

**Encore on 34 Metropolitan District No. 1
Larimer County, Colorado**

**Financial Statements
December 31, 2018**

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITOR’S REPORT	I-II
 BASIC FINANCIAL STATEMENTS	
Government-wide Financial Statements:	
Statement of Net Position	1
Statement of Activities	2
Governmental Funds Balance Sheet and Reconciliation of Fund Balances to Net Position	3
Governmental Fund Revenues, Expenditures, and Changes in Fund Balances	4
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	5
Statement of Revenue, Expenditures and Changes in Fund Balance —Actual and Budget—Governmental Fund Type—General Fund	6
Notes to Basic Financial Statements.....	7-17
 SUPPLEMENTARY INFORMATION	
Statement of Revenue, Expenditures and Changes in Fund Balance —Actual and Budget—Governmental Fund Type—Debt Service Fund	18
Statement of Revenue, Expenditures and Changes in Fund Balance —Actual and Budget—Governmental Fund Type—Capital Projects Fund	19



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Encore on 34 Metropolitan District No. 1
Town of Johnstown, Colorado

We have audited the accompanying financial statements of the governmental activities and the major funds of Encore on 34 Metropolitan District No. 1 (the "District") as of and for the year ended 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 of material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 the major funds of Encore on 34 Metropolitan District No. 1, 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 Encore on 34 Metropolitan District No. 1's financial statements as a whole. The supplementary information section is presented for purposes of additional analysis and is not a required part of the financial statements.

The supplementary information as listed in the table of contents is the responsibility of management and 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 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.



Littleton, Colorado
July 15, 2019

BASIC FINANCIAL STATEMENTS

Encore on 34 Metropolitan District No. 1
Statement of Net Position
December 31, 2018

Assets	<u>Governmental Activities</u>
Cash and investments	\$ 516,660
Accounts receivable	419
Prepaid expense	250
Construction in progress	2,531,865
Total assets	<u>\$ 3,049,194</u>
Liabilities	
Accounts payable	\$ 12,008
Accrued interest payable	58,036
Non-current liabilities:	
Due in more than one year	1,156,701
Total liabilities	<u>1,226,745</u>
Net Position	
Net investment in capital assets	1,317,128
Restricted for:	
Emergency	920
Unrestricted	504,401
Total Net Position	<u>1,822,449</u>
Total Liabilities and Net Position	<u>\$ 3,049,194</u>

The accompanying notes are an integral part of these financial statements.

Encore on 34 Metropolitan District No. 1
Statement of Activities
For the Year Ended December 31, 2018

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense)</u> <u>Revenue and</u> <u>Changes in Net</u> <u>Assets</u>
		<u>Charges for</u> <u>Services and</u> <u>other fees</u>	<u>Operating</u> <u>Grants and</u> <u>Contributions</u>	<u>Capital</u> <u>Grants and</u> <u>Contributions</u>	<u>Primary Government</u> <u>Governmental</u> <u>Activities</u>
Primary government:					
Governmental activities:					
General government	\$ 30,673	\$ -	\$ -	\$ -	\$ (30,673)
Interest and related costs on long term debt	107,678	-	-	-	(107,678)
	<u>\$ 138,351</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(138,351)</u>
General revenues:					
Service fees					1,087,482
Interest income					8,763
					<u>1,096,245</u>
Total general revenues					<u>1,096,245</u>
Change in net position					957,894
Net position - beginning of year					<u>864,555</u>
Net position (deficit) - end of year					<u>\$ 1,822,449</u>

The accompanying notes are an integral part of these financial statements.

