

**LANTERNS METROPOLITAN DISTRICT NO. 2**  
**Douglas County, Colorado**

**FINANCIAL STATEMENTS AND**  
**SUPPLEMENTARY INFORMATION**

**YEAR ENDED DECEMBER 31, 2021**

**LANTERNS METROPOLITAN DISTRICT NO. 2  
TABLE OF CONTENTS  
YEAR ENDED DECEMBER 31, 2021**

<b>INDEPENDENT AUDITOR'S REPORT</b>	<b>1</b>
<b>BASIC FINANCIAL STATEMENTS</b>	
<b>GOVERNMENT-WIDE FINANCIAL STATEMENTS</b>	
<b>STATEMENT OF NET POSITION</b>	<b>1</b>
<b>STATEMENT OF ACTIVITIES</b>	<b>2</b>
<b>FUND FINANCIAL STATEMENTS</b>	
<b>BALANCE SHEET – GOVERNMENTAL FUNDS</b>	<b>3</b>
<b>STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN         FUND BALANCES – GOVERNMENTAL FUNDS</b>	<b>4</b>
<b>RECONCILIATION OF THE STATEMENT OF REVENUES,         EXPENDITURES, AND CHANGES IN FUND BALANCES OF THE         GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES</b>	<b>5</b>
<b>GENERAL FUND – STATEMENT OF REVENUES, EXPENDITURES, AND         CHANGES IN FUND BALANCE – BUDGET AND ACTUAL</b>	<b>6</b>
<b>NOTES TO BASIC FINANCIAL STATEMENTS</b>	<b>7</b>
<b>SUPPLEMENTARY INFORMATION</b>	
<b>CAPITAL PROJECTS FUND – SCHEDULE OF REVENUES,     EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND     ACTUAL</b>	<b>22</b>
<b>OTHER INFORMATION</b>	
<b>SUMMARY OF ASSESSED VALUATION, MILL LEVY, AND PROPERTY     TAXES COLLECTED</b>	<b>24</b>

## Independent Auditor's Report

To the Board of Directors  
Lanterns Metropolitan District No.2

### Opinions

We have audited the accompanying financial statements of the governmental activities and the major funds of Lanterns Metropolitan District No.2 (the District), as of and for the year ended December 31, 2021 and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and the major funds of Lanterns Metropolitan District No.2, as of December 31, 2021, 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.

### Basis for Opinions

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Lanterns Metropolitan District No.2 and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### Responsibilities of Management 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Lanterns Metropolitan District No.2's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

### Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Lanterns Metropolitan District No.2's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Lanterns Metropolitan District No.2's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

### **Other Matters**

#### *Required Supplementary Information*

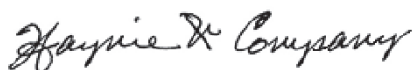
Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

#### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Lanterns Metropolitan District No.2's basic financial statements. The supplementary information section is presented for purposes of additional analysis and is not a required part of the basic 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 basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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



Littleton, Colorado  
December 12, 2022

## **BASIC FINANCIAL STATEMENTS**

**LANTERNS METROPOLITAN DISTRICT NO. 2**  
**STATEMENT OF NET POSITION**  
**DECEMBER 31, 2021**

	Governmental Activities
<b>ASSETS</b>	
Cash and Investments	\$ 1,844
Cash and Investments - Restricted	13,331,577
Property Taxes Receivable	251,740
Capital Assets, Not Being Depreciated:	
Construction in Progress	11,330,057
Total Assets	24,915,218
<b>LIABILITIES</b>	
Accounts Payable	9,805
Accrued Interest	421,672
Due to Other Districts	400
Noncurrent Liabilities:	
Due in More Than One Year	25,941,757
Total Liabilities	26,373,633
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Property Tax Revenue	251,740
Total Deferred Inflows of Resources	251,740
<b>NET POSITION</b>	
Restricted for:	
Emergency Reserves	100
Capital Projects	13,304,586
Unrestricted	(14,593,170)
Total Net Position	\$ (1,288,484)

See accompanying Notes to Basic Financial Statements.

