

**ERIE HIGHLANDS METROPOLITAN  
DISTRICT NO. 2  
Weld County, Colorado**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**YEAR ENDED DECEMBER 31, 2019**

**ERIE HIGHLANDS METROPOLITAN DISTRICT NO. 2  
TABLE OF CONTENTS  
YEAR ENDED DECEMBER 31, 2019**

|   |           |
|---|-----------|
| <b>INDEPENDENT AUDITOR’S REPORT</b>   | <b>1</b>  |
| <b>BASIC FINANCIAL STATEMENTS</b>   |           |
| <b>GOVERNMENT-WIDE FINANCIAL STATEMENTS</b>   |           |
| <b>STATEMENT OF NET POSITION</b>  | <b>1</b>  |
| <b>STATEMENT OF ACTIVITIES</b>  | <b>2</b>  |
| <b>FUND FINANCIAL STATEMENTS</b>  |           |
| <b>BALANCE SHEET – GOVERNMENTAL FUNDS</b>   | <b>3</b>  |
| <b>STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN<br/>        FUND BALANCES – GOVERNMENTAL FUNDS</b>   | <b>4</b>  |
| <b>RECONCILIATION OF THE STATEMENT OF REVENUES,<br/>        EXPENDITURES, AND CHANGES IN FUND BALANCES OF THE<br/>        GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES</b> | <b>5</b>  |
| <b>GENERAL FUND – STATEMENT OF REVENUES, EXPENDITURES, AND<br/>        CHANGES IN FUND BALANCE – BUDGET AND ACTUAL</b>  | <b>6</b>  |
| <b>NOTES TO BASIC FINANCIAL STATEMENTS</b>  | <b>7</b>  |
| <b>SUPPLEMENTARY INFORMATION</b>  |           |
| <b>DEBT SERVICE FUND – SCHEDULE OF REVENUES, EXPENDITURES,<br/>    AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL</b>  | <b>24</b> |
| <b>CAPITAL PROJECTS FUND – SCHEDULE OF REVENUES,<br/>    EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND<br/>    ACTUAL</b>  | <b>25</b> |
| <b>OTHER INFORMATION</b>  |           |
| <b>SCHEDULE OF DEBT SERVICE REQUIREMENTS TO MATURITY</b>  | <b>27</b> |
| <b>SCHEDULE OF ASSESSED VALUATION, MILL LEVY, AND PROPERTY<br/>    TAXES COLLECTED</b>  | <b>28</b> |



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Dazzio & Associates, PC

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Certified Public Accountants

## **INDEPENDENT AUDITOR'S REPORT**

Board of Directors  
Erie Highlands Metropolitan District No. 2  
Weld County, Colorado

We have audited the accompanying financial statements of the governmental activities and each major fund of the Erie Highlands Metropolitan District No. 2 as of and for the year December 31, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

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

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

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## Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Erie Highlands Metropolitan District No. 2, as of December 31, 2019, 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 the Erie Highlands Metropolitan District No. 2's basic financial statements. The Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual for the Debt Service and Capital Projects Funds (the Supplementary Information) and the Schedule of Debt Service Requirements to Maturity and the Schedule of Assessed Valuation, Mill Levy and Property Taxes Collected (the Other Information) are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

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

*Duggio & Associates, P.C.*

July 15, 2020

## **BASIC FINANCIAL STATEMENTS**

**ERIE HIGHLANDS METROPOLITAN DISTRICT NO. 2**  
**STATEMENT OF NET POSITION**  
**DECEMBER 31, 2019**

|                                      | Governmental<br>Activities |
|--------------------------------------|----------------------------|
| <b>ASSETS</b>                        |                            |
| Cash and Investments - Restricted    | \$ 1,860,081               |
| Receivable from County Treasurer     | 861                        |
| Property Taxes Receivable            | 244,729                    |
| Total Assets                         | 2,105,671                  |
| <b>LIABILITIES</b>                   |                            |
| Due to Other Districts               | 8,246                      |
| Accrued Interest Payable             | 51,297                     |
| Noncurrent Liabilities:              |                            |
| Due in More Than One Year            | 17,689,959                 |
| Total Liabilities                    | 17,749,502                 |
| <b>DEFERRED INFLOWS OF RESOURCES</b> |                            |
| Deferred Property Tax Revenue        | 244,729                    |
| Total Deferred Inflows of Resources  | 244,729                    |
| <b>NET POSITION</b>                  |                            |
| Restricted for:                      |                            |
| Debt Service                         | 237,598                    |
| Unrestricted                         | (16,126,158)               |
| Total Net Position                   | \$ (15,888,560)            |

See accompanying Notes to Basic Financial Statements.

**ERIE HIGHLANDS METROPOLITAN DISTRICT NO. 2  
STATEMENT OF ACTIVITIES  
YEAR ENDED DECEMBER 31, 2019**

|   |                            | Program Revenues                         |  |                            | Net Revenues<br>(Expenses) and<br>Change in<br>Net Position |
|---|----------------------------|--|--|----------------------------|---|
| Expenses  | Charges<br>for<br>Services | Operating<br>Grants and<br>Contributions | Capital<br>Grants and<br>Contributions | Governmental<br>Activities |   |
| <b>FUNCTIONS/PROGRAMS</b>                       |                            |  |  |                            |   |
| Primary Government:                             |                            |  |  |                            |   |
| Governmental Activities:                        |                            |  |  |                            |   |
| General Government                              | \$ 42,584                  | \$ -                                     | \$ -                                   | \$ -                       | \$ (42,584)   |
| Interest and Related Costs<br>on Long-Term Debt | 1,058,972                  | -  | -                                      | 83,500                     | (975,472)   |
| Public Works                                    | 35,400                     | -  | -                                      | -                          | (35,400)  |
|   |                            |  |  |                            |   |
| Total Governmental Activities                   | \$ 1,136,956               | \$ -                                     | \$ -                                   | \$ 83,500                  | (1,053,456)   |
| <br><b>GENERAL REVENUES</b>                     |                            |  |  |                            |   |
|   |                            |  |  |                            | 132,689   |
|   |                            |  |  |                            | 10,201  |
|   |                            |  |  |                            | 44,567  |
|   |                            |  |  |                            | 187,457   |
| <br><b>CHANGE IN NET POSITION</b>               |                            |  |  |                            |   |
|   |                            |  |  |                            | (865,999)   |
|   |                            |  |  |                            | (15,022,561)  |
| <br><b>NET POSITION - END OF YEAR</b>           |                            |  |  |                            |   |
|   |                            |  |  |                            | \$ (15,888,560)   |

See accompanying Notes to Basic Financial Statements.

