

**VILLAGE AT DRY CREEK METROPOLITAN
DISTRICT NO.2**

CITY OF THORNTON, COLORADO

FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITORS' REPORT

December 31, 2019



Crady, Puca & Associates

Certified Public Accountants & Consultants

**VILLAGE AT DRY CREEK METROPOLITAN DISTRICT NO.2
CITY OF THORNTON, COLORADO**

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Village at Dry Creek Metropolitan District No. 2
City of Thornton, Colorado

We have audited the accompanying financial statements of the governmental activities and each major fund of the Village at Dry Creek Metropolitan District No. 2 (the "District") as of and for the year ended December 31, 2019, which collectively comprise the District's basic financial statements as listed in the table of contents and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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 Village at Dry Creek Metropolitan District No. 2 as of December 31, 2019 and the respective changes in financial position for the year then ended in conformity 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 management's discussion and analysis and budgetary comparison information on pages iii-vi and 18, respectively, 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 (GASB) who considers it to be an essential part of financial reporting for placing the basic financial statements in 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The individual fund budgetary comparison schedule on page 19 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The individual budgetary comparison schedule 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 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 individual fund budgetary schedule is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Crady, Puca & Associates

Aurora, Colorado
September 18, 2020

Village At Dry Creek Metropolitan District No. 2

Management's Discussion and Analysis

December 31, 2019

As management of Village At Dry Creek Metropolitan District No. 2 ("District"), we offer readers of the District's first annual audited financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended December 31, 2019.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to the financial statements.

Government-wide financial statements: The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business. Current year to prior year comparisons are presented below to help users evaluate the results of the District over the past two years.

The Statement of Net Position presents information on all of the District's assets, deferred outflows, liabilities, and deferred inflows, with the difference between them reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The Statement of Activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements can be found on pages 1 and 2 of this report.

Fund financial statements: A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The District utilized two governmental funds for 2019; the General Fund and Debt Service Fund.

Governmental funds: Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. The statements for governmental funds are on pages 3 and 4 of this report. The governmental funds provide a reconciliation to facilitate this comparison between governmental funds and governmental activities on pages 3 and 5 of this report.

The District adopts an annual appropriated budget for each of its governmental funds. Budgetary comparisons for all funds have been provided on pages 18 and 19 to demonstrate compliance with this budget.

Notes to the Financial Statements: The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The Notes to the Financial Statements can be found starting on page 6 of this report.

Government-wide Financial Analysis: The following table shows a condensed statement of net position as of December 31, 2019 compared with the unaudited net position as of December 31, 2018 derived from the government-wide financial statements.

**Village At Dry Creek Metropolitan District No. 2
Net Position**

	<u>Governmental Activities</u>	
	<u>2019</u>	<u>2018</u>
		<u>(unaudited)</u>
Assets:		
Current and other assets	\$ 3,774,289	\$ -
Non-current assets	-	-
Total Assets	<u>3,774,289</u>	<u>-</u>
Liabilities		
Current liabilities	68,250	-
Capital and service obligation	5,208,978	3,825,861
Long-term liabilities	18,720,000	-
Total Liabilities	<u>23,997,228</u>	<u>3,825,861</u>
Deferred Inflows		
Unavailable revenue - property taxes	340,098	-
Total Deferred Inflows	<u>340,098</u>	<u>-</u>
Net Position:		
Restricted	3,434,191	-
Unrestricted	(23,997,228)	(3,825,861)
Total Net Position	<u>\$ (20,563,037)</u>	<u>\$ (3,825,861)</u>

At the end of the current fiscal year, the District has a negative net position which results from the District financing infrastructure assets either owned by District No. 1 or the City of Thornton.

The change in net position for the year ended December 31, 2019 and December 31, 2018 (unaudited) is summarized in the following table:

**Village At Dry Creek Metropolitan District No. 2
Change in Net Position**

	Governmental Activities	
	2019	2018 (unaudited)
Revenues:		
PIF Revenue	\$ 1,426,652	\$ -
Interest and other income	52,397	-
Total Revenues	1,479,049	-
Expenses:		
General government	20,229	-
Intergovernmental	17,060,341	3,825,861
Debt issuance expense	792,130	-
Interest	343,525	-
Total Expenses	18,216,225	3,825,861
Change in Net Position	(16,737,176)	(3,825,861)
Net Position- Beginning	(3,825,861)	-
Net Position- Ending	\$ (20,563,037)	\$ (3,825,861)

The District has a negative change in net position in both 2018 and 2019 because of the intergovernmental expenses paid to District No. 1 for construction and operation of facilities.