**LANTERNS METROPOLITAN DISTRICT NO. 2**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED DECEMBER 31, 2021**

		Program Revenues			Net Revenues (Expenses) and Change in Net Position
Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	
<b>FUNCTIONS/PROGRAMS</b>					
Primary Government:					
Governmental Activities:					
General Government	\$ 46,080	\$ -	\$ -	\$ -	
Interest and Related Costs on Long-Term Debt	1,244,116	-	-	-	
Total Governmental Activities	\$ 1,290,196	\$ -	\$ -	\$ -	
				1,710	
				2	
				1,712	
				(1,288,484)	
				-	
				\$ (1,288,484)	

See accompanying Notes to Basic Financial Statements.

**LANTERNS METROPOLITAN DISTRICT NO. 2  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2021**

	General	Debt Service	Capital Projects	Total Governmental Funds
<b>ASSETS</b>				
Cash and Investments	\$ 1,844	\$ -	\$ -	\$ 1,844
Cash and Investments - Restricted	100	-	13,331,477	13,331,577
Due from Other Funds	26,891	-	-	26,891
Property Taxes Receivable	37,120	214,620	-	251,740
	<u>\$ 65,955</u>	<u>\$ 214,620</u>	<u>\$ 13,331,477</u>	<u>\$ 13,612,052</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Accounts Payable	\$ 9,805	\$ -	\$ -	\$ 9,805
Due to Other Funds	-	-	26,891	26,891
Due to District 1	400	-	-	400
Total Liabilities	<u>10,205</u>	<u>-</u>	<u>26,891</u>	<u>37,096</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Property Tax Revenue	37,120	214,620	-	251,740
Total Deferred Inflows of Resources	<u>37,120</u>	<u>214,620</u>	<u>-</u>	<u>251,740</u>
<b>FUND BALANCES</b>				
Restricted, for:				
Emergency Reserves	100	-	-	100
Capital Projects	-	-	13,304,586	13,304,586
Unassigned	18,530	-	-	18,530
Total Fund Balances	<u>18,630</u>	<u>-</u>	<u>13,304,586</u>	<u>13,323,216</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 65,955</u>	<u>\$ 214,620</u>	<u>\$ 13,331,477</u>	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

11,330,057

Long-term liabilities, including Developer advances payable and bonds payable are not due and payable in the current period and, therefore, are not reported in the funds.

Bonds Payable

(25,482,000)

Bonds Interest Payable

(421,672)

Developer Advance Payable

(37,817)

Accrued Interest on Developer Advance

(268)

Net Position of Governmental Activities

\$ (1,288,484)

See accompanying Notes to Basic Financial Statements.

**LANTERNS METROPOLITAN DISTRICT NO. 2**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**YEAR ENDED DECEMBER 31, 2021**

	General	Capital Projects	Total Governmental Funds
<b>REVENUES</b>			
Net Investment Income	\$ -	\$ 1,710	\$ 1,710
Other Income	2	-	2
Total Revenues	2	1,710	1,712
<b>EXPENDITURES</b>			
Current:			
Accounting	9,781	1,984	11,765
Dues	400	-	400
Engineering	-	23,845	23,845
Insurance	1,856	-	1,856
Legal	7,152	1,062	8,214
Capital Projects:			
Bond Issue Costs	-	822,176	822,176
Capital Outlay	-	11,330,057	11,330,057
Total Expenditures	19,189	12,179,124	12,198,313
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	(19,187)	(12,177,414)	(12,196,601)
<b>OTHER FINANCING SOURCES (USES)</b>			
Developer Advance	37,817	11,330,057	11,367,874
Repay Developer Advance	-	(11,330,057)	(11,330,057)
Bond Proceeds - Series 2021	-	25,482,000	25,482,000
Total Other Financing Sources (Uses)	37,817	25,482,000	25,519,817
<b>NET CHANGE IN FUND BALANCES</b>	18,630	13,304,586	13,323,216
Fund Balances - Beginning of Year	-	-	-
<b>FUND BALANCES - END OF YEAR</b>	\$ 18,630	\$ 13,304,586	\$ 13,323,216

See accompanying Notes to Basic Financial Statements.

**LANERNS METROPOLITAN DISTRICT NO. 2  
RECONCILIATION OF THE STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES OF THE GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
YEAR ENDED DECEMBER 31, 2021**

Net Change in Fund Balances - Governmental Funds \$ 13,323,216

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

Governmental funds report capital outlays as expenditures. In the statement of  
activities, capital outlay is not reported as an expenditure.