**ERIE HIGHLANDS METROPOLITAN DISTRICT NO. 2  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2019**

|  | General       | Debt<br>Service  | Capital<br>Projects | Total<br>Governmental<br>Funds |
|--|---------------|------------------|---------------------|--------------------------------|
| <b>ASSETS</b>  |               |                  |                     |                                |
| Cash and Investments - Restricted  | \$ -          | \$ 1,860,081     | \$ -                | \$ 1,860,081                   |
| Receivable from County Treasurer   | 246           | 615              | -                   | 861                            |
| Property taxes receivable  | 69,922        | 174,807          | -                   | 244,729                        |
| <br>Total Assets   | <br>\$ 70,168 | <br>\$ 2,035,503 | <br>\$ -            | <br>\$ 2,105,671               |
| <br><b>LIABILITIES, DEFERRED INFLOWS OF<br/>RESOURCES, AND FUND BALANCES</b>   |               |                  |                     |                                |
| <b>LIABILITIES</b>   |               |                  |                     |                                |
| Due to District No. 4  | \$ 246        | \$ 8,000         | \$ -                | \$ 8,246                       |
| Total Liabilities  | 246           | 8,000            | -                   | 8,246                          |
| <br><b>DEFERRED INFLOWS OF RESOURCES</b>   |               |                  |                     |                                |
| Deferred Property Tax  | 69,922        | 174,807          | -                   | 244,729                        |
| Total Deferred Inflows of Resources  | 69,922        | 174,807          | -                   | 244,729                        |
| <br><b>FUND BALANCES</b>   |               |                  |                     |                                |
| Restricted for:  |               |                  |                     |                                |
| Debt Service   | -             | 1,852,696        | -                   | 1,852,696                      |
| Total Fund Balances  | -             | 1,852,696        | -                   | 1,852,696                      |
| <br>Total Liabilities, Deferred Inflows of Resources,<br>and Fund Balances   | <br>\$ 70,168 | <br>\$ 2,035,503 | <br>\$ -            |                                |
| <br>Amounts reported for governmental activities in the<br>statement of net position are different because:  |               |                  |                     |                                |
| <br>Long-term liabilities, including bonds payable, are<br>not due and payable in the current period and,<br>therefore, are not reported in the funds. |               |                  |                     |                                |
| Bonds and Accrued Interest Payable   |               |                  |                     | (17,689,959)                   |
| Bond Interest Payable  |               |                  |                     | (51,297)                       |
| Net Position of Governmental Activities  |               |                  |                     | \$ (15,888,560)                |

See accompanying Notes to Basic Financial Statements.

**ERIE HIGHLANDS METROPOLITAN DISTRICT NO. 2**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**YEAR ENDED DECEMBER 31, 2019**

|   | General       | Debt<br>Service     | Capital<br>Projects | Total<br>Governmental<br>Funds |
|---|---------------|---------------------|---------------------|--------------------------------|
| <b>REVENUES</b>   |               |                     |                     |                                |
| Property Taxes  | \$ 37,911     | \$ 94,778           | \$ -                | \$ 132,689                     |
| Specific Ownership Taxes                                | 2,914         | 7,287               | -                   | 10,201                         |
| System Development Fees                                 | -             | 83,500              | -                   | 83,500                         |
| Net Investment Income                                   | 265           | 43,529              | 773                 | 44,567                         |
| Total Revenues  | <u>41,090</u> | <u>229,094</u>      | <u>773</u>          | <u>270,957</u>                 |
| <b>EXPENDITURES</b>                                     |               |                     |                     |                                |
| Current:  |               |                     |                     |                                |
| County Treasurer's Fees                                 | 569           | 1,422               | -                   | 1,991                          |
| Transfer to District No. 4                              | 40,593        | -                   | -                   | 40,593                         |
| Debt Service:   |               |                     |                     |                                |
| Bond Interest   | -             | 615,563             | -                   | 615,563                        |
| Paying agent fees                                       | -             | 8,000               | -                   | 8,000                          |
| Capital Projects:                                       |               |                     |                     |                                |
| Developer reimbursement                                 | -             | -                   | 35,400              | 35,400                         |
| Total Expenditures                                      | <u>41,162</u> | <u>624,985</u>      | <u>35,400</u>       | <u>701,547</u>                 |
| <b>EXCESS OF REVENUES OVER (UNDER)<br/>EXPENDITURES</b> |               |                     |                     |                                |
|   | (72)          | (395,891)           | (34,627)            | (430,590)                      |
| <b>OTHER FINANCING SOURCES (USES)</b>                   |               |                     |                     |                                |
| Transfers from Other Funds                              | -             | 96                  | -                   | 96                             |
| Transfers to Other Funds                                | -             | -                   | (96)                | (96)                           |
| Total Other Financing Sources (Uses)                    | <u>-</u>      | <u>96</u>           | <u>(96)</u>         | <u>-</u>                       |
| <b>NET CHANGE IN FUND BALANCES</b>                      |               |                     |                     |                                |
|   | (72)          | (395,795)           | (34,723)            | (430,590)                      |
| Fund Balances - Beginning of Year                       | <u>72</u>     | <u>2,248,491</u>    | <u>34,723</u>       | <u>2,283,286</u>               |
| <b>FUND BALANCES - END OF YEAR</b>                      | <u>\$ -</u>   | <u>\$ 1,852,696</u> | <u>\$ -</u>         | <u>\$ 1,852,696</u>            |

See accompanying Notes to Basic Financial Statements.

**ERIE HIGHLANDS METROPOLITAN DISTRICT NO. 2  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES OF THE GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
YEAR ENDED DECEMBER 31, 2019**

Net Change in Fund Balances - Governmental Funds \$ (430,590)

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

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Accrued Interest on 2018B and 2018C Bonds (435,409)

Change in Net Position of Governmental Activities \$ (865,999)