The District is the “financing district” in a multi-district structure whereby the District incurs the debt to finance the infrastructure constructed by District No. 1. Districts 2-4 (the “Taxing Districts”), to the extent financially possible, are responsible for providing the funding needed to support the construction and ongoing operation and maintenance of the improvements and public facilities.

Financial Analysis of the District’s Funds

As mentioned earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds: The focus of the District’s governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District’s financing requirements. In particular, the unrestricted fund balance may serve as a useful measure of a government’s net resources available for spending at the end of the fiscal year.

General Fund revenues and expenses were \$0 in 2019 as all administrative functions were provided by District No. 1.

Debt Fund revenues of \$20,199,049 was comprised of PIF and related PIF revenue of \$1,479,049 and \$18,720,000 of proceeds from the issuance of bonds. Expenditures of \$16,764,858 were comprised of a \$15,677,224 payment of bond proceeds to District No. 1 for capital improvements, \$1,067,405 for bond issuance costs and interest expense and, \$20,229 for PIF collection fees and other expenses including fees paid to the trustee.

As of the end of 2019, the District's governmental funds reported an ending fund balance of \$3,434,191, all of which is restricted in the Debt Service Fund for future debt service costs.

Budget variances: The General Fund had budgeted for activity during 2019 but since all services were provided by District No. 1 there was no activity in 2019. A budget to actual schedule for the General Fund can be found on page 18 of this report.

The Debt Service Fund ending fund balance finished the year at \$100,543 greater than the final budget because PIF revenue exceeded budget and expenditures were less than budgeted. A budget to actual schedule for the Debt Fund can be found as part of the supplementary information on page 19 of this report.

Capital assets: As a financing district, the District owns no capital assets.

Long-term debt: During 2019 the District issued \$18,720,000 of bonds. The majority of the proceeds of the bonds, \$15,677,224, was transferred to District No. 1 to fund capital expenditures incurred by District No. 1. The remaining bond funds were used to pay issuance costs and to fund reserve and capitalized interest accounts. Further detail of long-term debt can be found beginning on page 13 of this report.

Request for Information: This financial report is designed to provide a general overview of the District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Village At Dry Creek Metropolitan District No. 2, c/o Marchetti & Weaver, LLC, 245 Century Circle, Suite 103, Louisville, CO 80027, (720) 210-9137.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

VILLAGE AT DRY CREEK METROPOLITAN DISTRICT NO. 2
Statement of Net Position
December 31, 2019

	Total Governmental Activities
Assets:	
Cash and investments	\$ -
Cash and investments - restricted	2,821,738
Property tax receivable	340,098
Intergovernmental receivable	612,453
Total assets	3,774,289
Liabilities:	
Accrued interest	68,250
Capital and service obligation payable	5,208,978
Bonds payables:	
Due within one year	-
Due in more than one year	18,720,000
Total liabilities	23,997,228
Deferred inflows of resources:	
Unavailable revenue- property taxes	340,098
Total Deferred inflows of resources	340,098
Net position:	
Net investment in capital assets	-
Restricted for debt service	3,434,191
Unrestricted	(23,997,228)
Total net position	\$ (20,563,037)

The accompanying notes are an integral part of this financial statement.

VILLAGE AT DRY CREEK METROPOLITAN DISTRICT NO. 2
Statement of Activities
For the Year Ended December 31, 2019

	Total Governmental Activities
Expenditures:	
Governmental activities:	
Trustee fees	\$ 4,106
Miscellaneous	2,569
PIF collection fee	13,554
Bond issuance costs	792,130
Interest on long-term debt	343,525
Bond proceeds transferred to District No.1	15,677,224
Intergovernmental expense for capital and service obligations	1,383,117
Total expenditures	<u>18,216,225</u>
General Revenues:	
PIF revenue	1,426,652
Interest income	52,239
Other income	158
Total general revenues	<u>1,479,049</u>
Change in net position	(16,737,176)
Net position, beginning of year	<u>(3,825,861)</u>
Net position, end of year	<u>\$ (20,563,037)</u>

The accompanying notes are an integral part of this financial statement.

