

ERIE COMMONS METROPOLITAN DISTRICT NO. 2

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

**ERIE COMMONS METROPOLITAN DISTRICT NO. 2
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Erie Commons 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 Commons Metropolitan District No. 2, as of and for the year ended December 31, 2018, 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 Commons Metropolitan District No. 2 as of December 31, 2018, 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 17 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 principals 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
February 25, 2019

ERIE COMMONS METROPOLITAN DISTRICT NO. 2
STATEMENT OF NET POSITION
DECEMBER 31, 2018

	<u>Governmental Activities</u>
ASSETS	
Cash and Investments	\$ 99,856
Due from County Treasurer	8,017
Prepaid Items	2,155
Property Taxes Receivable	<u>1,379,945</u>
Total Assets	<u>1,489,973</u>
 DEFERRED INFLOWS OF RESOURCES	
Property Tax Revenue	<u>1,379,945</u>
Total Deferred Inflows of Resources	<u>1,379,945</u>
 NET POSITION	
Restricted for TABOR	23,872
Restricted for Debt Service	<u>86,156</u>
Total Net Position	<u><u>\$ 110,028</u></u>

See accompanying Notes to Financial Statements.

**ERIE COMMONS METROPOLITAN DISTRICT NO. 2
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2018**

Functions/Programs	Expenses	Program Revenue	Net (Expense) Revenue and Changes in Net Position <u>Governmental Activities</u>
Governmental Activities:			
General Government	\$ 1,402,433	\$ -	\$ (1,402,433)
	<u>\$ 1,402,433</u>	<u>\$ -</u>	<u>(1,402,433)</u>
General Revenues:			
Property Taxes			1,362,602
Specific Ownership Taxes			104,585
Transfers from District No. 1			11,905
Net Investment Income			11,070
Total General Revenues			<u>1,490,162</u>
Change in Net Position			87,729
Net Position - Beginning of Year			<u>22,299</u>
Net Position - End of Year			<u>\$ 110,028</u>

See accompanying Notes to Financial Statements.

**ERIE COMMONS METROPOLITAN DISTRICT NO. 2
BALANCE SHEET
DECEMBER 31, 2018**

	General Fund
ASSETS	
Cash and Investments	\$ 99,856
Due from County Treasurer	8,017
Prepaid Items	2,155
Property Taxes Receivable	1,379,945
Total Assets	\$ 1,489,973
DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	
DEFERRED INFLOWS OF RESOURCES	
Property Tax Revenue	\$ 1,379,945
Total Deferred Inflows of Resources	1,379,945
FUND BALANCE	
Nonspendable	2,155
Restricted for TABOR	23,872
Restricted for Debt Service	84,001
Total Fund Balance	110,028
Total Deferred Inflows of Resources and Fund Balance	\$ 1,489,973

See accompanying Notes to Financial Statements.

**ERIE COMMONS METROPOLITAN DISTRICT NO. 2
RECONCILIATION OF THE BALANCE SHEET OF
GOVERNMENTAL FUND TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2018**

Total Fund Balance - Total Governmental Fund	<u>\$ 110,028</u>
Amounts reported for governmental activities in the statement of net position are different because:	
Net Position of Governmental Activities	<u><u>\$ 110,028</u></u>

See accompanying Notes to Financial Statements.

**ERIE COMMONS METROPOLITAN DISTRICT NO. 2
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE – GOVERNMENTAL FUND
YEAR ENDED DECEMBER 31, 2018**

	<u>General Fund</u>
REVENUES	
Property Taxes	\$ 1,362,602
Specific Ownership Taxes	104,585
Intergovernmental - Erie Commons Metropolitan District No. 1	11,905
Net Investment Income	11,070
Total Revenues	<u>1,490,162</u>
EXPENDITURES	
Current:	
Intergovernmental - Erie Commons Metropolitan District No. 1	1,369,972
County Treasurer's Fees	20,456
Audit	9,300
Insurance	2,004
Miscellaneous	701
Total Expenditures	<u>1,402,433</u>
NET CHANGE IN FUND BALANCE	87,729
Fund Balance - Beginning of Year	<u>22,299</u>
FUND BALANCE - END OF YEAR	<u><u>\$ 110,028</u></u>

See accompanying Notes to Financial Statements.

**ERIE COMMONS 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, 2018**

Net Change in Fund Balance - Total Governmental Fund	<u>\$ 87,729</u>
Amounts reported for governmental activities in the statement of activities are different because:	
Change in Net Position of Governmental Activities	<u><u>\$ 87,729</u></u>

See accompanying Notes to Financial Statements.

ERIE COMMONS METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 1 DEFINITION OF REPORTING ENTITY

Erie Commons 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 Commons Metropolitan District No. 1 (District No. 1) approved by the Town of Erie on July 8, 2003 and as amended on January 4, 2005. Pursuant to the Service Plan, the District, the 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, mosquito and pest control and sanitation facilities, generally located in the collector roadway system. 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 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 COMMONS METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

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.

ERIE COMMONS METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

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, 2018, 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 COMMONS METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

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, \$23,872 of the General Fund balance has been restricted.

The District also has \$84,001 of restricted fund balance related to requirements of District No. 1 (see Note 5).

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, 2018 consist of the following:

Restricted	\$ 99,856
Total Cash and Investments	<u>\$ 99,856</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 COMMONS METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

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, 2018, 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>\$ 99,856</u>

Colorado Surplus Asset Trust Fund

As of December 31, 2018, the District had invested \$99,856 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 RELATED PARTY

Three of the five members of the Board of Directors are employees or are associated with Bellock Construction Company, accountants for the District, and Community Development Group of Erie, Inc. (CDG of Erie, Inc.), the developer within the District. During 2018, Districts No. 1 and No. 2 had three of five of 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 2018, the District did not incur accounting services fees.

ERIE COMMONS METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

**NOTE 5 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. 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 two 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 rate remained the same for 2018.

NOTE 6 RISK MANAGEMENT

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

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

ERIE COMMONS METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 7 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.

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.

On November 5, 2005 and November 4, 2003, a majority of the District's electors authorized the District to collect and spend or retain in a reserve all annual District revenue without regard to any limitations under TABOR.

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 COMMONS METROPOLITAN DISTRICT NO. 2
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE – BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED DECEMBER 31, 2018**

	Original and Final Budgeted Amounts	Actual	Variance with Final Budget Positive (Negative)
REVENUES			
Property Taxes	\$ 1,364,565	\$ 1,362,602	\$ (1,963)
Specific Ownership Taxes	68,228	104,585	36,357
Intergovernmental - Erie Commons			
Metropolitan District No. 1	12,700	11,905	(795)
Net Investment Income	1,750	11,070	9,320
Total Revenues	<u>1,447,243</u>	<u>1,490,162</u>	<u>42,919</u>
EXPENDITURES			
Current:			
Intergovernmental - Erie Commons			
Metropolitan District No. 1	1,369,973	1,369,972	1
County Treasurer's Fees	20,468	20,456	12
Audit	9,300	9,300	-
Insurance	2,300	2,004	296
Miscellaneous	1,100	701	399
Total Expenditures	<u>1,403,141</u>	<u>1,402,433</u>	<u>708</u>
NET CHANGE IN FUND BALANCE	44,102	87,729	43,627
Fund Balances - Beginning of Year	<u>13,634</u>	<u>22,299</u>	<u>8,665</u>
FUND BALANCES - END OF YEAR	<u><u>\$ 57,736</u></u>	<u><u>\$ 110,028</u></u>	<u><u>\$ 52,292</u></u>