Capital Outlay 11,330,057

The issuance of long-term debt (e.g., the issuance of bonds, the receipt of Developer  
advances) 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.  
Also, governmental funds report the effect of premiums, discounts, and similar items  
when debt is first issued, whereas these amounts are deferred and amortized in the  
statement of activities.

Bonds Issued in Current Year (25,482,000)  
Developer Advance - O&M (37,817)

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

Accrued Interest on Bonds - Change in Liability (421,672)  
Accrued Interest on Developer Advance - Change in Liability (268)

Change in Net Position of Governmental Activities \$ (1,288,484)

**LANERNS METROPOLITAN DISTRICT NO. 2  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –  
BUDGET AND ACTUAL  
YEAR ENDED DECEMBER 31, 2021**

	Original and Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>			
Other Income	\$ -	\$ 2	\$ 2
Total Revenues	-	2	2
<b>EXPENDITURES</b>			
Current:			
Accounting	15,000	9,781	5,219
Dues and Licenses	2,000	400	1,600
Insurance and Bonds	7,000	1,856	5,144
Legal	22,000	7,152	14,848
Contingency	4,000	-	4,000
Total Expenditures	50,000	19,189	30,811
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	(50,000)	(19,187)	30,813
<b>OTHER FINANCING SOURCES (USES)</b>			
Developer Advance	50,000	37,817	(12,183)
Total Other Financing Sources (Uses)	50,000	37,817	(12,183)
<b>NET CHANGE IN FUND BALANCE</b>	-	18,630	18,630
Fund Balance - Beginning of Year	-	-	-
<b>FUND BALANCE - END OF YEAR</b>	\$ -	\$ 18,630	\$ 18,630

See accompanying Notes to Basic Financial Statements.

**LANTERNS METROPOLITAN DISTRICT NO. 2**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2021**

**NOTE 1 DEFINITION OF REPORTING ENTITY**

Lanterns Metropolitan District No. 2 (District), a quasi-municipal corporation and a political subdivision of the state of Colorado, was organized by order and decree of the District Court for the Town of Castle Rock in February 2004, and is governed pursuant to provisions of the Colorado Special District Act (Title 32, Article 1, Colorado Revised Statutes). The District operates under a Service Plan approved by the Town Council of the Town of Castle Rock, and as modified on September 16, 2014. The District's service area is located in the Town of Castle Rock, in Douglas County. District Nos. 1-3 are authorized to implement the Capital Plan and Financial Plan within their respective boundaries. The District was established to provide financing for the design, acquisition, installation, construction and completion of public improvements and services, including water, sanitation, street, safety protection, park and recreation, transportation, television relay and translation and mosquito control improvements and services. The Service Plans for District Nos. 1-3 limits the aggregate amount of debt that they may issue together to \$87,000,000.

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. These financial statements include all of the activities of the District. The effect of interfund activity has been removed from these statements. Governmental activities are normally supported by taxes and intergovernmental revenues.

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

**LANERNS METROPOLITAN DISTRICT NO. 2**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2021**

**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: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

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, and specific ownership taxes. All other revenue items are considered to be measurable and available only when cash is received by the District. Expenditures, other than interest on long-term obligations, are recorded when the liability is incurred or the long-term obligation is due.

The District reports the following major governmental funds:

The General Fund is the District's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Debt Service Fund accounts for the resources accumulated and payments made for principal and interest on long-term debt of the governmental funds.

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

**LANERNS METROPOLITAN DISTRICT NO. 2**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2021**

**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 and other financing uses level and lapses at year-end. The District's Board of Directors can modify the budget by line item within the total appropriation without notification. The appropriation can only be modified upon completion of notification and publication requirements. The budget includes each fund on its basis of accounting unless otherwise indicated.

**Pooled Cash and Investments**

The District follows the practice of pooling cash and investments of all funds to maximize investment earnings. Except when required by trust or other agreements, all cash is deposited to and disbursed from a single bank account. Cash in excess of immediate operating requirements is pooled for deposit and investment flexibility. Investment earnings are allocated periodically to the participating funds based upon each fund's average equity balance in the total cash and investments.