FUND FINANCIAL STATEMENTS

VILLAGE AT DRY CREEK METROPOLITAN DISTRICT NO. 2
Balance Sheet
Governmental Funds
December 31, 2019

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
Assets:			
Cash and investments	\$ -	\$ -	\$ -
Cash and investments - restricted	-	2,821,738	2,821,738
Property tax receivable	340,098	-	340,098
Intergovernmental receivable	-	612,453	612,453
Total assets	<u>\$ 340,098</u>	<u>\$ 3,434,191</u>	<u>\$ 3,774,289</u>
Deferred inflows of resources:			
Unavailable revenue- property taxes	\$ 340,098	\$ -	\$ 340,098
Total Deferred inflows of resources	<u>340,098</u>	<u>-</u>	<u>340,098</u>
Fund balance:			
Restricted for debt service	-	3,434,191	3,434,191
Unassigned	-	-	-
Total fund balance	<u>-</u>	<u>3,434,191</u>	<u>3,434,191</u>
Total liabilities and fund balances	<u>\$ 340,098</u>	<u>\$ 3,434,191</u>	<u>\$ 3,774,289</u>
Amounts reported for governmental activities in the statement of net position are different because:			
Total fund balance - governmental funds			\$ 3,434,191
Other long-term liabilities are not due and payable in the current period, and, therefore, are not reported in the funds.			(5,208,978)
Long-term liabilities, including bonds payable, are not due and payable in the current period, and therefore, are not reported in the funds.			<u>(18,788,250)</u>
Net position of governmental activities			<u>\$ (20,563,037)</u>

The accompanying notes are an integral part of this financial statement.

VILLAGE AT DRY CREEK METROPOLITAN DISTRICT NO. 2
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended December 31, 2019

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
Revenues:			
Credit PIF revenue	\$ -	\$ 1,109,618	\$ 1,109,618
Add-on PIF revenue	-	317,034	317,034
Interest income	-	52,239	52,239
Other income	-	158	158
Total revenues	<u>-</u>	<u>1,479,049</u>	<u>1,479,049</u>
Expenditures:			
Current:			
General government:			
PIF collection fee	-	13,554	13,554
Trustee fees	-	4,106	4,106
Miscellaneous	-	2,569	2,569
Debt service:			
Bond issuance costs	-	792,130	792,130
Bond interest	-	275,275	275,275
Total expenditures	<u>-</u>	<u>1,087,634</u>	<u>1,087,634</u>
Excess of revenue over (under) expenditures	<u>-</u>	<u>391,415</u>	<u>391,415</u>
Other financing sources (uses):			
General obligation bonds issued	-	18,720,000	18,720,000
Bond proceeds transferred to District No.1	-	(15,677,224)	(15,677,224)
Total other financing sources (uses)	<u>-</u>	<u>3,042,776</u>	<u>3,042,776</u>
Net change in fund balance	-	3,434,191	3,434,191
Fund balance, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, end of year	<u>\$ -</u>	<u>\$ 3,434,191</u>	<u>\$ 3,434,191</u>

The accompanying notes are an integral part of this financial statement.

VILLAGE AT DRY CREEK METROPOLITAN DISTRICT NO. 2
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund
Balance of the Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2019

	Total Governmental Funds
	<hr/>
Net change in fund balance of the governmental funds	\$ 3,434,191
Amounts reported for governmental activities in the statement of activities are different because:	
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal on long-term debt consumes the current financial resources of governmental funds. This amount is the net effect of these differences in the treatment of long-term debt.	(18,720,000)
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 the governmental funds.	<hr/> (1,451,367)
Change in net position of governmental activities	<hr/><hr/>\$ (16,737,176)

The accompanying notes are an integral part of this financial statement.

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

The accounting policies of the Village at Dry Creek Metropolitan District No. 2 (the District) conform to accounting principles generally accepted in the United States of America as applicable to governments (US GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of such significant policies consistently applied in the preparation of the financial statements.

Reporting Entity

The District is a quasi-municipal corporation of the State of Colorado organized by a court order dated February 21, 2013 and operated pursuant to provisions set forth in the Colorado Special District Act. The District was organized concurrently with Village at Dry Creek Metropolitan District No. 1, 3 and 4 (District Nos. 1, 3 and 4). District No. 1 was established as the operating district and is expected to coordinate the financing, construction and maintenance of all public improvements. The District and District Nos. 3 and 4 are the financing districts which are expected to include all of the future development comprising the project and provide the revenue to support the District improvements and other services. The operating district will be permitted to provide public services and facilities in the City of Thornton, Colorado.

The District complies with GASB, Statement No. 61, "*The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34*" and GASB Statement No. 39, "*Determining Whether Certain Organizations Are Component Units*". These statements establish standards for defining and reporting on the financial reporting entity. It defines component units as legally separate entities for which the officials of the primary government are financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The District has no component units as defined by the GASB.