**ERIE HIGHLANDS METROPOLITAN DISTRICT NO. 2  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –  
BUDGET AND ACTUAL  
YEAR ENDED DECEMBER 31, 2019**

|                                    | <u>Original<br/>and Final<br/>Budget</u> | <u>Actual<br/>Amounts</u> | <u>Variance with<br/>Final Budget<br/>Positive<br/>(Negative)</u> |
|------------------------------------|--|---------------------------|---|
| <b>REVENUES</b>                    |  |                           |   |
| Property Taxes                     | \$ 43,080                                | \$ 37,911                 | \$ (5,169)  |
| Specific Ownership Taxes           | 2,600                                    | 2,914                     | 314   |
| Interest income                    | -  | 265                       | 265   |
| Other Revenue                      | <u>1,720</u>                             | <u>-</u>                  | <u>(1,720)</u>  |
| Total Revenues                     | 47,400                                   | 41,090                    | (6,310)   |
| <b>EXPENDITURES</b>                |  |                           |   |
| Current:                           |  |                           |   |
| County Treasurer's Fees            | 646                                      | 569                       | 77  |
| Transfer to District No. 4         | 45,034                                   | 40,593                    | 4,441   |
| Contingency                        | <u>1,720</u>                             | <u>-</u>                  | <u>1,720</u>  |
| Total Expenditures                 | <u>47,400</u>                            | <u>41,162</u>             | <u>6,238</u>  |
| <b>NET CHANGE IN FUND BALANCES</b> | -  | (72)                      | (72)  |
| Fund Balance - Beginning of Year   | <u>-</u>                                 | <u>72</u>                 | <u>72</u>   |
| <b>FUND BALANCE - END OF YEAR</b>  | <u><u>\$ -</u></u>                       | <u><u>\$ -</u></u>        | <u><u>\$ -</u></u>  |

See accompanying Notes to Basic Financial Statements.

**ERIE HIGHLANDS METROPOLITAN DISTRICT NO. 2**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**

**NOTE 1 DEFINITION OF REPORTING ENTITY**

Erie Highlands Metropolitan District No. 2 (the District), a quasi-municipal corporation and political subdivision of the state of Colorado, was organized by court order and decree and recorded with the Weld County Clerk and Recorder on December 2, 2013, and is governed pursuant to provisions of the Colorado Special District Act (Title 32, Article 1, Colorado Revised Statutes). The District's service area is located entirely within the Town of Erie (Town), in Weld County (County), Colorado. The District was established to provide for the planning, design, acquisition, construction, installation, relocation and/or redevelopment and financing of water, sanitation, solid waste disposal, streets, safety, parks and recreation, transportation, fire protection, mosquito control, television relay and translation, and services within and without its boundaries.

The District was organized in conjunction with Erie Highlands Metropolitan District Nos. 1, 3, 4, and 5 (together with the District, and District Nos. 1, 3, 4, and 5, the Districts) and operates under a Consolidated Service Plan approved by the Town on September 24, 2013. The Districts entered into an Intergovernmental Agreement Concerning District Operations (the District IGA) on September 10, 2018, which set forth the respective roles, responsibilities, and obligations of each district with respect to the provision of administrative services, ownership, operation and maintenance of public improvements serving the property within the Districts. The District IGA acknowledges that the District No. 1 previously funded certain improvements with bonds issued in 2015. It additionally acknowledges that the District funded certain public improvements with bonds issued in 2018. The Districts further agree to assist each other with offsetting the costs of public improvements serving the Districts pursuant to the Service Plan.

The District IGA provides that District No. 1 will own and operate any public improvements not dedicated to the Town or another governmental entity that were financed with its previous bond issue, and that District No. 4 will own and operate the remaining such improvements. The Districts engaged District No. 4 as the operator of the District No. 1-Owned Improvements and the District No. 4-Owned Improvements. The Districts not owning and operating any public improvements agree to provide funds for the operation of such improvements. District No. 4 agrees to act as the district responsible for overall administrative services, and the remaining districts agree to compensate District No. 4 for those services.

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.

**ERIE HIGHLANDS METROPOLITAN DISTRICT NO. 2**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**

**NOTE 1 DEFINITION OF REPORTING ENTITY (CONTINUED)**

The District is not financially accountable for any other organization, nor is the District a component unit of any other primary governmental entity, including the other Erie Highlands Metropolitan Districts and the Town of Erie.

The District has no employees and contracts for all of its management and professional services.

**NOTE 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. The effect of interfund activity has been removed from these statements. Governmental activities are normally supported by taxes and intergovernmental revenues.

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

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.

Separate financial statements are provided for governmental funds. 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 related cash flows.

**ERIE HIGHLANDS METROPOLITAN DISTRICT NO. 2**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)**

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, specific ownership taxes, and facility fees. All other revenue items are considered to be measurable and available only when cash is received by the District. 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 funds.

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

**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 and other financing uses 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 on its basis of accounting unless otherwise indicated.

**Pooled Cash and Investments**

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 single bank account. 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 total cash.

**ERIE HIGHLANDS METROPOLITAN DISTRICT NO. 2**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Property Taxes**

Property taxes are levied by the District's Board of Directors. The levy is based on assessed valuations determined by the County Assessor generally as of January 1 of each year. The levy is normally set by December 15 by certification to the County Commissioners to put the tax lien on the individual properties as of January 1 of the following year. The County Treasurer collects the determined taxes during the ensuing calendar year. The taxes are payable by April 30 or if in equal installments, at the 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 inflows of resources in the year they are levied and measurable. The unearned property tax revenues are recorded as revenue in the year they are available or collected.

**Facility Fees**

Facility fees consist of the fees imposed by the District pursuant to a resolution adopted by the District in an amount equal to \$1,500 per single-family residential unit, \$1,000 per single family attached unit, and \$1.00 per square foot of any commercial property within the District. The Facility Fees are payable on the date of issuance of a building permit for the related residential unit.

**Deferred Inflows of Resources**

In addition to liabilities, the statement of net position reports 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 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. Accordingly, the item, *deferred property tax revenue*, is deferred and recognized as an inflow of resources in the period that the amount becomes available.

**Fund Equity**

**Net Position**

For government-wide presentation purposes when both restricted and unrestricted resources are available for use, it is the District's practice to use restricted resources first, then unrestricted resources as they are needed.

**ERIE HIGHLANDS METROPOLITAN DISTRICT NO. 2**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Fund Equity (Continued)**

**Fund Balance**

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 practice to use the most restrictive classification first.

**NOTE 3 CASH AND INVESTMENTS**

Cash and investments as of December 31, 2019, are classified in the accompanying financial statements as follows:

Statement of Net Position:

|                                   |                     |
|-----------------------------------|---------------------|
| Cash and Investments - Restricted | \$ 1,860,081        |
| Total Cash and Investments        | <u>\$ 1,860,081</u> |

**ERIE HIGHLANDS METROPOLITAN DISTRICT NO. 2**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**

**NOTE 3 CASH AND INVESTMENTS (CONTINUED)**

Cash and investments as of December 31, 2019, consist of the following:

|                            |                            |
|----------------------------|----------------------------|
| Investments                | <u>\$ 1,860,081</u>        |
| Total Cash and Investments | <u><u>\$ 1,860,081</u></u> |

**Deposits with Financial Institutions**

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 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.

At December 31, 2019, the District had no cash deposits.