Encore on 34 Metropolitan District No. 1
Governmental Funds Balance Sheet
and Reconciliation of Fund Balances to Net Position
December 31, 2018

	General Fund	Debt Service Fund	Capital Projects Fund	Total Governmental Funds
Assets				
Cash and investments	\$ 516,660	\$ -	\$ -	\$ 516,660
Due from District 2 and 3	419	-	-	419
Prepaid expense	250	-	-	250
Total assets	\$ 517,329	\$ -	\$ -	\$ 517,329
Liabilities				
Accounts payable	\$ 12,008	\$ -	\$ -	\$ 12,008
Total liabilities	12,008	-	-	12,008
Fund Balances				
Nonspendable	250	-	-	250
Restricted:				
Emergency reserves	920	-	-	920
Unassigned	504,151	-	-	504,151
Total Fund Balances	505,321	-	-	505,321
Total Liabilities and Fund Balances	\$ 517,329	\$ -	\$ -	\$ 517,329

Total governmental fund balance per above \$ 505,321

Amounts reported for governmental activities in the statement of net assets excluded from the governmental fund balance because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 2,531,865

Long term liabilities not payable in the current year are excluded as liabilities in the governmental funds. Interest on long-term debt is recognized as an expenditure in governmental funds when due. These liabilities consist of:

Developer advances	(1,156,701)
Accrued interest	(58,036)

Net position of governmental activities \$ 1,822,449

The accompanying notes are an integral part of these financial statements.

Encore on 34 Metropolitan District No. 1
Governmental Fund Revenues, Expenditures
and Changes in Fund Balances
For the Year Ended December 31, 2018

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
Revenues				
Service fees - District No.2	\$ 1,086,604	\$ -	\$ -	\$ 1,086,604
Service fees - District No.3	878	-	-	878
Interest income	8,763	-	-	8,763
Total General Revenues	<u>1,096,245</u>	<u>-</u>	<u>-</u>	<u>1,096,245</u>
Expenditures				
Current				
Accounting	3,920	-	-	3,920
Audit/Audit exemption	8,065	-	-	8,065
District management	9,729	-	-	9,729
Legal	8,042	-	-	8,042
Office, dues and other	407	-	-	407
Election	460	-	-	460
Insurance	50	-	-	50
Debt service				
Developer advance repayment	-	-	500,550	500,550
Interest on developer advance	-	-	196,262	196,262
Total Expenditures	<u>30,673</u>	<u>-</u>	<u>696,812</u>	<u>727,485</u>
Excess of revenues over (under) expenditures	1,065,572	-	(696,812)	368,760
Other financing sources (uses)				
Interfund transfers	(696,812)	-	696,812	-
Total other financing sources (uses)	<u>(696,812)</u>	<u>-</u>	<u>696,812</u>	<u>-</u>
Net change in fund balances	368,760	-	-	368,760
Fund balances:				
Beginning of the year	<u>136,561</u>	<u>-</u>	<u>-</u>	<u>136,561</u>
End of the year	<u>\$ 505,321</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 505,321</u>

The accompanying notes are an integral part of these financial statements.

Encore on 34 Metropolitan District No. 1
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended December 31, 2018

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balance—total governmental funds	\$	368,760
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Long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Also, governmental funds do not report new long-term commitments until paid, while the commitment expense is recorded as a change in net position.

Accrued interest - change in liability		88,584
Developer advances repayment		<u>500,550</u>

Change in net position of governmental activities	\$	<u><u>957,894</u></u>
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The accompanying notes are an integral part of these financial statements.

Encore on 34 Metropolitan District No. 1
Statement of Revenue, Expenditures
and Changes in Fund Balances—Actual and Budget
Governmental Fund Type—General Fund
For the Year Ended December 31, 2018