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

Basis of Presentation

While separate government-wide and fund financial statements are presented, they are interrelated. The government-wide financial statements (i.e. the statement of net position and the statement of activities) report information on all of the governmental activities of the District which are financed primarily by public improvement fees and property tax revenues.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by general and program revenues. Direct expenses are those that are clearly identifiable within a specific function or program. Program revenues include 1) fees or charges to citizens and other governmental entities that receive or directly benefit from services provided by a given function or program, and 2) grants, contributions and other revenues that are restricted to use in the operational or capital requirements of a specific function or program. Other revenues not directly related to a particular function or program, if any, are reported separately as general revenues. The District does not have proprietary or fiduciary funds.

1. **Summary of Significant Accounting Policies (continued)**

Basis of Presentation (continued)

The fund financial statements provide information about the government's funds.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current *financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

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 the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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 *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 available if they are collected within 60 days of the end of the current fiscal period except for public improvement fees. Public improvement fees are recognized as revenues if they are collected within 90 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. The exceptions to this general rule are that principal and interest on general long-term debt are recognized when due. General capital asset acquisitions are reported as expenditures in governmental funds.

The District reports the following major governmental funds:

General Fund – is the District's primary operating fund. It accounts for all financial resources of the District not accounted for in another fund.

Debt Service Fund - accounts for collection of Public Improvement Fee revenues and payments on debt service or debt issued.

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

Deposits and Investments

Investments held in the local government investment pool are reported at net asset value as allowed under US GAAP.

The District may at times follow the practice of pooling cash and investments of all funds to maximize investment earnings. Except when required by regulations or other agreements, all cash is deposited and disbursed from a minimum number of bank accounts. Cash in excess of immediate operating requirements may be pooled for deposit and flexibility. As applicable, investment earnings are allocated periodically.

1. **Summary of Significant Accounting Policies (continued)**

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (continued)

Fair Value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The District categorizes its fair value within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted market prices in active markets for identical assets; level 2 inputs are significant other observable inputs; and level 3 inputs are significant unobservable inputs. At December 31, 2019, the District did not hold any investments required to be reported under fair value.

Property Taxes

Property taxes are levied annually and attach as an enforceable lien on property as of January 1. At the option of the taxpayer, property taxes may be paid in full or in two equal installments. The first of such installment is to be paid as of February 28 and the second installment is to be paid no later than June 15. If elected to be paid in full, the amount is to be paid no later than April 30. If payments are not made timely, delinquent interest accrues. If the taxes are not paid within subsequent statutory periods, the property tax lien will be sold at public auction. The County bills and collects the property taxes and remits collections to the District on a monthly basis. No provision has been made for uncollected taxes, as all taxes are deemed collectible.

Property taxes are recorded initially as receivables and deferred inflows in the year they are levied and measurable since they are not normally available nor are they budgeted as a resource until the subsequent year. These amounts are recorded as revenue in the subsequent year when they are available or collected.

Receivables

Intergovernmental receivables consist of public improvement fees earned as of December 31, 2019. The receivable includes amounts collected by District No. 1 not yet paid to the District as well as amounts due from customers. The District considers all receivables collectible as of December 31, 2019. See Note 4 for additional information.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. In the current year, the District did not have any items in this reporting category.

In addition to liabilities, the statement of net position will sometimes report 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(s) and so will *not* be recognized as inflow of resources (revenue) until that time frame. The District has one item that qualifies for reporting in this category, *unavailable revenue- property taxes*. These amounts are deferred and recognized as an inflow of resources in the period that the amount becomes available.

1. **Summary of Significant Accounting Policies (continued)**

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (continued)

Long-Term Obligations

In the government-wide financial statements, long-term debt is reported as a liability in the applicable governmental activity.

Fund Balance

In the fund financial statements, governmental funds report aggregate amounts for five classes of fund balances on the constraints imposed on the use of these resources. The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not spendable in form which include items such as prepaid items or inventories; or (b) legally or contractually required to be maintained intact.

The spendable portion of the fund balance comprises the remaining four classifications: restricted, committed, assigned, and unassigned.

Restricted fund balance. This classification reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation. As of December 31, 2019, all amounts in the debt service fund have been restricted.

Committed fund balance. These amounts can only be used for specific purposes pursuant to constraints imposed by formal resolutions of the District's Board of Directors, the District's highest level of decision-making authority. As of December 31, 2019, no amounts have been committed.