**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.

**ERIE HIGHLANDS METROPOLITAN DISTRICT NO. 2  
NOTES TO BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2019**

**NOTE 3 CASH AND INVESTMENTS (CONTINUED)**

**Investments (Continued)**

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
- . Guaranteed investment contracts
- \* Local government investment pools

As of December 31, 2019, the District had the following investments:

| <u>Investment</u>                         | <u>Maturity</u>                   | <u>Amount</u> |
|---|-----------------------------------|---------------|
| Colorado Surplus Asset Fund Trust (CSAFE) | Weighted Average<br>Under 60 Days | \$ 1,860,081  |

**CSAFE**

The District invested in the Colorado Surplus Asset Fund Trust (CSAFE) (the Trust), which is an investment vehicle established by state statute for local government entities to pool surplus assets. The State Securities Commissioner administers and enforces all State statutes governing the Trust. The Trust is similar to a money market fund, with each share valued at \$1.00. CSAFE may invest in U.S. Treasury securities, repurchase agreements collateralized by U.S. Treasury securities, certain money market funds, and highest rated commercial paper. A designated custodial bank serves as custodian for CSAFE's portfolio pursuant to a custodian agreement. The custodian acts as safekeeping agent for CSAFE's investment portfolio and provides services as the depository in connection with direct investments and withdrawals. The custodian's internal records segregate investments owned by CSAFE. CSAFE is rated AAAM by Standard & Poor's. CSAFE records its investments at amortized cost and the District records its investments in CSAFE at net asset value as determined by amortized cost. There are no unfunded commitments, the redemption frequency is daily, and there is no redemption notice period.

**ERIE HIGHLANDS METROPOLITAN DISTRICT NO. 2**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**

**NOTE 4 LONG-TERM OBLIGATIONS**

The following is an analysis of changes in the District's long-term obligations for the year ended December 31, 2019:

|   | Balance -<br>December 31,<br>2018 | Additions         | Reductions  | Compounding<br>of Unpaid<br>Interest | Balance -<br>December 31,<br>2019 | Due<br>Within<br>One Year |
|---|-----------------------------------|-------------------|-------------|--------------------------------------|-----------------------------------|---------------------------|
| Limited Tax General Obligation<br>Bonds - Series 2018A              | \$ 11,725,000                     | \$ -              | \$ -        | \$ -                                 | \$ 11,725,000                     | \$ -                      |
| Subordinate Limited Tax General<br>Obligation Bonds - Series 2018B: |                                   |                   |             |                                      |                                   |                           |
| Principal   | 1,819,000                         | -                 | -           | -                                    | 1,819,000                         | -                         |
| Interest  | 35,931                            | 139,177           | -           | 2,262                                | 177,370                           | -                         |
| Junior Lien Limited Tax General<br>Obligation Bonds - Series 2018C: |                                   |                   |             |                                      |                                   |                           |
| Principal   | 3,600,000                         | -                 | -           | -                                    | 3,600,000                         | -                         |
| Interest  | 74,619                            | 289,042           | -           | 4,928                                | 368,589                           | -                         |
| Total   | <u>\$ 17,254,550</u>              | <u>\$ 428,219</u> | <u>\$ -</u> | <u>\$ 7,190</u>                      | <u>\$ 17,689,959</u>              | <u>\$ -</u>               |

The details of the District's long-term obligations are as follows:

**Bond Details**

The District issued Limited Tax General Obligation Bonds, Series 2018A (the 2018A Senior Bonds), Subordinate Limited Tax General Obligation Bonds, Series 2018B (the 2018B Subordinate Bonds), and Junior Lien Limited Tax General Obligation Bonds, Series 2018C (the "2018C Junior Lien Bonds," and together with the 2018A Senior Bonds and the 2018B Subordinate Bonds, the "2018 Bonds") on September 28, 2018 in the amounts of \$11,725,000, \$1,819,000, and \$3,600,000, respectively.

Proceeds of the 2018A Senior Bonds were used to: (i) finance public improvements; (ii) pay capitalized interest on the 2018A Senior Bonds; (iii) fund the Senior Reserve Fund; and (iv) pay other costs in connection with the issuance of the 2018A Senior Bonds. Proceeds of the 2018B Subordinate Bonds and the 2018C Junior Lien Bonds were used to finance additional public improvements.

The 2018A Senior Bonds bear interest at 5.25%, payable semiannually on June 1 and December 1 of each year, commencing December 1, 2018. Annual mandatory sinking fund principal payments are due on December 1, beginning on December 1, 2023. The 2018 Bonds mature on December 1, 2048. To the extent the 2018A Senior Bonds are not paid when due, the unpaid principal will continue to bear interest and the unpaid interest will compound semi-annually on each June 1 and December 1 until the total repayment obligation of the District for the 2018A Senior Bonds equals the amount permitted by law. Any amounts due and owing on the 2018A Senior Bonds remaining outstanding on December 1, 2058, shall be deemed discharged and shall no longer be due and outstanding.

**ERIE HIGHLANDS METROPOLITAN DISTRICT NO. 2**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**

**NOTE 4 LONG-TERM OBLIGATIONS (CONTINUED)**

**Bond Details (Continued)**

The 2018B Subordinate Bonds bear interest at 7.625% and mature on December 15, 2048. The 2018B Subordinate Bonds constitute subordinate “cash flow” bonds, meaning that no regularly scheduled principal payments are due prior to the maturity date, and interest payments not paid when due will accrue and compound until sufficient Subordinate Pledged Revenue is available for payment. Principal and interest payments are due on the 2018B Subordinate Bonds on each December 15 only to the extent Subordinate Pledged Revenue is available therefor. In the event that the Subordinate Pledged Revenue is insufficient to pay the 2018B Subordinate Bonds, the unpaid principal will continue to bear interest and the unpaid interest will compound annually until the total repayment obligation of the District for the 2018B Subordinate Bonds equals the amount permitted by law. Any amounts due and owing on the 2018B Subordinate Bonds remaining outstanding on December 15, 2058, shall be deemed discharged and shall no longer be due and outstanding.

The 2018C Junior Lien Bonds bear interest at 8% through December 14, 2023 and 6% thereafter. The 2018C Junior Lien Bonds mature on December 15, 2052. The 2018C Junior Lien Bonds constitute junior lien “cash flow” bonds, meaning that no regularly scheduled principal payments are due prior to the maturity date, and interest payments not paid when due will accrue and compound until sufficient Junior Lien Pledged Revenue is available for payment. Principal and interest payments are due on the 2018C Junior Lien Bonds on each December 15 only to the extent Junior Lien Pledged Revenue is available therefor. In no event will any amounts be paid on the 2018C Junior Lien Bonds until such time as there has been paid in full or defeased the 2018B Subordinate Bonds, and, to the extent required by the applicable Senior/Subordinate Obligation Indentures, any other Senior/Subordinate Obligations issued by the District.