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenue				
Transfer in from District No.2	\$ 58,407	\$ 1,086,611	\$ 1,086,604	\$ (7)
Transfer in from District No.3	865	879	878	(1)
Interest income	-	6,677	8,763	2,086
Total Revenue	<u>59,272</u>	<u>1,094,167</u>	<u>1,096,245</u>	<u>2,078</u>
Expenditures				
Accounting	3,600	10,500	3,920	6,580
Audit/Audit exemption	1,500	2,750	8,065	(5,315)
District management	7,200	12,500	9,729	2,771
Legal	10,000	10,000	8,042	1,958
Office, dues and other	700	700	407	293
Election	-	460	460	-
Insurance	3,000	50	50	-
Contingency	5,000	10,000	-	10,000
Total Expenditures	<u>31,000</u>	<u>46,960</u>	<u>30,673</u>	<u>16,287</u>
Excess Revenue Over (Under)				
Expenditures	<u>28,272</u>	<u>1,047,207</u>	<u>1,065,572</u>	<u>18,365</u>
Other financing sources (uses)				
Transfer out to debt service fund	(37,722)	-	-	-
Transfer out to capital project fund	-	(696,812)	(696,812)	-
Emergency reserve	(1,080)	-	-	-
Total other financing sources (uses)	<u>(38,802)</u>	<u>(696,812)</u>	<u>(696,812)</u>	<u>-</u>
Net change in fund balances	(10,530)	350,395	368,760	18,365
Fund Balances—Beginning of year	<u>10,530</u>	<u>10,530</u>	<u>136,561</u>	<u>126,031</u>
Fund Balances—End of Year	<u>\$ -</u>	<u>\$ 360,925</u>	<u>\$ 505,321</u>	<u>\$ 144,396</u>

The accompanying notes are an integral part of these financial statements.

Encore on 34 Metropolitan District No. 1
Notes to Financial Statements
December 31, 2018

1. Definition of Reporting Entity

Encore on 34 Metropolitan District No. 1 (the District), a quasi-municipal corporation, was organized in November, 2014, is governed pursuant to provisions of the Colorado Special District Act (Title 32). The District was formed, in connection with Encore on 34 Metropolitan District No. 2 (District No. 2) and Encore on 34 Metropolitan District No. 3 (District No. 3), to operate under the Consolidated Service Plan approved by Town Council in September, 2014. The District's service area is located in the Town of Johnstown, Larimer County, Colorado. The District was established to provide for the planning, design, acquisition, construction, installation, relocation, redevelopment and financing of the public improvements from the proceeds of debt to be issued by the Districts. The District is designated as the Operating District, District No. 2 is the Commercial District and District No. 3 is the Residential District.

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.

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

The District is not financially accountable for any other organization, nor is the District a component unit of any other primary governmental entity.

2. Summary of Significant Accounting Policies

The more significant accounting policies of the District are described as follows:

Government-wide and Fund Financial Statements

The government-wide financial statements include the statement of net position and the statement of activities. These financial statements include all of the activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are normally supported by property taxes.

The statement of net position reports all financial and capital resources of the District. The difference between the assets and liabilities of the District is reported as net position.

Encore on 34 Metropolitan District No. 1
Notes to Financial Statements (continued)
December 31, 2018

2. Summary of Significant Accounting Policies (continued)

The statement of activities demonstrates the degree to which the direct 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.

Separate financial statements are provided for the governmental funds. Major individual governmental funds are reported as separate columns in the 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 related cash flows.

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 government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The major sources of revenue susceptible to accrual are property taxes. All other revenue items are considered to be measurable and available only when cash is received by the District. The District determined that Developer advances are not considered as revenue susceptible to accrual. Expenditures, other than interest on long-term obligations, are recorded when the liability is incurred or the long-term obligation is due.

The District reports the following major governmental funds:

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

The Debt Service Fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of the governmental fund.

Encore on 34 Metropolitan District No. 1
Notes to Financial Statements (continued)
December 31, 2018

2. Summary of Significant Accounting Policies (continued)

The Capital Projects Fund accounts for financial resources to be used for the acquisition and construction of capital equipment and facilities.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

Budgets

In accordance with the State Budget Law, the District's Board of Directors holds public hearings in the fall each year to approve the budget and appropriate the funds for the ensuing year. The appropriation is at the total fund expenditures level and lapses at year end. 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 presented on the modified accrual basis of accounting unless otherwise indicated.