Assigned fund balance. This classification reflects the amounts constrained by the District's intent to be used for specific purposes, but are neither restricted nor committed. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as nonspendable and are neither restricted nor committed. As of December 31, 2019, no amounts have been assigned.

Unassigned fund balance. This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. Although not included in a formal policy, the District considers decreases in fund balance to first reduce committed, then assigned, and then unassigned balances, in that order.

1. **Summary of Significant Accounting Policies (continued)**

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (continued)

Net Position

Net position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors, laws or regulations of other governments.

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted-net position and unrestricted-net position in the government-wide financial statements, a flow assumption must be made about the order in which resources are considered to be applied. It is the District's policy to consider restricted-net position to have been depleted before unrestricted-net position is applied.

Use of Estimates

The preparation of financial statements in conformity with US GAAP requires management to make 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 amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. **Stewardship, Compliance, and Accountability**

Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with US GAAP. State law requires the District to adopt annual appropriated budgets for all funds.

The District conforms to the following procedures, in compliance with Colorado Revised Statutes, in establishing the budgetary data reflected in the financial statements:

On or before October 15 of each year, the District's accountant submits to the Board of Directors a recommended budget which details the necessary property taxes needed along with other available revenues to meet the District's operating requirements.

After a required publication of "Notice of Proposed Budget" and a public hearing, the District adopts the proposed budget and an appropriating resolution, which legally appropriates expenditures for the upcoming year.

Prior to December 15, the District computes and certifies to the County Commissioners a rate of levy that derived the necessary property taxes as computed in the proposed budget.

The budget and the appropriating resolution are adopted prior to December 31.

2. Stewardship, Compliance, and Accountability (continued)

Budgets and Budgetary Accounting (continued)

After adoption of the budget resolution, the District may make the following changes: (a) it may transfer appropriated monies between funds or between spending agencies within a fund, as determined by the original appropriation level; (b) it may approve supplemental appropriations to the extent of revenues in excess of the estimated revenues in the budget; (c) it may approve emergency appropriations; and (d) it may approve the reduction of appropriations for which originally estimated revenues are insufficient. The budget is only amended in conformity with Colorado Revised Statutes which allows the District to amend the budget and adopt a supplementary appropriation if money for a specific purpose, other than ad valorem taxes, becomes available to meet a contingency.

The level of control in the budget at which expenditures exceeded appropriations is at the fund level. All appropriations lapse at year end.

TABOR Amendment - Revenue and Spending Limitation Amendment

In November 1992, Colorado voters amended Article X of the Colorado Constitution by adding Section 20 commonly known as the Taxpayer's Bill of Rights ("TABOR"). TABOR contains revenue, spending, tax and debt limitations that apply to the State of Colorado and local governments. Spending and revenue limits are determined 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 also requires local governments to establish emergency reserves to be used for declared emergencies only. Emergencies, as defined by TABOR, exclude economic conditions, revenue shortfalls, or salary or fringe benefit increases. These reserves must be at least 3% of Fiscal Year Spending (excluding bonded debt service, federal grants and sales of assets). At December 31, 2019, no amounts were required to be reserved under TABOR.

On November 6, 2012, a majority of the District's electors authorized the District to collect and spend or retain in a reserve all current levied taxes and fees of the District without regard to any limitations under Article X, Section 20 of the Colorado Constitution.

The District's management believes it is in compliance with the provisions of TABOR, as it is currently understood. However, TABOR is complex and subject to interpretation. Many of the provisions may not become fully understood without judicial review.

VILLAGE AT DRY CREEK METROPOLITAN DISTRICT NO. 2
Notes to Financial Statements
December 31, 2019

3. Detailed Notes on the Funds

Deposits and Investments

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

Cash and investments	\$ -
Cash and investments - restricted	<u>2,821,738</u>
	<u>\$ 2,821,738</u>

The following is a summary of deposits and investments held by the District at December 31, 2019:

<u>Type</u>	<u>Ratings per Standards & Poor's</u>	<u>Total as of December 31, 2019</u>
COLOTRUST PLUS+	AAAm	\$ 2,821,738
Total		<u>\$ 2,821,738</u>

Cash Deposits

The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. State regulators determine eligibility. 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 is to be maintained by another institution or held in trust for all the uninsured public deposits as a group. The market value of the collateral must be at a minimum of 102% of the aggregate uninsured deposits.

The State Commissioners for banks and financial services are required by state statute to monitor the naming of eligible depositories and reporting the uninsured deposits and assets maintained in collateral pools.

