

**SMPG Metropolitan District No. 2
Weld County, Colorado**

**AUDITOR'S REPORT AND FINANCIAL STATEMENTS
December 31, 2019**

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BASIC FINANCIAL STATEMENTS



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Independent Auditor's Report

Members of the Board of Directors
SMPG Metropolitan District No. 2

We have audited the accompanying financial statements of the governmental activities and the major funds of SMPG 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 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major funds of SMPG 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

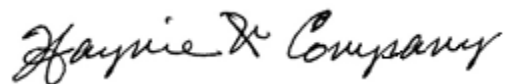
Required Supplementary Information

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 an opinion on the financial statements that collectively comprise SMPG Metropolitan District No. 2's financial statements as a whole. The supplementary information section is presented for purposes of additional analysis and is not a required part of the financial statements.

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



Littleton, Colorado
May 8, 2020

SMPG METROPOLITAN DISTRICT NO. 2
STATEMENT OF NET POSITION
December 31, 2019

	<u>Governmental Activities</u>
ASSETS	
Property taxes receivable	4,875,839
Special Ownership taxes	<u>1,486,720</u>
Total assets	<u>6,362,559</u>
LIABILITIES	
Due to District No. 1	<u>34,241</u>
Total liabilities	<u>34,241</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred property tax revenues	<u>6,328,318</u>
Total liabilities and deferred inflows of resources	<u>6,362,559</u>
NET POSITION	
Total net position	<u><u>\$ -</u></u>

SMPG METROPOLITAN DISTRICT NO. 2
STATEMENT OF ACTIVITIES
Year Ended December 31, 2019

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense)</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Revenue and Changes in Net Position</u>
Primary government:					
Government activities:					
General government	\$ 6,406,521	\$ 406,175	\$ -	\$ -	\$ (6,000,346)
	<u>\$ 6,406,521</u>	<u>\$ 406,175</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(6,000,346)</u>
General revenues:					
Property taxes					6,000,346
Total general revenues					<u>6,000,346</u>
Change in net position					-
Net position - Beginning					
Net position - Ending					<u>\$ -</u>

**SMPG METROPOLITAN DISTRICT NO. 2
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2019**

	General Fund
ASSETS	
Property taxes receivable	\$ 4,875,839
Special Ownership taxes receivable	1,486,720
TOTAL ASSETS	\$ 6,362,559
LIABILITIES	
Due to District No. 1	\$ 34,241
Total liabilities	34,241
DEFERRED INFLOWS OF RESOURCES	
Property tax revenue	6,328,318
Total liabilities & deferred inflows	6,362,559
FUND BALANCES	
Total fund balances	-
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	-

**SMPG METROPOLITAN DISTRICT NO. 2
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended December 31, 2019**

	General Fund
REVENUES	
Property tax revenue	\$ 6,000,346
Special Ownership tax revenue	406,175
Total revenues	6,406,521
EXPENDITURES	
Current	
Transfers to District No. 1	6,316,516
Treasurer fees	90,005
Total expenditures	6,406,521
NET CHANGE IN FUND BALANCES	-
FUND BALANCES - BEGINNING OF YEAR	-
FUND BALANCES - END OF YEAR	\$ -

SMPG 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 and Final Budget</u>	<u>Actual Amounts</u>	<u>General Fund (Negative)</u>
REVENUES			
Property taxes	\$ 1,384,695	\$ 1,384,695	\$ -
Specific Ownership taxes	96,929	93,733	(3,196)
Interest income & other	100,000	-	(100,000)
Total revenues	<u>1,581,624</u>	<u>1,478,428</u>	<u>(103,196)</u>
EXPENDITURES			
Current			
Transfers to District No. 1	1,479,685	1,457,658	22,027
Treasurer Fees	1,939	20,770	(18,831)
Contingency	100,000	-	100,000
Total expenditures	<u>1,581,624</u>	<u>1,478,428</u>	<u>103,196</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	-	-	<u>\$ -</u>
FUND BALANCE - BEGINNING OF YEAR	-	-	
FUND BALANCE - END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	

SMPG METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2019

NOTE 1 - DEFINITION OF REPORTING ENTITY

SMPG Metropolitan District No. 2 (District), a quasi-municipal corporation, was organized in 2004, is governed pursuant to the Colorado Special District Act (§32-1-101, et al, C.R.S). The District operates under a service plan initially approved by the Town of Berthoud on September 14, 2004, which was subsequently amended and approved by the Town on April 26, 2005. The District's service area is located in Weld County, Colorado.

The District was established to finance public infrastructure required by the development and to provide ongoing governmental structure for the operations and maintenance of public improvements and facilities. The District is a Financing District organized in conjunction with five other related Districts – SMPG Metropolitan District No. 1 and SMPG Metropolitan Districts No. 3-6. SMPG Metropolitan District No. 1 serves as the Service District which is responsible for managing the construction and operation of facilities and improvements needed for SMPG Districts Nos. 2-6 (Financing Districts) which are responsible for providing the tax base needed to support the financing of public infrastructure required by the development.

The District follows the Governmental Accounting Standards Board (GASB) accounting pronouncements, which provide guidance for determining which governmental activities, organizations and functions should be included within the financial reporting entity. GASB pronouncements set forth the financial accountability of a governmental organization's elected governing body as the basic criterion for including a possible component governmental organization in a primary government's legal entity. Financial accountability includes, but is not limited to, appointment of a voting majority of the organization's governing body, ability to impose its will on the organization, a potential for the organization to provide specific financial benefits or burdens and fiscal dependency.

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

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

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. For the most part, the effect of interfund activity has been removed from these statements. These financial statements include all of the activities of the District.