In the event that the Junior Lien Pledged Revenue is insufficient to pay the 2018C Junior Lien Bonds, the unpaid principal will continue to bear interest and the unpaid interest will compound annually until the total repayment obligation of the District for the 2018C Junior Lien Bonds equals the amount permitted by law. In the event any amounts due and owing on the 2018C Junior Lien Bonds remain outstanding on December 15, 2058, such amounts shall be deemed discharged and shall no longer be due and outstanding.

**Optional Redemption**

The 2018A Senior Bonds are subject to redemption prior to maturity, at the option of the District, on December 1, 2023, and on any date thereafter, upon payment of par, accrued interest, and a redemption premium equal to a percentage of the principal amount so redeemed, as follows:

| <u>Date of Redemption</u>              | <u>Redemption Premium</u> |
|--|---------------------------|
| December 1, 2023, to November 30, 2024 | 3.00%                     |
| December 1, 2024, to November 30, 2025 | 2.00                      |
| December 1, 2025, to November 30, 2026 | 1.00                      |
| December 1, 2026, and Thereafter       | 0.00                      |

**ERIE HIGHLANDS METROPOLITAN DISTRICT NO. 2  
NOTES TO BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2019**

**NOTE 4 LONG-TERM OBLIGATIONS (CONTINUED)**

**Optional Redemption (Continued)**

The 2018B Subordinate Bonds are subject to redemption prior to maturity, at the option of the District, on December 15, 2023, and on any date thereafter, upon payment of par, accrued interest, and a redemption premium equal to a percentage of the principal amount so redeemed, as follows:

| <u>Date of Redemption</u>               | <u>Redemption Premium</u> |
|---|---------------------------|
| December 15, 2023, to December 14, 2024 | 3.00%                     |
| December 15, 2024, to December 14, 2025 | 2.00                      |
| December 15, 2025, to December 14, 2026 | 1.00                      |
| December 15, 2026, and Thereafter       | 0.00                      |

The 2018C Junior Lien Bonds are subject to redemption prior to maturity, at the option of the District, on December 15, 2023, and on any date thereafter, upon payment of par, accrued interest, and a redemption premium equal to a percentage of the principal amount so redeemed, as follows:

| <u>Date of Redemption</u>               | <u>Redemption Premium</u> |
|---|---------------------------|
| December 15, 2023, to December 14, 2024 | 3.00%                     |
| December 15, 2024, to December 14, 2025 | 2.00                      |
| December 15, 2025, to December 14, 2026 | 1.00                      |
| December 15, 2026, and Thereafter       | 0.00                      |

**Pledged Revenue**

The 2018A Senior Bonds are payable solely from and to the extent of the Senior Pledged Revenue, defined generally in the 2018A Senior Indenture as the following, net of any costs of collection: (i) all Senior Property Tax Revenues; (ii) all Senior Specific Ownership Tax Revenues; (iii) all Capital Fees; and (iv) any other legally available moneys which the District determines, in its absolute discretion, to credit to the Senior Bond Fund. The 2018A Senior Bonds are additionally secured by the Senior Reserve Fund, which will initially be funded with proceeds of the 2018A Senior Bonds in the amount of the Reserve Requirement, capitalized interest which will be funded with proceeds of the 2018A Senior Bonds and by amounts in the Senior Surplus Fund, if any. The Senior Surplus Fund will not be funded as of the date of issuance of the 2018A Senior Bonds.

The 2018B Subordinate Bonds are payable solely from and to the extent of the Subordinate Pledged Revenue defined generally in the 2018B Subordinate Indenture as the following, net of any costs of collection: (i) all Subordinate Property Tax Revenues; (ii) all Subordinate Specific Ownership Tax Revenues; (iii) all Subordinate Capital Fee Revenue; and (iv) any other legally available moneys which the District determines, in its absolute discretion, to credit to the Subordinate Bond Fund.

**ERIE HIGHLANDS METROPOLITAN DISTRICT NO. 2**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**

**NOTE 4 LONG-TERM OBLIGATIONS (CONTINUED)**

**Pledged Revenue (Continued)**

The 2018C Junior Lien Bonds are payable solely from and to the extent of the Junior Lien Pledged Revenue, which is defined generally in the 2018C Junior Lien Indenture as the following, net costs of collection: (i) all Junior Lien Property Tax Revenues; (ii) all Junior Lien Specific Ownership Tax Revenues; (iii) all Junior Lien Capital Fee Revenue; and (iv) any other legally available moneys which the District determines, in its absolute discretion, to credit to the Junior Lien Bond Fund.

**Property Tax Revenues**

“Senior Property Tax Revenues” are generally defined as all moneys derived from imposition by the District of the Senior Required Mill Levy, but excluding Senior Specific Ownership Tax Revenues. Senior Property Tax Revenues are net of the costs of collection and any tax refunds or abatements authorized by or on behalf of the County.

“Subordinate Property Tax Revenues” are defined as all moneys derived from imposition by the District of the Subordinate Required Mill Levy, but excluding Subordinate Specific Ownership Tax Revenues. Subordinate Property Tax Revenues are net of the costs of collection and any tax refunds or abatements authorized by or on behalf of the County.

“Junior Lien Property Tax Revenues” are defined as all moneys derived from imposition by the District of the Junior Lien Required Mill Levy, but excluding Junior Lien Specific Ownership Tax Revenues. Junior Lien Property Tax Revenues are net of the costs of collection and any tax refunds or abatements authorized by or on behalf of the County.

**Required Mill Levy**

Pursuant to the 2018A Senior Indenture, the District will impose a Senior Required Mill Levy on all taxable property of the District each year to pay the principal of and interest on the 2018A Senior Bonds, replenish the Reserve Fund to the Reserve Requirement and, for so long as it is in existence, fund the Surplus Fund to the Maximum Surplus Amount in an amount equal to: (i) 50 mills (subject to adjustment described below) or (ii) such lesser amount that will generate Property Tax Revenues which, when combined with moneys then on deposit in the Senior Bond Fund, the Surplus Fund, and the Reserve Fund will pay the 2018A Senior Bonds in full. In no event is the District to be required to impose the Senior Required Mill Levy after December 2057 (for collection in calendar year 2058).

In the event that the method of calculating assessed valuation is changed after January 1, 2014, the minimum and maximum mill levy of 50 mills will be increased or decreased to reflect such changes, such increases or decreases to be determined by the Board in good faith so that to the extent possible, the actual tax revenues generated by the mill levy, as adjusted, are neither diminished nor enhanced as a result of such changes. For purposes of the foregoing, a change in the ratio of actual valuation to assessed valuation shall be deemed to be a change in the method of calculating assessed valuation.