Investments

The District has not adopted a formal investment policy; however, it follows state statutes regarding investments.

VILLAGE AT DRY CREEK METROPOLITAN DISTRICT NO. 2
Notes to Financial Statements
December 31, 2019

3. Detailed Notes on the Funds (continued)

Investments (continued)

At December 31, 2019, the District invested in the Colorado Local Governmental Liquid Asset Trust (COLOTRUST), a local government investment vehicle established for local governmental entities in Colorado to pool surplus funds. COLOTRUST offers two investment options: COLOTRUST PRIME and COLOTRUST PLUS+. As an investment pool, COLOTRUST operates under the Colorado Revised Statutes (24-75-701) and is overseen by the Colorado Securities Commissioner. COLOTRUST PLUS+ may invest in U.S. Treasuries, government agencies, the highest-rated commercial paper, certain corporate securities, certain money market funds, and certain repurchase agreements, and limits its investments to those allowed by State statutes. Purchases and redemptions are available daily at a net asset value (NAV) of \$1.00. A designated custodial bank provides safekeeping and depository services to COLOTRUST in connection with the direct investment and withdrawal function of COLOTRUST. The custodian's internal records identify the investments owned by participating governments.

COLOTRUST PLUS+ records its investment at fair value and the District records its investment in COLOTRUST PLUS+ using the net asset value. There are no unfunded commitments and there is no redemption notice period.

Interest Rate Risk: Colorado Revised Statutes (CRS) limit investment maturities to five years or less unless formally approved by the Board. In accordance with CRS, the District manages its exposure to declines in fair value by limiting the weighted average maturity of its investments.

Credit Risk: Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. The District follows the general provisions of CRS which limits the District's exposure to credit risk. CRS specify investment instruments meeting defined rating and risk criteria in which local governmental entities may invest. The allowed investments may include but are not limited to the following:

- Certain money market funds
- Local government investment pool

Long-Term Obligations

Changes in long-term obligations for the year ended December 31, 2019 are as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Series 2019 Bonds	\$ -	\$ 18,720,000	\$ -	\$ 18,720,000	\$ -
Governmental activities long-term debt	\$ -	\$ 18,720,000	\$ -	\$ 18,720,000	\$ -

VILLAGE AT DRY CREEK METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements

December 31, 2019

3. Detailed Notes on the Funds (continued)

Long-Term Obligations (continued)

General Obligation Bonds

On July 31, 2019, the District issued \$18,720,000 of Limited Tax General Obligation and Special Revenue Bonds, Series 2019 (Series 2019) to fund project costs, fund a portion of the interest to accrue on the bonds, fund the reserve fund, and pay the cost of issuance of the Series 2019 Bonds. The Series 2019 Bonds bear interest at a rate of 4.375%, payable semiannually on each June 1 and December 1, commencing on December 1, 2019, and maturing on December 1, 2044.

The Series 2019 Bonds are subject to a mandatory sinking fund redemption commencing on December 1, 2021 and are subject to redemption prior to maturity, at the option of the District, as a whole or in integral multiples of \$1,000, in any order of maturity and in whole or partial maturities, commencing on September 1, 2024, upon payment of principal and accrued interest, and a redemption premium that ranges between 0% and 3%.

The Series 2019 Bonds are secured by pledged Property Tax revenue, pledged Specific Ownership Tax which is collected as a result of pledged Property Tax revenue, Credit PIF revenue, Add-on PIF revenue, and any other legally available funds as determined by the District. In connection with the Series 2019 Bonds, the District is required to maintain a Reserve Fund in the amount of \$1,428,469 which was funded upon issuance. In addition, the District is required to build a Surplus Fund with a maximum balance of \$1,872,000. As of December 31, 2019, the Surplus Fund has not been funded. Additionally, upon issuance, the District funded capitalized interest in the amount of \$822,694. As of December 31, 2019, the capitalized interest account had a balance of \$552,560.

The following is a summary of the annual long-term debt principal and interest requirements for the Series 2019 Bonds.

Year Ending December 31,	Principal	Interest	Total
2020	\$ -	\$ 819,000	\$ 819,000
2021	315,000	819,000	1,134,000
2022	365,000	805,219	1,170,219
2023	395,000	789,250	1,184,250
2024	420,000	771,970	1,191,970
2025-2029	2,600,000	3,555,782	6,155,782
2030-2034	3,565,000	2,905,875	6,470,875
2035-2039	4,780,000	2,024,750	6,804,750
2040-2044	6,280,000	865,375	7,145,375
Total	\$ 18,720,000	\$ 13,356,221	\$ 32,076,221

At December 31, 2019, the District had total authorized debt of \$280,000,000 of which \$18,720,000 has been issued, leaving an authorized but unissued balance of \$261,280,000. Per the District's Service Plan, the District and District Nos. 1, 3 and 4 cannot issue debt in excess of \$55,000,000, not including refinancing debt, without the approval of the City.