Governmental activities are normally supported by property taxes collected. Both statements distinguish between governmental activities, which normally are supported by taxes and business-type activities, which rely to a significant extent on fees and charges for support.

SMPG METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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. Redemption of bonds is recorded as a reduction in liabilities.

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

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

SMPG METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budgets

In accordance with the State Budget Law, the District's Board of Directors holds public hearings in the fall each year to approve the budget and appropriate the funds for the ensuing year. The appropriation is at the total fund expenditures level and lapses at year-end. The District's Board of Directors can modify the budget by line item within the total appropriation without notification. The appropriation can only be modified upon completion of notification and publication requirements. The budget includes each fund on its basis of accounting unless otherwise indicated.

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position

Cash and Investments

The District's cash and investments include cash on hand and short-term investments with maturities of three months or less from the date of acquisition. Investments for the government are reported at fair value.

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 minimum number of bank accounts. 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 funds' average equity balance in the total cash.

Property Taxes

Property taxes are levied by the District Board of Directors. The levy is based on assessed valuations determined by the County Assessor generally as of January 1 of each year. The levy is normally set by December 15 by certification to the County Commissioners to put the tax lien on the individual properties as of January 1 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 considered fully collectible and are recorded initially as deferred inflows of resources in the year they are levied and measurable. Property tax revenues are recorded as revenue in the year they are available or collected

SMPG METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Outflows of Resources and Deferred Inflows of Resources

A deferred inflow of resources is an acquisition of net position by a government that is applicable to a future reporting period and a deferred outflow of resources is a consumption of net position by a government that is applicable to a future reporting period. Both deferred inflows and outflows are reported in the statement of net position but are not recognized in the financial statement as revenues and expenses until the period(s) to which they relate. Deferred inflows of resources in the governmental fund financial statements of the District for the year ended December 31, 2019 are comprised of property taxes due from Weld County that will not be collected within 60 days of the end of the current fiscal year. Deferred inflows of resources in the government-wide financial statements represents property taxes for which an enforceable legal claim to assets exists, but for which the levy pertains to the subsequent year.

Long-term Liabilities

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Long-term debt is reported gross.

Use of Estimates

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

Capital Assets

Capital assets, which include property, plant and equipment and infrastructure (e.g. roads, sidewalks and similar items), are reported in the applicable governmental activities column in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000. Such assets are recorded in historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

Capital assets, which are anticipated to be conveyed to other governmental entities, are recorded as construction in progress and are not included in the calculation of invested in capital assets, net of related debt component of the District's net position.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized.

SMPG METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Balance – Governmental Funds

Fund Equity

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

- *Nonspendable fund balance* - The portion of fund balance that cannot be spent because it is either not in spendable form (such as prepaid amounts or inventory) or legally or contractually required to be maintained intact.
- *Restricted fund balance* - The portion of fund balance that is constrained to being used for a specific purpose by external parties (such as bondholders), constitutional provisions, or enabling legislation.
- *Committed fund balance* - The portion of fund balance that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, the Board of Directors. The constraint may be removed or changed only through formal action of the Board of Directors.
- *Assigned fund balance* - The portion of fund balance that is constrained by the government's intent to be used for specific purposes, but is neither restricted nor committed. Intent is expressed by the Board of Directors to be used for a specific purpose. Constraints imposed on the use of assigned amounts are more easily removed or modified than those imposed on amounts that are classified as committed.
- *Unassigned fund balance* - The residual portion of fund balance that does not meet any of the criteria described above. If more than one classification of fund balance is available for use when an expenditure is incurred, it is the District's policy to use the most restrictive classification first.

The District considers restricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. The District applies committed amounts first, followed by assigned amounts, and then unassigned amounts when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

SMPG METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2019

NOTE 3 – RELATED PARTIES

The Developer of the property is Front Range Investment Holdings, LLC. The directors are not associated with Front Range except each director is under contract to purchase an interest in a small parcel of property from Front Range, located in each district to qualify the directors as eligible electors on the Board of Directors.

NOTE 4 - 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 official's 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, public official's liability and workers compensation 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 5 - 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. As of December 31, 2019, the District has not provided for an emergency reserve equal to at least 3% of fiscal year spending, as defined under TABOR, because net tax revenue is transferred to SMPG Metropolitan District No. 1, the Service District.

SMPG METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2019

NOTE 5 - TAX, SPENDING AND DEBT LIMITATIONS (CONTINUED)

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

SUPPLEMENTAL INFORMATION

**SMPG METROPOLITAN DISTRICT NO. 2
SUMMARY OF ASSESSED VALUATION,
MILL LEVY AND PROPERTY TAXES COLLECTED
December 31, 2019**

<u>Year Ended December 31,</u>	<u>Prior Year Assessed Valuation for Current Year Tax Levy</u>	<u>Mills Levied</u>		<u>Total Property Taxes</u>		<u>Percent Collected to Levied</u>
		<u>Operations</u>	<u>Debt Service</u>	<u>Levied</u>	<u>Collected</u>	
2015	\$ 941,800	0.000	0.000	\$ -	\$ -	0.00%
2016	\$ 666,560	0.000	0.000	\$ -	\$ -	0.00%
2017	\$ 224,460	15.000	0.000	\$ 3,367	\$ 3,367	100.00%
2018	\$ 849,840	15.000	50.000	\$ 55,240	\$ 55,240	100.00%
2019	\$ 92,313,010	15.000	50.000	\$ 6,000,346	\$ 6,000,346	100.00%
Estimated for the year ending December 31, 2020	\$ 97,358,740	15.000	50.000	\$ 6,328,318		