**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, net of estimated uncollectible taxes, are recorded initially as deferred inflow of resources in the year they are levied and measurable. The unearned property tax revenues are recorded as revenue in the year they are available or collected.

**Capital Assets**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns 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 at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition 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 the net investment in capital assets component of the District's net position.

**LANERNS METROPOLITAN DISTRICT NO. 2**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2021**

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

**Capital Assets (Continued)**

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. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable.

Depreciation on property that will remain assets of the District is reported on the statement of activities as a current charge. Improvements that will be conveyed to other governmental entities are classified as construction in progress and are not depreciated. Land and certain landscaping improvements are not depreciated. No depreciation expense was recognized during 2021.

**Deferred Inflows of Resources**

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The District has one item that qualifies for reporting in this category. Accordingly, the item, deferred property tax revenue, is deferred and recognized as an inflow of resources in the period that the amount becomes available.

**Equity**

**Net Position**

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

**Fund Balance**

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

*Nonspendable Fund Balance* – The portion of fund balance that cannot be spent because it is either not in spendable form (such as prepaid amounts or inventory) or legally or contractually required to be maintained intact.

*Restricted Fund Balance* – The portion of fund balance that is constrained to being used for a specific purpose by external parties (such as bondholders), constitutional provisions, or enabling legislation.

**LANERNS METROPOLITAN DISTRICT NO. 2  
NOTES TO BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2021**

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

**Equity (Continued)**

**Fund Balance (Continued)**

*Committed Fund Balance* – The portion of fund balance that can only be used for specific purposes pursuant to constraints imposed by formal action of the government’s highest level of decision-making authority, the Board of Directors. The constraint may be removed or changed only through formal action of the Board of Directors.

*Assigned Fund Balance* – The portion of fund balance that is constrained by the government’s intent to be used for specific purposes, but is neither restricted nor committed. Intent is expressed by the Board of Directors to be used for a specific purpose. Constraints imposed on the use of assigned amounts are more easily removed or modified than those imposed on amounts that are classified as committed.

*Unassigned Fund Balance* – The residual portion of fund balance that does not meet any of the criteria described above.

If more than one classification of fund balance is available for use when an expenditure is incurred, it is the District’s practice to use the most restrictive classification first.

**NOTE 3 CASH AND INVESTMENTS**

Cash and investments as of December 31, 2021, are classified in the accompanying financial statements as follows:

Statement of Net Position and Balance Sheet:

Cash and Investments	\$ 1,844
Cash and Investments - Restricted	<u>13,331,577</u>
Total Cash	<u><u>\$ 13,333,421</u></u>

Cash and investments as of December 31, 2021, consist of the following:

Deposits with Financial Institutions	\$ 1,944
Investments	<u>13,331,477</u>
Total Cash and Investments	<u><u>\$ 13,333,421</u></u>

**Cash Deposits**

The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulators. Amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is determined by the PDPA. PDPA allows the institution to create a single collateral pool for all public funds. The pool for all the uninsured public deposits as a group is to be maintained by another institution or held in trust. The market value of the collateral must be at least 102% of the aggregate uninsured deposits.

**LANERNS METROPOLITAN DISTRICT NO. 2  
NOTES TO BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2021**

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

**Cash Deposits (Continued)**

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

At December 31, 2021, the District's cash deposits had a bank balance and a carrying balance of \$1,944.

**Investments**

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

The District generally limits its concentration of investments to those noted with an asterisk (\*) below, which are believed to have minimal credit risk, minimal interest rate risk and no foreign currency risk. Additionally, the District is not subject to concentration risk or investment custodial risk disclosure requirements for investments that are in the possession of another party.

Colorado Revised Statutes limit investment maturities to five years or less unless formally approved by the Board of Directors. Such actions are generally associated with a debt service reserve or sinking fund requirements.