Property Taxes

Property taxes are levied by the District 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 for 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 taxpayer's election, in February and June. Delinquent taxpayers are notified in August, and generally sales of the tax liens on delinquent properties are 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 revenue in the year they are levied and measurable. The deferred property tax revenue is recorded as revenue in the year it is available or collected. For the year ended December 31, 2018, the District did not have deferred property tax or property tax revenue.

Encore on 34 Metropolitan District No. 1
Notes to Financial Statements (continued)
December 31, 2018

2. Summary of Significant Accounting Policies (continued)

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Capital Assets

Capital assets, which include property, plant and equipment and infrastructure (e.g. roads, sidewalks and similar items), are reported in the applicable governmental activities column 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. Such assets are recorded in historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

Capital assets, which are anticipated to be conveyed to other governmental entities, are recorded as construction in progress and are not included in the calculation of invested in capital assets, net of related debt component of the District's net position. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized.

Fund Equity

Fund balance for governmental funds should be reported in classifications that comprise a hierarchy based on the extent to which the government is bound to honor constraints on the specific purposes for which spending can occur. Governmental funds report up to five classifications of fund balance: nonspendable, restricted, committed, assigned, and unassigned. Because circumstances differ among governments, not every government or every governmental fund will present all of these components.

The following classifications describe the relative strength of the spending constraints:

- *Nonspendable fund balance* - The portion of fund balance that cannot be spent because it is either not in spendable form (such as prepaid amounts or inventory) or legally or contractually required to be maintained intact.
- *Restricted fund balance* - The portion of fund balance that is constrained to being used for a specific purpose by external parties (such as bondholders), constitutional provisions, or enabling legislation.

**Encore on 34 Metropolitan District No. 1
Notes to Financial Statements (continued)
December 31, 2018**

2. Summary of Significant Accounting Policies (continued)

- *Committed fund balance* - The portion of fund balance that can only be used for specific purposes pursuant to constraints imposed by 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* - The portion of fund balance that is constrained by the government's intent to be used for specific purposes, but is neither restricted nor committed. Intent is expressed by the Board of Directors to be used for a specific purpose. Constraints imposed on the use of assigned amounts are more easily removed or modified than those imposed on amounts that are classified as committed.

- *Unassigned fund balance* - The residual portion of fund balance that does not meet any of the criteria described above. If more than one classification of fund balance is available for use when an expenditure is incurred, it is the District's policy to use the most restrictive classification first.

Restricted Fund Balance

Emergency reserves have been provided for as required by Article X, Section 20 of the Constitution of the State of Colorado (See Note 8).

3. Cash and Investments

Cash and investments as of December 31, 2018 are classified in the accompanying financial statements as follows:

Statement of net position:

Cash and investments	<u>\$ 516,660</u>
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Cash and investments as of December 31, 2018 consist of the following:

Deposits with financial institutions	\$ 3,038
Investments	<u>513,622</u>
Total cash and investments	<u>\$ 516,660</u>

Encore on 34 Metropolitan District No. 1
Notes to Financial Statements (continued)
December 31, 2018

3. Cash and Investments (continued)

The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulators. 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 for all the uninsured public deposits as a group is to be maintained by another institution or held in trust. 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.

As of December 31, 2018, the District's cash deposits had a carrying balance of \$516,660 and bank balance of \$516,660, of which \$250,000 was FDIC insured.

Investments

The District has not adopted a formal investment policy; however, the District follows state statutes regarding investments.

The District generally limits its concentration of investments to those noted with an asterisk (*) below, which are believed to have minimal credit risk, minimal interest rate risk and no foreign currency risk. Additionally, the District is not subject to concentration risk or investment custodial risk disclosure requirements for investments that are in the possession of another party.