4. Agreements

Public Finance Agreement

In October 2015, the District entered into a Public Finance Agreement with District Nos. 1, 3 and 4, the Developer and the City of Thornton (City) for the development of a Retail Outlet Center (Outlet Center). Under this agreement, the Developer agrees to impose a Credit Public Improvement Fee (PIF) and Add-on PIF of 1.4% and .4% on taxable sales, respectively. And if pledged, an Outparcel Add-on PIF. District No. 1 shall assign the Pledged PIF revenue to the District that issues the District Bonds or to the District Bond Trustee until the payment in full of the District Bonds. Any Add-on PIF revenue that is not pledged shall be used to repay certain developer advances. Under the agreement, the District may impose a debt service mill levy up to 50 mills during the terms of this agreement, subject to valuation adjustments.

Under this agreement, the City has the option, but not the obligation, to make a City Contribution to pay or reimburse costs up to a maximum amount of \$6,000,000. The City will implement a sales tax credit equal to 1.4% of the sales tax collected on taxable sales within Phase 1 and 2 of the Outlet Center. The sales tax credit for Phase 1 will be in place until the earlier of (a) 25 years after the date of the grand opening (b) payment in full or defeasance of all outstanding Phase 1 District Bonds, or (c) if Phase 1 bonds are not issued, payment of allowed costs. The sales tax credit for Phase 2 will be in place until the earlier of (a) 25 years after the date of the grand opening of Phase 1 (b) payment in full or defeasance of all outstanding Phase 2 District Bonds, or (c) if Phase 2 bonds are not issued, payment of allowed costs.

The agreement will terminate upon payment in full of the District Bonds or full performance of the covenants of the Agreement, whichever occurs later, and 25 years after the grand opening of Phase 1 of the Outlet Center. In July 31, 2019, the District issued Series 2019 Bonds (Note 3). As a result of the bond issuance, District No. 1 assigned the Pledged PIF revenue to the District effective July 18, 2019. District No. 1 collects and remits the Pledged PIF revenue to the District.

5. Related Party

All members of the Board of Directors are associated with the Developer and may have conflicts of interest in dealing with the District. Management believes that all potential conflicts, if any, have been disclosed to the Board. The District has entered into a Public Finance Agreement with the Developer, see Note 4.

6. Risk Management

The District is exposed to various risks of loss related to workers compensation, general liability, unemployment, torts, theft of, damage to, and destruction of assets, and errors and omissions. The District has elected to participate in the Colorado Special Districts Property and Liability Pool ("the Pool"). The Pool is an organization created by intergovernmental agreement to provide common liability and casualty insurance coverage to its members at a cost that is considered economically appropriate. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

VILLAGE AT DRY CREEK METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements

December 31, 2019

6. Risk Management (continue)

The District pays annual premiums to the Pool for auto, public official's liability, property and general liability coverage. In the event aggregated losses incurred by the Pool exceed its amounts recoverable from reinsurance contracts and its accumulated reserves, the District may be called upon to make additional contributions to the Pool on the basis proportionate to other 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. During the year ended December 31, 2019, the Pool has made no distributions nor required additional contributions from the District.

7. Reconciliation of Government-Wide and Fund Financial Statements

Explanation of Differences between the Governmental Funds Balance Sheet and the Government-Wide Statement of Net Position

The governmental funds balance sheet includes reconciliation between fund balance-total governmental funds and net position-governmental activities as reported in the government-wide statement of net position. Explanation of the reconciling items is as follows:

Capital and service obligation payable to the coordinating district of \$5,208,978 is not available for current period expenditures and, therefore, not reported in the funds.

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds. The details of this difference are as follows:

Series 2019 Bonds	\$	18,720,000
Accrued interest on bonds		68,250
Net adjustment	\$	<u>18,788,250</u>

Explanation of Differences between the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances and the Government-Wide Statement of Activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net position of governmental activities as reported in the government-wide statement of activities. Explanation of the reconciling items is as follows:

The issuance of long-term debt (e.g. bonds payable) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. The difference is due to the issuance of the Series 2019 Bonds in the amount of \$18,720,000.