Colorado statutes specify investment instruments meeting defined rating and risk criteria in which local governments may invest which include:

- . Obligations of the United States, certain U.S. government agency securities and securities of the World Bank
- . General obligation and revenue bonds of U.S. local government entities
- . Certain certificates of participation
- . Certain securities lending agreements
- . Bankers' acceptances of certain banks
- . Commercial paper
- . Written repurchase agreements and certain reverse repurchase agreements collateralized by certain authorized securities
- \* Certain money market funds
- . Guaranteed investment contracts
- . Local government investment pools

<u>Investment</u>	<u>Maturity</u>	<u>Amount</u>
U.S. Treasury Money Market Fund	Weighted-Average Under 60 Days	\$ 13,331,477
Total		<u>\$ 13,331,477</u>

**LANERNS METROPOLITAN DISTRICT NO. 2**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2021**

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

**U.S. Treasury Money Market Fund**

The debt service money that is included in the trust accounts at United Missouri Bank (successor of American National Bank) is invested in the SEI Daily Income Treasury Portfolio. This portfolio is a money market fund that is managed by SEI Investments and each share is equal in value to \$1.00. The fund is AAA rated and invests exclusively in U.S. Treasury securities and repurchase agreements collateralized by U.S. Treasury securities. The average maturity of the underlying securities is 90 days or less.

**NOTE 4 CAPITAL ASSETS**

An analysis of the changes in capital assets for the year ended December 31, 2021 follows:

	Balance - December 31, 2020	Increases	Decreases	Balance - December 31, 2021
Capital Assets, Not Being Depreciated:				
Construction in Progress	\$ -	\$ 11,330,057	\$ -	\$ 11,330,057
Total Capital Assets, Not Being Depreciated	<u>\$ -</u>	<u>\$ 11,330,057</u>	<u>\$ -</u>	<u>\$ 11,330,057</u>

**NOTE 5 LONG-TERM OBLIGATIONS**

The following is an analysis of the changes in long-term obligations for the year ended December 31, 2021:

	Balance at December 31, 2020	Additions	Reductions	Balance at December 31, 2021	Due Within One Year
<b>Bonds Payable:</b>					
Limited Tax General Obligation Bonds:					
Series 2021 A(3)	\$ -	\$ 25,482,000	\$ -	\$ 25,482,000	\$ -
Accrued Interest on:					
Series 2021 A(3) Bonds	-	421,672	-	421,672	-
Total Bonds Payable	<u>-</u>	<u>25,903,672</u>	<u>-</u>	<u>25,903,672</u>	<u>-</u>
<b>Other Debts:</b>					
Developer Advances - O&M	-	37,817	-	37,817	-
Developer Advances - Capital	-	11,330,057	11,330,057	-	-
Accrued Interest on					
Developer Advances - O&M	-	268	-	268	-
Total Long-Term Obligations	<u>\$ -</u>	<u>\$ 37,271,814</u>	<u>\$ 11,330,057</u>	<u>\$ 25,941,757</u>	<u>\$ -</u>

**LANERNS METROPOLITAN DISTRICT NO. 2**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2021**

**NOTE 5 LONG-TERM OBLIGATIONS (CONTINUED)**

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

**Limited Tax General Obligation Bonds, Series 2021A(3) (the Bonds)**

**Bond Proceeds**

The District the Bonds on August 19, 2021, in the par amount of \$25,482,000. Proceeds from the sale of the Bonds were used to fund or reimburse a portion of the costs of acquiring, constructing, and installing certain public improvements and to pay the costs of issuing the Bonds.

**Bond Details**

The Bonds bear interest at the rate of 4.500% per annum and are payable annually on December 1, beginning on December 1, 2021, but only to the extent of available Pledged Revenue. The Bonds mature on December 1, 2050 and are subject to mandatory redemption to the extent of available Pledged Revenue.

The Bonds are structured as cash flow bonds meaning that there are no scheduled payments of principal or interest. Unpaid interest on the Bonds compounds annually on each December 1. In the event any amount of principal or interest on the Bonds remains unpaid on December 2, 2056, such amounts shall be deemed discharged and no longer due and outstanding.

