

**Encore on 34 Metropolitan District No. 2
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
Fund Financial Statements	
Balance Sheet - Governmental Funds.....	3
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	4
General Fund - Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual	5
Notes to Financial Statements.....	6-12
SUPPLEMENTAL INFORMATION	
Schedule of Assessed Valuation, Mill Levy and Property Taxes Collected.....	13



**Haynie &
Company**

Certified Public Accountants (a professional corporation)

1221 West Mineral Ave, Ste. 202 Littleton, Colorado 80120-4544 (303) 734-4800 Fax (303) 795-3356

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Encore on 34 Metropolitan District No. 2
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. 2 (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.



*An Association of
Independent Accounting Firms*

An independently owned member
RSM US Alliance



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. 2, 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. 2'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. 2
Statement of Net Position
December 31, 2018

	Governmental Activities
ASSETS	
Receivable - County Treasurer	\$ 413
Property taxes receivable	648,755
Total assets	\$ 649,168
 LIABILITIES	
Due to Encore on 34 MD No.1	\$ 413
 DEFERRED INFLOWS OF RESOURCES	
Deferred property tax revenue	648,755
Total liabilities and deferred inflows of resources	649,168
 NET POSITION	
Unrestricted	-
Total net position	\$ -

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

Encore on 34 Metropolitan District No. 2
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>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Revenue and Changes in Net Position</u>
					<u>Governmental Activities</u>
Primary government:					
Government activities:					
General government	\$ 1,108,681	\$ -	\$ -	\$ -	\$ (1,108,681)
	<u>\$ 1,108,681</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(1,108,681)</u>
General revenues:					
Property taxes					1,103,851
Specific ownership taxes					4,830
Total general revenues					<u>1,108,681</u>
Change in net position					-
Net position - Beginning					-
Net position - Ending					<u>\$ -</u>

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

Encore on 34 Metropolitan District No. 2
Balance Sheet
Governmental Funds
December 31, 2018

	General
ASSETS	
Receivable - County Treasurer	\$ 413
Property taxes receivable	648,755
TOTAL ASSETS	\$ 649,168
 LIABILITIES AND FUND BALANCES	
LIABILITIES	
Due to Encore on 34 MD No.1	\$ 413
 DEFERRED INFLOWS OF RESOURCES	
Deferred property tax revenue	648,755
Total liabilities & deferred inflows	649,168
 FUND BALANCES	
Unrestricted	-
Total fund balances	-
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 649,168

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 Balances
Governmental Funds
For the Year Ended December 31, 2018

	General
REVENUES	
Property taxes	\$ 1,103,851
Specific ownership taxes	4,830
Total revenues	1,108,681
EXPENDITURES	
Payment for Services	1,086,604
Treasurer's fees	22,077
Total expenditures	1,108,681
NET CHANGE IN FUND BALANCES	-
FUND BALANCES - BEGINNING OF YEAR	-
FUND BALANCES - END OF YEAR	\$ -

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

Encore on 34 Metropolitan District No. 2
General Fund
Statement of Revenues, Expenditures and Changes in
Fund Balance - Budget and Actual
For the Year Ended December 31, 2018

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES				
Property taxes	\$ 55,626	\$ 1,103,851	\$ 1,103,851	\$ -
Specific ownership taxes	3,894	4,837	4,830	(7)
Interest and other	-	50,000	-	(50,000)
Total revenues	<u>59,520</u>	<u>1,158,688</u>	<u>1,108,681</u>	<u>(50,007)</u>
EXPENDITURES				
Payment for Services	58,407	1,086,611	1,086,604	7
Treasurer's fees	1,113	22,077	22,077	-
Contingency	-	50,000	-	50,000
Total expenditures	<u>59,520</u>	<u>1,158,688</u>	<u>1,108,681</u>	<u>50,007</u>
 NET CHANGE IN FUND BALANCE	 -	 -	 -	 <u>\$ -</u>
FUND BALANCE - BEGINNING OF YEAR				
FUND BALANCE - END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	

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

Encore on 34 Metropolitan District No. 2
Notes to Financial Statements
December 31, 2018

1. Definition of Reporting Entity

Encore on 34 Metropolitan District No. 2 (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. 1 (District No. 1) 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 Commercial District, District No. 1 is the Operating 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. 2
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 fund:

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.

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.

Encore on 34 Metropolitan District No. 2
Notes to Financial Statements (continued)
December 31, 2018

2. Summary of Significant Accounting Policies (continued)

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.

The District has amended its annual budget for the year end December 31, 2018.

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.

Deferred Outflows of Resources and Deferred Inflows of Resources

A deferred inflow of resources is an acquisition of net position by a government that is applicable to a future reporting period and a deferred outflow of resources is a consumption of net position by a government that is applicable to a future reporting period. Both deferred inflows and outflows are reported in the statement of net position but are not recognized in the financial statement as revenues and expenses until the period(s) to which they relate.

Deferred inflows of resources in the governmental fund financial statements of the District for the year ended December 31, 2018 are comprised of property taxes due from Larimer County that will not be collected within 60 days of the end of the current fiscal year. Deferred inflows of resources in the government-wide financial statements represents property taxes for which an enforceable legal claim to assets exists, but for which the levy pertains to the subsequent year.

Encore on 34 Metropolitan District No. 2
Notes to Financial Statements (continued)
December 31, 2018

2. Summary of Significant Accounting Policies (continued)

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.
- *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.

The District's General Fund balance as of December 31, 2018 is \$0.

Encore on 34 Metropolitan District No. 2
Notes to Financial Statements (continued)
December 31, 2018

3. Cash and Investments

The District does not hold any cash balances as of December 31, 2018. All funds were transferred to District No. 1 when the property taxes and specific ownership taxes were collected.

4. Net Position

The District's net position consists of only unrestricted net position of \$0 as of December 31, 2018.

5. Agreements

Developer Advances

In December 2015, the District, District No. 1 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 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 developer advances outstanding.

Encore on 34 Metropolitan District No. 2
Notes to Financial Statements (continued)
December 31, 2018

5. Agreements (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. 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.

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.

7. 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.

Encore on 34 Metropolitan District No. 2
Notes to Financial Statements (continued)
December 31, 2018

7. Tax, Spending and Debt Limitations (continued)

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.

8. 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. 2
Summary of Assessed Valuation,
Mill Levy and Property Taxes Collected
December 31, 2018

Year Ended December 31,	Prior Year Assessed Valuation for Current Year Tax Levy	Mills Levied		Total Property Taxes		Percent Collected to Levied
		Operations	Debt Service	Levied	Collected	
2018	\$ 1,112,525	0.000	50.000	\$ 55,626	\$1,103,851	1984.41%
Estimated for the year ending December 31, 2019	\$ 12,975,109	0.000	50.000	\$ 648,755		