Another element of the reconciliation states that “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.” The details of this difference are as follows:

Change in capital and service obligation payable	\$	1,383,117
Accrued interest on bonds		68,250
Net adjustment	\$	<u>1,451,367</u>

8. Capital and Service Obligation Payable

The District along with District Nos. 3 and 4 were organized as financing districts and District No. 1 is the operating district. As the financing districts are responsible for the financing of District No. 1, the District has recorded a capital and service obligation payable related to unpaid developer debt incurred by District No. 1 to finance the development of the District. Fifty percent of the capital and service obligation has been allocated to the District. The remaining fifty percent was allocated to District Nos. 3-4. The allocation is an estimate as the final development of the remaining Districts has not yet been determined. As this is an estimate, actual amounts could differ from the estimate.

9 Subsequent Event

In December 2019, an outbreak of a novel strain of coronavirus (COVID-19) originated in Wuhan, China and has since spread to a number of other countries, including the U.S. On March 11, 2020, the World Health Organization characterized COVID-19 as a pandemic. In addition, several states in the U.S., including Colorado, where the District is located, declared a state of emergency.

COVID-19 could adversely affect the economies and financial markets of many countries, including the U.S. resulting in an economic downturn that could affect the District's ability to make debt service payments.

Any of the foregoing could harm our operations and we cannot anticipate all of the ways in which health epidemics such as COVID-19 could adversely impact the District. Although we are continuing to monitor and assess the effects of the COVID-19 pandemic on our business, the ultimate impact of the COVID-19 outbreak or similar health epidemics is highly uncertain and subject to change.

REQUIRED SUPPLEMENTARY INFORMATION

VILLAGE AT DRY CREEK METROPOLITAN DISTRICT NO. 2
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
General Fund
For the Year Ended December 31, 2019

	Original and Final Budget	Actual	Variance to Final
Revenues:			
Other income	\$ -	\$ -	\$ -
Total revenues	-	-	-
Expenditures:			
General government:			
Accounting	7,500	-	7,500
Legal	10,000	-	10,000
Insurance and bonds	1,500	-	1,500
Other administration	5,000	-	5,000
Contingency	15,000	-	15,000
Total expenditures	39,000	-	39,000
Excess of revenues over (under) expenditures	(39,000)	-	39,000
Other financing sources (uses):			
Developer advances	39,000	-	(39,000)
Total other financing sources (uses)	39,000	-	(39,000)
Net change in fund balance	-	-	-
Fund balance, beginning of year	-	-	-
Fund balance, end of year	\$ -	\$ -	\$ -

The accompanying notes are an integral part of this financial statement.

SUPPLEMENTARY INFORMATION

VILLAGE AT DRY CREEK METROPOLITAN DISTRICT NO. 2
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
Debt Service Fund
For the Year Ended December 31, 2019

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance to Final</u>
Revenues:				
Credit PIF revenue	\$ -	\$ 1,050,412	\$ 1,109,618	\$ 59,206
Add-on PIF revenue	-	300,118	317,034	16,916
Interest income	-	40,617	52,239	11,622
Other income	-	-	158	158
Total revenues	<u>-</u>	<u>1,391,147</u>	<u>1,479,049</u>	<u>87,902</u>
Expenditures:				
General government:				
PIF collection fee	-	15,000	13,554	1,446
Bond interest	-	275,275	275,275	-
Bond issuance costs	-	800,000	792,130	7,870
Trustee fees	-	-	4,106	(4,106)
Miscellaneous	-	-	2,569	(2,569)
Contingency	-	10,000	-	10,000
Total expenditures	<u>-</u>	<u>1,100,275</u>	<u>1,087,634</u>	<u>12,641</u>
Excess of revenues over (under) expenditures	<u>-</u>	<u>290,872</u>	<u>391,415</u>	<u>100,543</u>
Other financing sources (uses):				
General obligation bonds issued	-	18,720,000	18,720,000	-
Bond proceeds transferred to District No.1	-	(15,677,224)	(15,677,224)	-
Total other financing sources (uses)	<u>-</u>	<u>3,042,776</u>	<u>3,042,776</u>	<u>-</u>
Net change in fund balance	<u>-</u>	<u>3,333,648</u>	<u>3,434,191</u>	<u>100,543</u>
Fund balance, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, end of year	<u>\$ -</u>	<u>\$ 3,333,648</u>	<u>\$ 3,434,191</u>	<u>\$ 100,543</u>

The accompanying notes are an integral part of this financial statement.