**Optional Redemption**

The Bonds are subject to redemption prior to maturity, at the option of the District, on September 1, 2026, and on any date thereafter, upon payment of par, accrued interest, and a redemption premium equal to a percentage of the principal amount so redeemed as follows:

<u>Date of Redemption</u>	<u>Redemption Premium</u>
September 1, 2026, to August 31, 2027	3.00%
September 1, 2027, to August 31, 2028	2.00
September 1, 2028, to August 31, 2029	1.00
September 1, 2029, and thereafter	0.00

**Pledged Revenue**

The Bonds are secured by and payable from moneys derived by the District from the following sources:

- (a) all Property Tax Revenues;
- (b) all Specific Ownership Tax Revenues
- (c) any other legally available moneys that the District determines, in its absolute discretion, to credit to the Bond Fund

**LANTERNS METROPOLITAN DISTRICT NO. 2  
NOTES TO BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2021**

**NOTE 5 LONG-TERM OBLIGATIONS (CONTINUED)**

**Pledged Revenue (Continued)**

“Property Tax Revenues” means all monies derived from imposition by the District of the Required Mill Levy and does not include specific ownership taxes. Property Tax Revenues are net of the collection costs of the County and any tax refunds or abatements authorized by or on behalf of the County.

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

**Required Mill Levy**

The District is required to impose an ad valorem mill levy upon all taxable property of the District each year in an amount equal to 63.600 mills (subject to adjustment for changes in the method of calculating assessed valuation after January 1, 2018) or such lesser amount that will generate Property Tax Revenues which, when combined with moneys in the Bond Fund, will pay the Bonds in full.

**Bond Debt Service**

The annual debt service requirements of the Bonds are not currently determinable since they are payable only from available Pledged Revenue.

At December 31, 2021, the District had authorized, but unissued general obligation indebtedness in the following amounts for the following purposes:

	Authorized November 6, 2018 Election	Authorization Used, Series 2021A(3) Bonds	Remaining at December 31, 2021
Streets	\$ 87,000,000	\$ 6,253,392	\$ 80,746,608
Parks and Recreation	87,000,000	190,709	86,809,291
Water	87,000,000	1,268,334	85,731,666
Sanitation/Storm Sewer	87,000,000	3,495,031	83,504,969
Transportation	87,000,000	-	87,000,000
Mosquito Control	87,000,000	-	87,000,000
Safety Protection	87,000,000	122,591	86,877,409
Fire Protection	87,000,000	-	87,000,000
Television Relay	87,000,000	-	87,000,000
Security	87,000,000	-	87,000,000
Total	<u>\$ 870,000,000</u>	<u>\$ 11,330,057</u>	<u>\$ 858,669,943</u>

**LANERNS METROPOLITAN DISTRICT NO. 2**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2021**

**NOTE 5 LONG-TERM OBLIGATIONS (CONTINUED)**

**Authorized Debt**

At an election conducted November 6, 2018, a majority of the qualified electors of the District who voted in the elections authorized the issuance of general obligation indebtedness in an amount not to exceed \$870,000,000 for providing public improvements. However, the Service Plan limits the total issuance of general obligation debt for District Nos. 1-3 to an aggregate amount of \$87,000,000. In 2019, District 1 issued \$22,120,000 of general obligation bonds leaving \$64,880,000 in remaining debt authorization. Following the issuance of the Series 2021A(3) Bonds, there is \$39,398,000 of Service Plan debt authorization remaining.

At December 31, 2021, with the issuance of the Series 2021A(3) Bonds, the District had authorized but unissued indebtedness authorized by election remaining in the amount of \$844,518,000 for public improvements and refunding and authorized but unissued indebtedness authorized by the service plan in the amount of \$39,398,000. The District also had \$870,000,000 in authorized but unissued general obligation indebtedness for refunding purposes.

The allocation of authorized debt is dependent upon the cost acceptance resolutions and the corresponding Project Requisitions.

In the future, the District may issue a portion or all of the remaining authorized but unissued general obligation debt on behalf of the Districts for purposes of providing public improvements to support development as it occurs within the Districts' service areas.

**Developer Advances**

The District entered into a Funding and Reimbursement Agreement with Toll Southwest, LLC (the Developer), in 2021, for the purpose of funding certain operation and maintenance expenses (see Note 7).

**NOTE 6 NET POSITION**

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

Restricted net position includes net position that is restricted for use either externally imposed by creditors, grantors, contributors, or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The District had restricted net position as of December 31, 2021, as follows:

Restricted Net Position:	
Emergency Reserves	\$ 100
Capital Projects	13,304,586
Total Restricted Net Position	<u>\$ 13,304,686</u>

**LANERNS METROPOLITAN DISTRICT NO. 2**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2021**

**NOTE 6 NET POSITION (CONTINUED)**

The District has a deficit in unrestricted net position. This deficit amount is a result of the District being responsible for the repayment of bonds issued for public improvements and expenses paid by advances from Developer.

