

ERIE CORPORATE CENTER METROPOLITAN DISTRICT NO. 2

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

ERIE CORPORATE CENTER METROPOLITAN DISTRICT NO. 2
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Erie Corporate Center Metropolitan District No. 2
Erie, Colorado

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express 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 auditors' 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.

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 fund of Erie Corporate Center Metropolitan District No. 2 as of December 31, 2019, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on page 20 be presented to supplement the basic financial statements. Such 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management 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.



CliftonLarsonAllen LLP

Greenwood Village, Colorado
April 23, 2020

ERIE CORPORATE CENTER METROPOLITAN DISTRICT NO. 2
STATEMENT OF NET POSITION
DECEMBER 31, 2019

	<u>Governmental Activities</u>
ASSETS	
Unrestricted Cash and Investments	\$ 467
Restricted Cash and Investments	954,987
Due from County Treasurer	50
Prepaid Items	2,187
Property Taxes Receivable	11,646
Construction in Progress	<u>1,849,350</u>
Total Assets	2,818,687
LIABILITIES	
Accrued Interest Payable	13,125
Noncurrent Liabilities:	
Due in More Than One Year:	
Series 2019 Limited Tax Bonds	<u>3,000,000</u>
Total Liabilities	3,013,125
DEFERRED INFLOWS OF RESOURCES	
Property Tax Revenue	<u>11,646</u>
Total Deferred Inflows of Resources	11,646
NET POSITION	
Restricted for TABOR	290
(Unrestricted)	<u>(206,374)</u>
Total Net Position	<u><u>\$ (206,084)</u></u>

See accompanying Notes to Financial Statements.

ERIE CORPORATE CENTER METROPOLITAN DISTRICT NO. 2
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2019

Functions/Programs	Expenses	Program Revenue	Net (Expense) Revenue and Changes in Net Position Governmental Activities
Governmental Activities:			
General Government	\$ 70,858	\$ -	\$ (70,858)
Interest and Related Costs on Long-Term Debt	179,690	-	(179,690)
	<u>\$ 250,548</u>	<u>\$ -</u>	<u>\$ (250,548)</u>
General Revenues:			
Property Taxes			8,799
Specific Ownership Taxes			591
Transfers from District No. 1			23,474
Net Investment Income			275
Total General Revenues			<u>33,139</u>
Change in Net Position			(217,409)
Net Position - Beginning of Year			<u>11,325</u>
Net Position - End of Year			<u>\$ (206,084)</u>

See accompanying Notes to Financial Statements.

ERIE CORPORATE CENTER METROPOLITAN DISTRICT NO. 2
BALANCE SHEET
DECEMBER 31, 2019

	General Fund
ASSETS	
Unrestricted Cash and Investments	467
Restricted Cash and Investments	954,987
Due from County Treasurer	50
Prepaid Items	2,187
Property Taxes Receivable	11,646
Total Assets	\$ 969,337
DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	
DEFERRED INFLOWS OF RESOURCES	
Deferred Inflows of Property Tax Revenue	11,646
Total Deferred Inflows of Resources	11,646
FUND BALANCE	
Nonspendable	2,187
Restricted for TABOR	290
Restricted for Debt Service	744,875
Restricted for Capital Projects	210,112
Unassigned	227
Total Fund Balance	957,691
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	\$ 969,337

See accompanying Notes to Financial Statements.

**ERIE CORPORATE CENTER METROPOLITAN DISTRICT NO. 2
RECONCILIATION OF THE BALANCE SHEET OF
GOVERNMENTAL FUND TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2019**

Total Fund Balance - Total Governmental Fund	<u>\$ 957,691</u>
Amounts reported for governmental activities in the statement of net position are different because:	
Accrued interest payable is recognized for governmental activities, but is not due and payable in the current period and, therefore, is not reported as a liability in the government funds.	(13,125)
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund balance sheet.	
Construction in Progress	1,849,350
Some liabilities are not due in the current period and, therefore, are not reported in the fund balance sheet.	
Series 2019A Limited Tax Bonds	<u>(3,000,000)</u>
Net Position of Governmental Activities	<u><u>\$ (206,084)</u></u>

See accompanying Notes to Financial Statements.

