31, 2016, the District’s fund balance was \$0.

*Net Position*

Net Position represents the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources. The District reports 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.

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

As of December 31, 2016, the District’s Net Position was \$0.

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE F – TAX, SPENDING AND DEBT LIMITATIONS

Article X, Section 20 of the Colorado Constitution, commonly known as the Taxpayer's Bill of Rights ("TABOR"), contains tax, spending and debt limitations which apply to the State of Colorado and all local governments.

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 calculation of the fiscal year spending limits may require judicial interpretation.

NOTE G – REVENUE CONCENTRATION

The District's assessed valuation of the taxable property located within the District and related property tax levy is highly dependent on the level of activity in the oil and gas industry within the District. The gross assessed valuation of the taxable property within the District for the budget/fiscal year of 2017 decreased by \$12,570,475 to \$2,332,181. As a result, the property taxes levied for budget/fiscal year of 2017 decreased by \$628,524.

NOTE H – MANAGEMENT'S EVALUATION OF SUBSEQUENT EVENTS

The preparation of the District's financial statements and accompanying footnotes in conformity with generally accepted accounting principles requires management of the District to evaluate transactions and events subsequent to the balance sheet date involving the District. Management has evaluated the subsequent transactions and events of the District through September 29, 2017, which is the date the financial statements and accompanying footnotes were available for issuance.