**NOTE 7 AGREEMENTS**

**Intergovernmental Agreement between Lantern Metropolitan Districts Nos. 1-5 (Districts) and the Town of Castle Rock**

The District, in conjunction with Lanterns Metropolitan District Nos. 1 and 3-5, entered into an Intergovernmental Agreement (Second IGA) with the Town dated February 25, 2019. Pursuant to the Second IGA, the Districts agree to certain items, inclusive of the following items.

Operations and Maintenance – District Nos. 1-3 are authorized to implement the Capital Plan and Financial Plan within their respective boundaries. District No. 4 and District No. 5 are organized to provide operations and maintenance services to the service area. The Districts shall dedicate the public improvements to the Town or other appropriate jurisdiction or owners association in accordance with the then current Town requirements. The Districts are authorized, but not obligated, to own, operate and maintain public improvements not otherwise dedicated to the Town or other public entity.

Fire Protection – The Districts are not authorized to provide fire protection facilities or services unless provided pursuant to an intergovernmental agreement with the Town. This agreement does not limit the authority to provide fire hydrants and related water systems. The Districts will obtain fire protection and emergency response services from the Town.

Privately Placed Debt Limitation – District Nos. 1-3 will obtain the certification of an external financial advisor prior to the issuance of any privately placed debt.

Total Debt Issuance – District Nos. 1-3 shall not issue debt in excess of \$87,000,000. The limitation shall not apply for the purpose of refunding, refinancing, reissuing, or restructuring outstanding debt. District No. 4 and District no. 5 shall not be permitted to issue debt.

Fee Limitation – District Nos. 1-3 may impose and collect a development fee, imposed for repayment of debt and capital costs, not to exceed \$2,000 per unit, plus a 1% cost of living adjustment from January 1, 2016 forward.

Maximum Debt Mill Levy – The Maximum Debt Mill Levy shall not exceed 63.600 mills, as adjusted for changes in the method of calculating assessed valuation on or after January 1, 2018.

**LANERNS METROPOLITAN DISTRICT NO. 2**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2021**

**NOTE 7 AGREEMENTS (CONTINUED)**

**Intergovernmental Agreement between Lantern Metropolitan Districts Nos. 1-5 (Districts) and the Town of Castle Rock (Continued)**

Maximum Debt Mill Levy Imposition Term – The Districts shall not impose a levy for repayment of debt which exceeds 35 years after the year of initial imposition of such mill levy unless a majority of the Board of Directors of the District are residents of the District and have voted in favor of a refunding of all or part of the debt and such refunding will result in a net present value savings.

Operations and Maintenance Mill Levy – A District shall not impose a mill levy for operations, which when combined with its debt service mill levy exceeds 74.600 mills, as adjusted for changes in the method of calculating assessed valuation on or after January 1, 2018.

**Funding and Reimbursement Agreement with Toll Southwest LLC**

The District entered into the Funding and Reimbursement Agreement (Operations and Maintenance) (O&M Agreement) with Toll Southwest, LLC (Developer) dated July 6, 2021. Pursuant to the O&M Agreement, the Developer agrees to advance funds to the District, for operation and maintenance expenses, one or more sums of money, not to exceed the aggregate of \$50,000 per annum for fiscal years 2021 through 2022. The maximum amount to be advanced for Operations and Maintenance Expenses pursuant to this agreement is \$100,000. The District agrees to repay these advances together with accrued simple interest at a rate of 4% per annum accruing from the date any such advance is made. The term of repayment under the O&M Agreement shall not extend beyond twenty years from the date of the O&M Agreement. At December 31, 2021, the advances had a balance of \$37,817 and accrued interest totaled \$268.

**Infrastructure Acquisition and Reimbursement Agreement with Toll Southwest LLC**

The District entered into the Infrastructure Acquisition and Reimbursement Agreement (IA Agreement) with the Developer dated July 21, 2021. Pursuant to the IA Agreement, the District agreed to reimburse the Developer for related expenses, subject to cost verification and other terms of the IA Agreement from the Project Fund. The parties agreed that only completed phases of work shall be eligible for reimbursement by the District. The District agrees to acquire certain public infrastructure constructed or caused to be constructed by the Developer to be owned by the District. the District's obligations under this Agreement shall terminate at the earlier of exhaustion of all amounts in the Project Fund or 20 years from the date of this Agreement.