**ERIE HIGHLANDS METROPOLITAN DISTRICT NO. 2**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**

**NOTE 4 LONG-TERM OBLIGATIONS (CONTINUED)**

**Required Mill Levy (Continued)**

The 2018B Subordinate Indenture requires the District to impose the Subordinate Required Mill Levy, which is generally defined as an ad valorem mill levy equal to 50 mills less the Senior Obligation Mill Levy (the sum of the Senior Required Mill Levy and any other ad valorem property tax levy required to be imposed by the District for the payment of Senior Obligations), subject to adjustment.

The Junior Lien Required Mill Levy is generally defined in the 2018C Junior Lien Indenture as an ad valorem mill levy equal to 50 mills less the sum of the Senior Required Mill Levy required to be imposed by the District in accordance with the 2018A Senior Indenture, the Subordinate Required Mill Levy required to be imposed by the District in accordance with the 2018B Subordinate Indenture and any other ad valorem property tax levy required to be imposed by the District for the payment of other Senior/Subordinate Obligations, subject to adjustment. The maximum mill levy for the repayment of debt shall not apply to the District's ability to increase its mill levy as necessary for the provision of operation and maintenance services to their taxpayers. The Consolidated Service Plan allows for the imposition of a maximum of 20 mills, as adjusted, for operations and maintenance.

**Specific Ownership Tax Revenues**

"Senior Specific Ownership Tax Revenues" means the specific ownership taxes remitted to the District as a result of its imposition of the Senior Required Mill Levy.

"Subordinate Specific Ownership Tax Revenues" means the specific ownership taxes remitted to the District as a result of its imposition of the Subordinate Required Mill Levy.

"Junior Lien Specific Ownership Tax Revenues" means the specific ownership taxes remitted to the District as a result of its imposition of the Junior Lien Required Mill Levy.

**Capital Fee Revenues**

Capital Fees pledged to the payment of the 2018A Senior Bonds include Facilities Fees. The Facilities Fee is imposed in the amount of \$1,500 per single family detached unit, \$1,000 per single family attached unit, and \$1.00 per square foot of any commercial property within the District. The Facilities Fee is due and payable to the District upon issuance of a building permit for construction of structures on property within the District.

"Subordinate Capital Fee Revenue" means any revenue from Capital Fees remaining after deduction of any amount thereof used, paid, pledged, or otherwise applied to the payment of any Senior Obligations.

"Junior Lien Capital Fee Revenue" means any revenue from Capital Fees remaining after deduction of any amount thereof used, paid, pledged, or otherwise applied to the payment of any Senior/Subordinate Obligations.

**ERIE HIGHLANDS METROPOLITAN DISTRICT NO. 2**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**

**NOTE 4 LONG-TERM OBLIGATIONS (CONTINUED)**

**Senior Reserve Fund**

Moneys in the Senior Reserve Fund shall be used solely for the purpose of paying the principal of and interest on the 2018A Senior Bonds to the extent the moneys in the Senior Bond Fund are insufficient for such purpose.

If a withdrawal from the Senior Reserve Fund is made that reduces the balance in such fund below the Reserve Requirement of \$948,238, the District shall include in the computation of its next mill levy certification the amount necessary to replenish the Senior Reserve Fund to the Reserve Requirement.

Amounts on deposit in the Senior Reserve Fund on the maturity date of the 2018A Senior Bonds shall be applied to the payment of the 2018A Senior Bonds on such date. The availability of such amount shall be taken into account in calculating the Senior Required Mill Levy required to be imposed in December 2047 for collection in calendar year 2048.

**Senior Surplus Fund**

Senior Pledged Revenue that is not needed to pay debt service on the 2018A Senior Bonds in any year will be deposited to and held in the Senior Surplus Fund, up to the Maximum Surplus Amount of \$1,172,500.

It is intended that amounts in the Senior Surplus Fund are to be transferred to the Senior Bond Fund prior to any transfer from the Senior Reserve Fund or the Senior Project Fund, for so long as such account remains in existence. Amounts on deposit in the Senior Surplus Fund (if any) on the maturity date of the 2018A Senior Bonds shall be applied to the payment of the 2018A Senior Bonds maturing on such date. The balance in the Senior Surplus Fund at December 31, 2019 was \$226,562.

The District's long-term obligations on the 2018A Senior Bonds will mature as follows:

| <u>Year Ending December 31,</u> | <u>Governmental Activities</u> |                      |                      |
|---------------------------------|--------------------------------|----------------------|----------------------|
|                                 | <u>Principal</u>               | <u>Interest</u>      | <u>Total</u>         |
| 2020                            | \$ -                           | \$ 615,563           | \$ 615,563           |
| 2021                            | -                              | 615,563              | 615,563              |
| 2022                            | -                              | 615,563              | 615,563              |
| 2023                            | 25,000                         | 615,563              | 640,563              |
| 2024-2028                       | 860,000                        | 2,990,400            | 3,850,400            |
| 2029-2033                       | 1,330,000                      | 2,717,400            | 4,047,400            |
| 2034-2038                       | 1,965,000                      | 2,305,013            | 4,270,013            |
| 2039-2043                       | 2,765,000                      | 1,709,400            | 4,474,400            |
| 2044-2048                       | 4,780,000                      | 877,800              | 5,657,800            |
| Total                           | <u>\$ 11,725,000</u>           | <u>\$ 13,062,263</u> | <u>\$ 24,787,263</u> |

**ERIE HIGHLANDS METROPOLITAN DISTRICT NO. 2**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**

**NOTE 4 LONG-TERM OBLIGATIONS (CONTINUED)**

The amounts of principal and interest payments to be made in future years on the 2018B Subordinate Bonds and the 2018C Junior Lien Bonds will depend on pledged revenue collected and cannot be predicted with certainty.

**Authorized Debt**

On November 5, 2013, District voters approved debt authorization in the amount of \$540,000,000 for the construction of capital improvements. The voters also authorized debt of \$60,000,000 for the cost of operating and maintaining the District's systems, \$60,000,000 for management agreements, and \$60,000,000 for mortgages.