**ERIE CORPORATE CENTER METROPOLITAN DISTRICT NO. 2
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE – GOVERNMENTAL FUND
YEAR ENDED DECEMBER 31, 2019**

	General Fund
REVENUES	
Property Taxes	\$ 8,799
Specific Ownership Taxes	591
Intergovernmental - Erie Commons Metropolitan District No. 1	23,474
Net Investment Income	275
Total Revenues	<u>33,139</u>
EXPENDITURES	
Current:	
Intergovernmental - Erie Commons Metropolitan District No. 1	61,000
County Treasurer's Fees	133
Audit	1,450
Insurance	1,903
Miscellaneous	6,372
Debt Service:	
Interest	65,625
Loan Fees	99,940
Custodial Fees	1,000
Capital Outlay	1,849,350
Total Expenditures	<u>2,086,773</u>
Other Financing Sources	
Proceeds from Debt Issuance	3,000,000
Total Other Financing Sources	<u>3,000,000</u>
NET CHANGE IN FUND BALANCE	946,366
Fund Balance - Beginning of Year	<u>11,325</u>
FUND BALANCE - END OF YEAR	<u><u>\$ 957,691</u></u>

See accompanying Notes to Financial Statements.

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

Net Change in Fund Balance - Total Governmental Fund	\$ 946,366
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental fund reports capital outlays as expenditures. However, for government activities, those capital outlays other than noncapitalizable items are shown in the statement of net position at cost.	
Capital Outlay	1,849,350
An increase in accrued interest does not have any impact on governmental fund expenditures. This transaction, however, does reduce the amount of interest expense on the statement of activities.	(13,125)
Debt proceeds provide current financial resources to the governmental fund; however issuing debt increases long-term liabilities in the statement of net position and does not effect the statement of activities.	
Proceeds from Bond Issuance	<u>(3,000,000)</u>
Change in Net Position of Governmental Activities	<u><u>\$ (217,409)</u></u>

See accompanying Notes to Financial Statements.

ERIE CORPORATE CENTER METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 1 DEFINITION OF REPORTING ENTITY

Erie Corporate Center Metropolitan District No. 2 (District), a quasi-municipal corporation and political subdivision of the State of Colorado, was organized by order and decree of the District Court, and is governed pursuant to provisions of the Colorado Special District Act (Title 32, Article 1, Colorado Revised Statutes). The District operates under a Consolidated Service Plan with Erie Corporate Center Metropolitan District No. 1 and No. 3. (District No. 1 and District No. 3) approved by the Town of Erie on October 28, 2004. Pursuant to the Service Plan, the District, the residential financing district, is intended to provide funding to District No. 1 for the design, acquisition, construction, and completion of public improvements, including streets, traffic and safety controls and devices, transportation services, park and recreation, water, and sanitation facilities. District No. 1, the operating district, is intended to manage the financial, construction and operation and maintenance of such improvements.

The operation and maintenance of all other services and facilities is anticipated to be provided by the Town of Erie and not by the District.

The District has no employees and all services are contracted.

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 is not financially accountable for any other organization, nor is the District a component unit of any other primary governmental entity, including District No. 1 and District No. 3 and the Town of Erie.

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. Governmental activities are normally supported by taxes.

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

ERIE CORPORATE CENTER METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government-Wide and Fund Financial Statements (Continued)

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 charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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.

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

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. Expenditures generally are recorded when a liability is incurred as under accrual accounting. However, debt service expenditures are recorded only when payment 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.

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 on its basis of accounting unless otherwise indicated. The adopted budgets for the General Fund and Debt Service fund have been consolidated and reflected as the General Fund Budget for financial reporting purposes.

ERIE CORPORATE CENTER METROPOLITAN DISTRICT NO. 2
NOTES TO 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 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 are recorded initially as deferred inflows of resources in the year they are levied and measurable. The property tax revenues are recorded as revenue in the year they are available and collected.

Fund Balance and Net Position

Net position is reported in the governmental activities and is classified as restricted or unrestricted. Restrictions of net position represent amounts that are not available for appropriation or are legally restricted. As of December 31, 2019, fund balances of governmental funds are classified as follows:

Nonspendable – amounts that cannot be spent either because they are not spendable in form or because they are legally or contractually required to be maintained intact. This includes amounts that are not expected to be converted to cash, for example, prepaid amounts.

Restricted – amounts that are subject to externally enforceable legal purpose restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments; or through constitutional provisions or enabling legislation.

Committed – amounts that are subject to a purpose constraint imposed by a formal action of the Board of Directors. The Board is the highest level of decision-making authority for the District. Commitments may be established, modified or rescinded only through resolutions approved by the Board.