**LANTERNS METROPOLITAN DISTRICT NO. 2**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2021**

**NOTE 8 RELATED PARTIES**

The property within the District is being developed by Toll Southwest LLC (Developer). The Developer has advanced funds to the District. The members of the Board of Directors of the District hold direct or indirect ownership interests in the Toll Southwest LLC or are otherwise associated with Toll Southwest LLC and may have conflicts of interest in dealing with the District. As and when required by law, each affected Board member files a written disclosure of any potential conflicts of interest with the District and the Colorado Secretary of State, and they refrain from voting on affected matters unless allowed by law.

**NOTE 9 ECONOMIC DEPENDENCY**

The District has not yet established a revenue base sufficient to pay for most of its operational expenditures. Until an independent revenue base is established, the District's operations are dependent upon Developer advances.

**NOTE 10 RISK MANAGEMENT**

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

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

The District pays annual premiums to the Pool for liability, property, public officials' 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.

**LANERNS METROPOLITAN DISTRICT NO. 2**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2021**

**NOTE 11 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.

At an election held on November 8, 2016, a majority of the District's electors authorized the District to collect and spend or retain in a reserve all ad valorem property taxes and fees of the District without regard to any limitations under TABOR.

TABOR requires local governments to establish Emergency Reserves. These reserves must be at least 3% of Fiscal Year Spending (excluding bonded debt service). Local governments are not allowed to use the Emergency Reserves to compensate for economic conditions, revenue shortfalls, or salary or benefit increases.

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

## **SUPPLEMENTARY INFORMATION**

**LANTERNS METROPOLITAN DISTRICT NO. 2  
CAPITAL PROJECTS FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –  
BUDGET AND ACTUAL  
YEAR ENDED DECEMBER 31, 2021**

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>				
Net Investment Income	\$ -	\$ -	\$ 1,710	\$ 1,710
Total Revenues	-	-	1,710	1,710
<b>EXPENDITURES</b>				
Capital Projects:				
Accounting	-	2,000	1,984	16
Legal	-	2,000	1,062	938
Engineering	-	25,000	23,845	1,155
Bond Issue Costs	705,860	825,000	822,176	2,824
Capital Outlay	22,087,140	11,400,000	11,330,057	69,943
Contingency	707,000	-	-	-
Total Expenditures	23,500,000	12,254,000	12,179,124	74,876
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	(23,500,000)	(12,254,000)	(12,177,414)	76,586
<b>OTHER FINANCING SOURCES (USES)</b>				
Bond Proceeds - Series 2021A(3)	23,500,000	25,482,000	25,482,000	-
Developer Advance	-	11,400,000	11,330,057	(69,943)
Repay Developer Advance	-	(11,400,000)	(11,330,057)	69,943
Total Other Financing Sources (Uses)	23,500,000	25,482,000	25,482,000	-
<b>NET CHANGE IN FUND BALANCE</b>	-	13,228,000	13,304,586	76,586
Fund Balance - Beginning of Year	-	-	-	-
<b>FUND BALANCE - END OF YEAR</b>	\$ -	\$ 13,228,000	\$ 13,304,586	\$ 76,586

## **OTHER INFORMATION**

**LANERNS METROPOLITAN DISTRICT NO. 2**  
**SUMMARY OF ASSESSED VALUATION, MILL LEVY, AND PROPERTY TAXES COLLECTED**  
**DECEMBER 31, 2021**

Year Ended <u>December 31,</u>	Assessed Valuation for Current Year Property Tax Levy	Mills Levied for		Total Property Taxes		Percent Collected to Levied
		General	Debt Service	Levied	Collected	
2017	\$ -	0.000	0.000	\$ -	\$ -	-
2018	-	0.000	0.000	-	-	-
2019	2,330	0.000	0.000	-	-	-
2020	5,030	0.000	0.000	-	-	-
2021	5,030	0.000	0.000	-	-	-

Estimated for Calendar Year  
Ending December 31,  
2022

\$	3,351,130	11.077	64.044	\$	251,740
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Note:

Property taxes collected in any one year include collection of delinquent property taxes levied in prior years.