Colorado revised statutes limit investment maturities to five years or less unless formally approved by the Board of Directors. Such actions are generally associated with a debt service reserve or sinking fund requirements. Colorado statutes specify investment instruments meeting defined rating and risk criteria in which local governments may invest which include:

- . Obligations of the United States, certain U.S. government agency securities and securities of the World Bank
- . General obligation and revenue bonds of U.S. local government entities
- . Certain certificates of participation
- . Certain securities lending agreements
- . Bankers' acceptances of certain banks
- . Commercial paper
- . Written repurchase agreements and certain reverse repurchase agreements collateralized by certain authorized securities
- . Certain money market funds

**Encore on 34 Metropolitan District No. 1
Notes to Financial Statements (continued)
December 31, 2018**

3. Cash and Investments (continued)

- . Guaranteed investment contracts
- * Local government investment pools

As of December 31, 2018, the District had the following investments:

Investment Maturity Fair Value

Colorado Local Government Liquid Asset Trust (COLOTRUST) Weighted average under 60 days	<u>\$ 513,622</u>
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COLOTRUST

The District invested in the Colorado Local Government Liquid Asset Trust (COLOTRUST) (the Trust), an investment vehicle established for local government entities in Colorado to pool surplus funds. The State Securities Commissioner administers and enforces all State statutes governing the Trust. The Trust operates similarly to a money market fund and each share is equal in value to \$1.00. The Trust offers shares in two portfolios, COLOTRUST PRIME and COLOTRUST PLUS+. Both portfolios may invest in U.S. Treasury securities 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 any security allowed under CRS 24-75-601. A designated custodial bank serves as custodian for the Trust's portfolios pursuant to a custodian agreement. The custodian acts as safekeeping agent for the Trust's investment portfolios and provides services as the depository in connection with direct investments and withdrawals. The custodian's internal records segregate investments owned by the Trust. COLOTRUST is rated AAAM by Standard & Poor's. COLOTRUST records its investments at fair value and the District records its investment in COLOTRUST at net asset value as determined by fair value. There are no unfunded commitments, the redemption frequency is daily and there is no redemption notice period.

4. Capital Assets

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

	Balance December 31, 2017	Increases	Decreases	Balance December 31, 2018
Capital assets not being depreciated:				
Construction in Process	<u>\$ 2,531,865</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,531,865</u>

**Encore on 34 Metropolitan District No. 1
Notes to Financial Statements (continued)
December 31, 2018**

5. Long-Term Liabilities

Developer Advances

In December 2015, the District, District No. 2 and District No. 3 (the Districts) entered into the Amended and Restated Advance and Reimbursement Agreement – Capital Costs (Capital Advance Agreement) with Miracle on 34, LLC (the Developer), pursuant to which the Developer agreed to advance funds in an amount not to exceed \$66,000,000, in one or more installments. Under the Capital Advance Agreement, the funds are to be used exclusively for capital improvements within the Development as set forth in the annual budgets of the Districts. In addition, the Developer may agree to renew its obligation hereunder on an annual basis, in which case the obligation termination date shall be amended to no earlier than December 31 of the subsequent year.

The Capital Advance Agreement prescribed that advances accrue interest at a simple interest rate of 8% from the date of each advance and any unpaid accrued interest will be added to the principal in the event that the advances are subsequently refunded by subordinate debt.

The following is an analysis of changes in the District’s long-term debt for the year ended December 31, 2018:

	Balance at December 31, 2017	Additions	Payment	Balance at December 31, 2018	Due Within One Year
Developer Advances	\$ 1,657,251	\$ -	\$ (500,550)	\$ 1,156,701	\$ -
Accrued interest	146,620	107,678	(196,262)	58,036	-
	<u>\$ 1,803,871</u>	<u>\$ 107,678</u>	<u>\$ (696,812)</u>	<u>\$ 1,214,737</u>	<u>\$ -</u>

The Districts also entered into the Amended and Restated Advance and Reimbursement Agreement - Operations and Maintenance Costs, (Operations Advance Agreement) with the Developer, pursuant to which the Developer agreed to advance funds in an amount not to exceed \$500,000, in one or more installments and the advance bears a simple interest rate of the current federal reserve prime rate plus 2%. Under the terms of the Operations Advance Agreement, the funds are to be used for administrative, operations and maintenance costs within the Development as set forth in the annual budgets of the Districts. As of December 31, 2018, there were no operations advances outstanding.