The District had authorized but unissued debt at December 31, 2019, for the following detailed purposes:

|   | Authorized<br>November 5,<br>2013 Election | Series 2018A<br>Authorization<br>Used | Series 2018B<br>Authorization<br>Used | Series 2018C<br>Authorization<br>Used | Remaining at<br>December 31,<br>2019 |
|---|--|---------------------------------------|---------------------------------------|---------------------------------------|--------------------------------------|
| Streets   | \$ 60,000,000                              | \$ 7,357,846                          | \$ 822,966                            | \$ 78,837                             | \$ 51,740,351                        |
| Water   | 60,000,000                                 | 1,498,578                             | 214,094                               | 20,509                                | 58,266,819                           |
| Sanitary Sewer and Storm Sewer                        | 60,000,000                                 | 2,342,323                             | 388,554                               | 37,222                                | 57,231,901                           |
| Parks and Recreation                                  | 60,000,000                                 | 526,253                               | 393,386                               | 3,463,432                             | 55,616,929                           |
| Traffic & Safety                                      | 60,000,000                                 | -                                     | -                                     | -                                     | 60,000,000                           |
| Mosquito Control                                      | 60,000,000                                 | -                                     | -                                     | -                                     | 60,000,000                           |
| Public Transportation                                 | 60,000,000                                 | -                                     | -                                     | -                                     | 60,000,000                           |
| Television Relay and Translation                      | 60,000,000                                 | -                                     | -                                     | -                                     | 60,000,000                           |
| Operations and Maintenance                            | 60,000,000                                 | -                                     | -                                     | -                                     | 60,000,000                           |
| Debt Refunding  | 60,000,000                                 | -                                     | -                                     | -                                     | 60,000,000                           |
| Mortgages   | 60,000,000                                 | -                                     | -                                     | -                                     | 60,000,000                           |
| Management Services related to<br>District Facilities | 60,000,000                                 | -                                     | -                                     | -                                     | 60,000,000                           |
| Total   | <u>\$ 720,000,000</u>                      | <u>\$ 11,725,000</u>                  | <u>\$ 1,819,000</u>                   | <u>\$ 3,600,000</u>                   | <u>\$ 702,856,000</u>                |

Pursuant to the Consolidated Service Plan, each District shall not issue debt in an aggregate amount in excess of \$60,000,000. Additionally, the maximum debt mill levy is 50 mills as adjusted, which shall not be imposed for longer than 40 years after the year of the initial imposition of such debt mill levy.

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.

**ERIE HIGHLANDS METROPOLITAN DISTRICT NO. 2**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**

**NOTE 5 NET POSITION**

The District has net position consisting of two components –restricted and unrestricted.

Restricted net position includes assets that are 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, 2019 as follows:

Restricted Net Position:

|                               |                   |
|-------------------------------|-------------------|
| Debt Service                  | \$ 237,598        |
| Total Restricted Net Position | <u>\$ 237,598</u> |

The District has a deficit in unrestricted net position. The deficit is a result of the District being responsible for the repayment of bonds issued for public improvements which were conveyed to other governmental entities and which costs were removed from the District's financial records.

**NOTE 6 RELATED PARTIES**

A majority of the members of the Board of Directors during 2019 were employees of, or consultants to, Clayton Properties Group II, Inc., a Colorado corporation doing business as Oakwood Homes and the major landowner, developer and homebuilder of the property within the Districts.

**NOTE 7 DISTRICT AGREEMENTS**

**Advance and Reimbursement and Facilities Acquisition Agreement**

The District and the Developer entered into an Advance and Reimbursement and Facilities Acquisition Agreement dated as of September 10, 2018 (the Acquisition Agreement). Pursuant to the Acquisition Agreement, the Developer agreed to advance funds to the District to be used for capital construction of certain Public Improvements (the "Advances"). In return, the District agreed to reimburse the Developer for the Advances, together with an interest rate of 3% per annum accruing from the date that the Advances were made, subject to annual appropriation and available funds of the District, and acquire any Public Improvements constructed by the Developer.

The District paid the Developer \$8,711,809 for the cost of certain Public Improvements from proceeds of the issuance of the 2018 Bonds. As of December 31, 2019, there were no outstanding amounts owed to the Developer by the District for Public Improvements.

**NOTE 8 INTERFUND AND OPERATING TRANSFERS**

The transfer of \$96 from the Capital Projects Fund to the Debt Service Fund was to transfer final amounts in the 2018A Project Fund to the 2018A Bond Fund.

**ERIE HIGHLANDS METROPOLITAN DISTRICT NO. 2**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**

**NOTE 9 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 (the Pool). 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.

**NOTE 10 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 transfers its net operating revenue to District No. 4. Therefore, the Emergency Reserves related to the District's revenues are reported in District No. 4.

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

On November 5, 2013, the District voters passed an election question to increase property taxes \$2,000,000 annually, with a maximum mill levy of 20 mills (subject to adjustment for changes occurring in the method of calculating assessed valuation), to pay the District's operations, maintenance and other expenses. Additionally, the District's electors authorized the District to collect, retain and spend all revenue annually, other than ad valorem taxes, without regard to limitations under TABOR.

## **SUPPLEMENTARY INFORMATION**

**ERIE HIGHLANDS METROPOLITAN DISTRICT NO. 2  
DEBT SERVICE FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –  
BUDGET AND ACTUAL  
YEAR ENDED DECEMBER 31, 2019**

|   | Original<br>and Final<br>Budget | Actual<br>Amounts          | Variance with<br>Final Budget<br>Positive<br>(Negative) |
|---|---------------------------------|----------------------------|---|
| <b>REVENUES</b>   |                                 |                            |   |
| Property Taxes  | \$ 107,700                      | \$ 94,778                  | \$ (12,922)   |
| Specific Ownership Tax                                  | 6,501                           | 7,287                      | 786   |
| System Development Fees                                 | 97,500                          | 83,500                     | (14,000)  |
| Net Investment Income                                   | 18,000                          | 43,529                     | 25,529  |
| Total Revenues  | <u>229,701</u>                  | <u>229,094</u>             | <u>(607)</u>  |
| <b>EXPENDITURES</b>                                     |                                 |                            |   |
| County Treasurer's Fee                                  | 1,616                           | 1,422                      | 194   |
| Paying Agent Fees                                       | 8,000                           | 8,000                      | -   |
| Bond Interest   | 615,563                         | 615,563                    | -   |
| Contingency   | 4,821                           | -                          | 4,821   |
| Total Expenditures                                      | <u>630,000</u>                  | <u>624,985</u>             | <u>5,015</u>  |
| <b>EXCESS OF REVENUES OVER<br/>(UNDER) EXPENDITURES</b> | (400,299)                       | (395,891)                  | 4,408   |
| <b>OTHER FINANCING SOURCES (USES)</b>                   |                                 |                            |   |
| Transfers from Other Funds                              | -                               | 96                         | 96  |
| Total Other Financing Sources (Uses)                    | <u>-</u>                        | <u>96</u>                  | <u>96</u>   |
| <b>NET CHANGE IN FUND BALANCES</b>                      | (400,299)                       | (395,795)                  | 4,504   |
| Fund Balance - Beginning of Year                        | <u>2,244,363</u>                | <u>2,248,491</u>           | <u>4,128</u>  |
| <b>FUND BALANCE - END OF YEAR</b>                       | <u><u>\$ 1,844,064</u></u>      | <u><u>\$ 1,852,696</u></u> | <u><u>\$ 8,632</u></u>                                  |