Assigned – amounts that are subject to a purpose constraint that represents an intended use established by the District in its budget process. The purpose of the assignment must be narrower than the purpose of the General Fund.

Unassigned – represents the residual classification for the District's General Fund and could report a surplus or deficit.

ERIE CORPORATE CENTER METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Restricted Fund Balance

Emergency Reserves have been provided for as required by Article X, Section 20 of the Constitution of the State of Colorado. In compliance with this requirement, \$290 of the General Fund balance has been restricted.

The District also has \$ 210,112 of restricted fund balance for capital projects, and \$744,875 of restricted fund balance related to debt service for the 2019 Series Limited Tax Revenue Bonds that were issued by the District.

The District's order of fund balance spending policy is to apply expenditures against restricted fund balance, committed fund balance, assigned fund balance, and unassigned fund balance. The District reserves the right to selectively spend unassigned fund balance.

NOTE 3 CASH AND INVESTMENTS

Cash and investments reflected on the statement of net position as of December 31, 2019 consist of the following:

Restricted Cash	\$ 954,987
Investments	467
Total Cash and Investments	<u><u>\$ 955,454</u></u>

Investments

The District has not adopted a formal investment policy; however, it 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 disclosure requirements or subject to investment custodial credit risk for investments that are in the possession of another party.

Colorado revised statutes limit investment maturities to five years or less depending on the specific investment held unless formally approved by the Board of Directors. Such actions are generally associated with a debt service reserve or sinking fund requirements. Revenue bonds of U.S. local government securities, corporate and bank securities and guaranteed investment contracts not purchased with bond proceeds are limited to maturities of three years or less.

ERIE CORPORATE CENTER METROPOLITAN DISTRICT NO. 2
NOTES TO 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 World Bank securities
- General obligation and revenue bonds of U.S. local government entities
- Bankers' acceptances of certain banks
- Commercial paper
- Written repurchase agreements collateralized by certain authorized securities
- Certain money market funds
- Guaranteed investment contracts
- Local government investment pools *
- Certain reverse repurchase agreements
- Certain corporate bonds
- Certain securities lending agreements

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

<u>Investment</u>	<u>Maturity</u>	<u>Amortized Cost</u>
Colorado Surplus Asset Fund Trust	Less than One Year	<u>\$ 467</u>

Colorado Surplus Asset Trust Fund

As of December 31, 2019, the District had invested \$467 in the Colorado Surplus Asset Fund Trust, an investment vehicle established for local government entities in Colorado to pool surplus funds. The State Securities Commissioner administers and enforces all State statutes governing the Trust. The Trust operates similarly to a money market fund and each share is equal in value to \$1.00. The Trust is rated AAAM by Standard & Poor's and is valued at amortized cost. Based on the valuation method, additional disclosures are not required under GASB Statement No. 72.

NOTE 4 COST SHARING INTERGOVERNMENTAL AGREEMENT

On August 13, 2019 The District and Summerfield Metropolitan District No. 2, (SMD No. 2) entered into an agreement in order to work together and coordinate their activities with respect to the financing of the cost of extinguishing certain surface rights associated with oil and gas sites and the acquisition of those sites for public recreational use and enjoyment to serve the development within their respective boundaries. As outlined in Note 8, The District issued \$3,000,000 to fund the costs of the projects in the service plan, and the Districts recognized that the Improvements being funded by the District issuance of bonds were deemed mutually beneficial to both Districts and their residents and taxpayers as a whole regardless of the physical location of any such Improvements within the Districts.

ERIE CORPORATE CENTER METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 4 COST SHARING INTERGOVERNMENTAL AGREEMENT (CONTINUED)

In order to facilitate the issuance of the Bonds, the Districts have, by the terms of a Pledge Agreement dated July 1, 2019 between the Districts, pledged certain revenues and covenanted to take certain actions with respect to generating such revenues, for the benefit of the holders and the bonds. The Districts are liable for the repayment of the Bonds based upon the amount of revenues generated from the imposition of a mill levy by the Districts.

Within the cost sharing agreement, the Districts have determined the allocation of each District's proportionate share of the shared Improvement costs to be 45.8% allocated to SMD No. 2, and 54.2% allocated to the District. The Districts acknowledge that the intent of the Agreement is for each District to pay their proportionate share of the costs under the agreement, but the Districts recognize that if one of the Districts does not have the necessary funds to pay its relevant proportionate share, the District that possesses the funds will pay the remaining balance to make the full scheduled Bond debt service payment. Any additional contribution will be recorded and the accounts will be updated to indicate the credits and deficiencies of each District relative to the agreed allocation percentage.