Encore on 34 Metropolitan District No. 1
Notes to Financial Statements (continued)
December 31, 2018

5. Long-Term Liabilities (continued)

The Consolidated Service Plan stated that the District cannot issue debt in excess of \$66,000,000 and all long-term debt is expected to be repaid by limited taxes imposed and collected for no longer than the maximum debt mill levy imposition term of residential properties and at a mill levy no higher than the commercial maximum debt mill levy for commercial properties. As of December 31, 2018, the District had \$66,000,000 remaining in electoral authorization.

In the future, the District may issue a portion or all of the remaining authorized, but unissued general obligation debt for purposes of providing public improvements to support development as it occurs within the District's service area. However, the amount and timing of any debt issuances, if any, are not determinable.

6. Net Position

The District has net position consisting of three components – net investment in capital assets, restricted and unrestricted.

Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of debt attributable to the acquisition, construction, or improvement of those assets. As of December 31, 2018, the District had a net investment in capital assets in the amount of \$1,375,164.

Restricted assets include the net position that is restricted for use either externally imposed by creditors, grantors, contributors, or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The District had restricted net position as of December 31, 2018 as follows:

Restricted net position:	
Emergency Reserves (see Note 8)	\$ 920
Total restricted net position	<u>\$ 920</u>

The District's unrestricted net position as of December 31, 2018 is \$446,365.

7. Risk Management

The District is exposed to various risks of loss related to torts, thefts of, damage to, or destruction of assets; errors or omissions; injuries to employees, or acts of God.

Encore on 34 Metropolitan District No. 1
Notes to Financial Statements (continued)
December 31, 2018

7. Risk Management (continued)

The District is a member of the Colorado Special Districts Property and Liability Pool (Pool) as of December 31, 2018. The Pool is an organization created by intergovernmental agreement to provide property, liability, public officials' liability, boiler and machinery and workers compensation coverage to its members. Settled claims have not exceeded this coverage in any of the past three fiscal years.

The District pays annual premiums to the Pool for liability, property and public officials' liability coverage. In the event aggregated losses incurred by the Pool exceed amounts recoverable from reinsurance contracts and funds accumulated by the Pool, the Pool may require additional contributions from the Pool 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.

8. 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, 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.

Encore on 34 Metropolitan District No. 1
Notes to Financial Statements (continued)
December 31, 2018

9. Related Parties

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.

Supplementary Information

Encore on 34 Metropolitan District No. 1
Statement of Revenue, Expenditures
and Changes in Fund Balance—Actual and Budget
Governmental Fund Type—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>
Revenue:				
Property taxes	\$ -	\$ -	\$ -	\$ -
Total Revenue	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Expenditures:				
General and administration				
Miscellaneous	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess Revenue Over (Under)				
Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other financing sources (uses)				
Transfer in from general fund	37,722	-	-	-
Developer reimbursement	<u>(37,722)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance—Beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance—End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Encore on 34 Metropolitan District No. 1
Statement of Revenue, Expenditures
and Changes in Fund Balance—Actual and Budget
Governmental Fund Type—Capital Projects Fund
For the Year Ended December 31, 2018

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenue:				
Property taxes	\$ -	\$ -	\$ -	\$ -
Total Revenue	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Expenditures:				
Developer advance repayment	500,000	598,524	500,550	97,974
Interest on developer advance	-	98,288	196,262	(97,974)
Total Expenditures	<u>500,000</u>	<u>696,812</u>	<u>696,812</u>	<u>-</u>
Excess Revenue Over (Under) Expenditures	<u>(500,000)</u>	<u>(696,812)</u>	<u>(696,812)</u>	<u>-</u>
Other financing sources (uses)				
Transfer in from general fund	500,000	696,812	696,812	-
Total other financing sources (uses)	<u>500,000</u>	<u>696,812</u>	<u>696,812</u>	<u>-</u>
Net change in fund balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance—Beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance—End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>