**ERIE HIGHLANDS METROPOLITAN DISTRICT NO. 2  
CAPITAL PROJECTS FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –  
BUDGET AND ACTUAL  
YEAR ENDED DECEMBER 31, 2019**

|   | Original<br>and Final<br>Budget | Actual<br>Amounts  | Variance with<br>Final Budget<br>Positive<br>(Negative) |
|---|---------------------------------|--------------------|---|
| <b>REVENUES</b>   |                                 |                    |   |
| Interest Income   | \$ -                            | \$ 773             | \$ 773  |
| Developer Advance                                       | 500,000                         | -                  | (500,000)   |
| Total Revenues  | <u>500,000</u>                  | <u>773</u>         | <u>(499,227)</u>  |
| <b>EXPENDITURES</b>                                     |                                 |                    |   |
| Capital Expenditures                                    | 500,000                         | -                  | 500,000   |
| Developer Reimbursement                                 | 88,324                          | 35,400             | 52,924  |
| Total Expenditures                                      | <u>588,324</u>                  | <u>35,400</u>      | <u>552,924</u>  |
| <b>EXCESS OF REVENUES OVER<br/>(UNDER) EXPENDITURES</b> | (88,324)                        | (34,627)           | 53,697  |
| <b>OTHER FINANCING SOURCES (USES)</b>                   |                                 |                    |   |
| Transfers to Other Funds                                | -                               | (96)               | (96)  |
| Total Other Financing Sources (Uses)                    | <u>-</u>                        | <u>(96)</u>        | <u>(96)</u>   |
| <b>NET CHANGE IN FUND BALANCES</b>                      | (88,324)                        | (34,723)           | 53,601  |
| Fund Balance - Beginning of Year                        | <u>88,324</u>                   | <u>34,723</u>      | <u>(53,601)</u>   |
| <b>FUND BALANCE - END OF YEAR</b>                       | <u><u>\$ -</u></u>              | <u><u>\$ -</u></u> | <u><u>\$ -</u></u>                                      |

## **OTHER INFORMATION**

**ERIE HIGHLANDS METROPOLITAN DISTRICT NO. 2  
SCHEDULE OF DEBT SERVICE REQUIREMENTS TO MATURITY  
DECEMBER 31, 2019**

| Bonds and<br>Interest<br>Maturing<br>in the<br>Year Ending<br>December 31, | \$11,725,000<br>Limited Tax General Obligation Bonds<br>Dated September 28, 2018<br>Series 2018A<br>Interest Rate of 5.25%<br>Payable June 1 and December 1<br>Principal Due December 1 |                      |                      |
|--|---|----------------------|----------------------|
|  | Principal   | Interest             | Total                |
| 2020   | \$ -  | \$ 615,563           | \$ 615,563           |
| 2021   | -   | 615,563              | 615,563              |
| 2022   | -   | 615,563              | 615,563              |
| 2023   | 25,000  | 615,563              | 640,563              |
| 2024   | 135,000   | 614,250              | 749,250              |
| 2025   | 155,000   | 607,163              | 762,163              |
| 2026   | 175,000   | 599,025              | 774,025              |
| 2027   | 185,000   | 589,838              | 774,838              |
| 2028   | 210,000   | 580,125              | 790,125              |
| 2029   | 220,000   | 569,100              | 789,100              |
| 2030   | 250,000   | 557,550              | 807,550              |
| 2031   | 260,000   | 544,425              | 804,425              |
| 2032   | 290,000   | 530,775              | 820,775              |
| 2033   | 310,000   | 515,550              | 825,550              |
| 2034   | 340,000   | 499,275              | 839,275              |
| 2035   | 360,000   | 481,425              | 841,425              |
| 2036   | 395,000   | 462,525              | 857,525              |
| 2037   | 415,000   | 441,788              | 856,788              |
| 2038   | 455,000   | 420,000              | 875,000              |
| 2039   | 480,000   | 396,113              | 876,113              |
| 2040   | 520,000   | 370,913              | 890,913              |
| 2041   | 545,000   | 343,613              | 888,613              |
| 2042   | 595,000   | 315,000              | 910,000              |
| 2043   | 625,000   | 283,763              | 908,763              |
| 2044   | 675,000   | 250,950              | 925,950              |
| 2045   | 710,000   | 215,513              | 925,513              |
| 2046   | 770,000   | 178,238              | 948,238              |
| 2047   | 810,000   | 137,813              | 947,813              |
| 2048   | 1,815,000   | 95,288               | 1,910,288            |
| <b>Total</b>   | <b>\$ 11,725,000</b>  | <b>\$ 13,062,263</b> | <b>\$ 24,787,263</b> |

**ERIE HIGHLANDS METROPOLITAN DISTRICT NO. 2**  
**SCHEDULE OF ASSESSED VALUATION, MILL LEVY, AND PROPERTY TAXES COLLECTED**  
**DECEMBER 31, 2019**

| Year Ended<br>December 31,                               | Prior<br>Year Assessed<br>Valuation<br>for Current<br>Year Property<br>Tax Levy | Mills Levied |              | Total Property Taxes |           | Percentage<br>Collected<br>to Levied |
|--|---|--------------|--------------|----------------------|-----------|--------------------------------------|
|  |   | General      | Debt Service | Levied               | Collected |                                      |
| 2016   | \$ 2,021,240  | 20.000       | 0.000        | \$ 40,425            | 40,425    | 100.00 %                             |
| 2017   | 601,210   | 20.000       | 0.000        | 12,024               | 12,024    | 100.00                               |
| 2018   | 466,190   | 22.111       | 0.000        | 10,308               | 10,308    | 100.00                               |
| 2019   | 1,948,370   | 22.111       | 55.277       | 150,780 *            | 132,689   | 88.00                                |
| Estimated for<br>the year ending<br>December 31,<br>2020 | \$ 3,140,450  | 22.265       | 55.663       | \$ 244,729           |           |                                      |

\* In 2019, refunds and abatements totaled \$18,091.

NOTE: Property taxes collected in any one year include collection of delinquent property taxes assessed in prior years, as well as reductions for property tax refunds or abatements. Information received from the County Treasurer does not permit identification of specific year of assessment.