During the fiscal year ended December 31, 2019, the District incurred costs on behalf of SMD No. 2 totalling \$1,140,921 under the cost sharing intergovernmental agreement. \$1,066,993 of the total costs represent the amount that the District spent on behalf of SMD No. 2 to entinguish certain surface rights associated with oil and gas sites and acquire those sites for public recreational use. These costs are reflected in the Construction In Process balance of the District and will be transferred to SMD No. 2 upon repayment of this amount to the District. The District also paid \$30,060 of interest and \$43,868 of loan and legal fees related to the Series 2019 Bonds on behalf of SMD No. 2.

SMD No. 2 will repay the District for the costs incurred under the cost sharing intergovernmental agreement at the the point that legally available moneys reach a balance that is sufficient to cover the expenses incurred by the District.

NOTE 5 CONSTRUCTION IN PROCESS

An analysis of the changes in construction in progress for the year ended December 31, 2019 follows

	Balance at January 1, 2019	Additions	Reductions	Balance at December 31, 2019
Construction in Progress	\$ -	\$ 1,849,350	\$ -	\$ 1,849,350

It is the policy of the Town of Erie to accept the maintenance responsibility for water, sanitation, traffic and safety controls, park and recreation improvements, transportation and other related improvements within the District only after a probationary period following completion of construction. When the improvements enter the probationary period, the District removes the cost of construction from its statement of net position.

ERIE CORPORATE CENTER METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 5 CONSTRUCTION IN PROCESS (CONTINUED)

During 2019, the District incurred no warranty costs and no improvements were conveyed to the Town of Erie. As outlined in Note 4, \$1,066,993 of additions to C.I.P., were paid on behalf of SMD No. 2, and will be transferred to SMD No. 2 when the District is repayed for these costs.

NOTE 6 RELATED PARTY

All three members of the Board of Directors are employees or are associated with Bellock Construction Company, accountants for the District, and CDG Northpointe, Inc., the developer within the District. During 2019, Districts No. 1, No. 2 and No. 3 had the same Board of Directors.

Accounting Services Agreement

An accounting services contract was entered into with Bellock Construction Company during March 2003. This agreement was subsequently amended on March 25, 2004. Under this amended agreement, accounting services are provided to the District at the annual hourly rates of Bellock Construction Company employees. During 2019, the District did not incur accounting services fees.

**NOTE 7 DISTRICT FACILITIES CONSTRUCTION AND SERVICE AGREEMENT
(SERVICE CONTRACT)**

In order to implement the Service Plan, the District entered into an intergovernmental agreement with District No. 1 and District No. 3. The agreement shall remain in full force and effect until such time as each of the terms and conditions has been performed in their entirety or until the agreement is terminated by mutual written agreement of the Districts.

District No. 1 is to construct the facilities benefiting the three Districts and transfer them to the Town of Erie or the HOA. The District will, to the extent that it benefits, pay the capital costs and the service costs of operation and maintenance of such facilities (authorized service costs), until the facilities are transferred to the Town of Erie or the HOA.

The District is required to fund, on an annual basis, the amount of actual service costs that it would be capable of funding through property tax revenue plus other fee revenue as determined in the annual budget. If the Districts disagree as to the amount to be paid, then the District must pay District No. 1 the amount set forth in the annual budget. The mill levy cap shall be subject to automatic adjustment if, after the original date of approval of the Service Plan, the laws of the State change with respect to the assessment of property for taxation purposes, the ratio for determining assessed valuation changes, or other similar changes occur.

During fiscal year 2017, the Colorado legislature reduced the residential assessment ratio from 7.96% to 7.20% causing the property tax mill rate for general obligation bonds and service costs to increase from 50 mills to 55.275 mills. The residential assessment ratio decreased to 7.15% in 2019 causing the mills to increase to 55.663 for taxes to be collected in 2020.

ERIE CORPORATE CENTER METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 8 LONG-TERM OBLIGATIONS

The District's long-term obligations consist of the following for the year ended December 31, 2019:

	Balance at January 1, 2019	Additions	Reductions	Balance at December 31, 2019	Due Within One Year
Series 2019 Limited Tax Bonds	\$ -	\$ 3,000,000	\$ -	\$ 3,000,000	\$ -
Total	\$ -	\$ 3,000,000	\$ -	\$ 3,000,000	\$ -

2019A Limited Tax Revenue Bonds

On August 13, 2019, the District issued \$3,000,000 of Limited Tax Revenue Bonds. The bonds were issued for the purpose of financing the cost of all or a portion of the projects and funding capitalized interest on the Bonds for a period of three years. Such bonds will be payable from (i) amounts collected by the District from the imposition of the Required Mill Levy which are generated from the amount of assessed valuation associated with and otherwise attributable to any and all oil and gas production and operations within the District; (ii) amounts received from SMD No. 2 pursuant to the Pledge Agreement dated as of July 1, 2019 by and between SMD No. 2 and the District; (iii) revenues derived from specific ownership taxes imposed by the District; and (iv) any other legally available amounts designated by the District at its discretion, as may be permitted under the Service Plan. The District paid \$65,625 of interest and incurred \$78,750 of interest expense for the year ended December 31, 2019.

The 2019 Limited Tax Revenue Bonds will mature as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ -	\$ 157,500	\$ 157,500
2021	-	157,500	157,500
2022	-	157,500	157,500
2023	-	157,500	157,500
2024	3,000,000	144,375	3,144,375
Total	\$ 3,000,000	\$ 774,375	\$ 3,774,375

Debt Authorization

The District voters approved \$26,700,000 of revenue obligation debt in 2001 at an interest rate not to exceed 18% per annum. The District had remaining authorized but unissued indebtedness of \$23,700,000 for the year ended December 31, 2019.

ERIE CORPORATE CENTER METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 9 INTERGOVERNMENTAL REVENUES AND EXPENDITURES

The following intergovernmental revenue and expenses occurred during fiscal year ended December 31, 2019:

	Erie Corporate Metropolitan District No. 1	Erie Corporate Metropolitan District No. 2	Erie Corporate Metropolitan District No. 3	Total Revenues
Erie Corporate Metropolitan:				
District No. 1	\$ -	\$ 61,000	\$ -	\$ 61,000
District No. 2	23,474	-	-	23,474
District No. 3	-	-	-	-
Total Expenditures	<u>\$ 23,474</u>	<u>\$ 61,000</u>	<u>\$ -</u>	<u>\$ 84,474</u>

NOTE 10 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, 2019. 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 during the past three years.

The District pays annual premiums to the Pool for liability 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 11 TAX, SPENDING AND DEBT LIMITATIONS

Article X, Section 20 of the Colorado Constitution, referred to 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.

ERIE CORPORATE CENTER METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 11 TAX SPENDING AND DEBT LIMITATIONS (CONTINUED)

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 and qualification as an enterprise, will require judicial interpretation.

REQUIRED SUPPLEMENTARY INFORMATION

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

	Original Budgeted Amounts	Amended And Final Budgeted Amounts	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Property Taxes	\$ 8,799	\$ 8,799	8,799	\$ -
Specific Ownership Taxes	440	591	591	-
Intergovernmental - Erie Corporate Metropolitan District No. 1	5,000	23,474	23,474	-
Net Investment Income	-	275	275	-
Total Revenues	<u>14,239</u>	<u>33,139</u>	<u>33,139</u>	<u>-</u>
EXPENDITURES				
Current:				
Intergovernmental - Erie Corporate Metropolitan District No. 1	18,000	61,000	61,000	-
County Treasurer's Fees	132	133	133	-
Audit	1,500	1,450	1,450	-
Insurance	2,500	1,903	1,903	-
Miscellaneous	1,000	7,371	6,372	999
Debt Service:				
Interest	-	65,625	65,625	-
Loan Fees	-	99,940	100,940	(1,000)
Capital Outlay	-	1,849,350	1,849,350	-
Total Expenditures	<u>23,132</u>	<u>2,086,772</u>	<u>2,086,773</u>	<u>(1)</u>
EXCESS REVENUES OVER (UNDER) EXPENDITURES	(8,893)	(2,053,633)	(2,053,634)	(1)
Other Financing Sources				
Proceeds from Debt Issuance	-	3,000,000	3,000,000	-
Total Other Financing Sources	-	3,000,000	3,000,000	-
Fund Balances - Beginning of Year	<u>9,129</u>	<u>11,325</u>	<u>11,325</u>	<u>-</u>
FUND BALANCES - END OF YEAR	\$ <u>236</u>	\$ <u>957,692</u>	\$ <u>957,691</u>	\$ <u>(1)</u>