

**HM METROPOLITAN DISTRICT NO. 2
Adams County, Colorado**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED DECEMBER 31, 2021

**HM METROPOLITAN DISTRICT NO. 2
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Board of Directors
HM Metropolitan District No. 2
Adams County, Colorado

Independent Auditor's Report

Opinions

We have audited the accompanying financial statements of the governmental activities and each major fund of HM 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 accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of HM Metropolitan District No. 2 as of December 31, 2021, and the respective changes in financial position and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). 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 the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. 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 the financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP), and for 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 the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

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 opinions. 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 GAAS 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 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 GAAS, 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 the District'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 the District'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 Supplemental Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States 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 opinions on the basic financial statements are not affected by this missing information.

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 supplementary information as listed in the table of contents is presented for the purposes of legal compliance and additional analysis and is not a required part of the basic financial statements. The supplementary information 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. The 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, such information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Wipfli LLP

Wipfli LLP
Lakewood, Colorado

July 27, 2022

BASIC FINANCIAL STATEMENTS

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

	Governmental Activities
ASSETS	
Cash and Investments	\$ 482
Cash and Investments - Restricted	65,024,578
Receivable from HM Metropolitan District No. 1	2,533
Total Assets	65,027,593
LIABILITIES	
Accounts Payable	7,491
Noncurrent Liabilities:	
Due in More Than One Year	68,847,293
Total Liabilities	68,854,784
NET POSITION	
Restricted For:	
Debt Service	6,868,822
Unrestricted	(10,696,013)
Total Net Position	\$ (3,827,191)

See accompanying Notes to Basic Financial Statements.

**HM 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	
FUNCTIONS/PROGRAMS					
Governmental Activities:					
General Government	\$ 42,907	\$ -	\$ -	\$ (42,907)	
Interest and Related Costs on Long-Term Debt	1,618,211	-	2,824	(1,615,387)	
Public Works	1,974,636	-	-	(1,974,636)	
Total Governmental Activities	\$ 3,635,754	\$ -	\$ -	\$ (3,632,930)	
GENERAL REVENUES					
Net Investment Revenue				729	
Total General Revenues				729	
CHANGE IN NET POSITION				(3,632,201)	
Net Position - Beginning of Year				(194,990)	
NET POSITION - END OF YEAR				\$ (3,827,191)	

See accompanying Notes to Basic Financial Statements.

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

	General	Debt Service	Capital Projects	Total Governmental Funds
ASSETS				
Cash and Investments	\$ 482	\$ -	\$ -	\$ 482
Cash and Investments - Restricted	-	6,868,822	58,155,756	65,024,578
Receivable from HM Metropolitan District No. 1	2,533	-	-	2,533
Total Assets	<u>\$ 3,015</u>	<u>\$ 6,868,822</u>	<u>\$ 58,155,756</u>	<u>\$ 65,027,593</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
LIABILITIES				
Accounts Payable	\$ 7,491	\$ -	\$ -	\$ 7,491
Total Liabilities	7,491	-	-	7,491
FUND BALANCES				
Restricted For:				
Debt Service	-	6,868,822	-	6,868,822
Committed For:				
Capital Projects	-	-	58,155,756	58,155,756
Unassigned	(4,476)	-	-	(4,476)
Total Fund Balances	<u>(4,476)</u>	<u>6,868,822</u>	<u>58,155,756</u>	<u>65,020,102</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 3,015</u>	<u>\$ 6,868,822</u>	<u>\$ 58,155,756</u>	
Amounts reported for governmental activities in the statement of net position are different because:				
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.				
Bonds Payable				(68,687,361)
Developer Advances Payable				(155,994)
Developer Advance Interest Payable				(3,938)
Net Position of Governmental Activities				<u>\$ (3,827,191)</u>

See accompanying Notes to Basic Financial Statements.

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

	General	Debt Service	Capital Projects	Total Governmental Funds
REVENUES				
Net Investment Revenue	\$ -	\$ 86	\$ 643	\$ 729
Total Revenues	<u>-</u>	<u>86</u>	<u>643</u>	<u>729</u>
EXPENDITURES				
Accounting	17,666	-	180	17,846
Audit	4,500	-	-	4,500
District Management	793	-	-	793
Dues and Licenses	1,018	-	-	1,018
Transfers to the Authority - O&M	18,750	-	-	18,750
Bond Issue Costs	-	-	1,600,247	1,600,247
Transfers to District No. 1	-	-	1,974,636	1,974,636
Total Expenditures	<u>42,727</u>	<u>-</u>	<u>3,575,063</u>	<u>3,617,790</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(42,727)	86	(3,574,420)	(3,617,061)
OTHER FINANCING SOURCES (USES)				
Bond Proceeds	-	-	68,687,361	68,687,361
Operating Transfers In	-	6,868,736	-	6,868,736
Operating Transfers Out	-	-	(6,868,736)	(6,868,736)
Developer Advance	38,250	-	11,206	49,456
Repay Developer Advance	-	-	(98,158)	(98,158)
Total Other Financing Sources (Uses)	<u>38,250</u>	<u>6,868,736</u>	<u>61,731,673</u>	<u>68,638,659</u>
NET CHANGE IN FUND BALANCES	(4,477)	6,868,822	58,157,253	65,021,598
Fund Balances - Beginning of Year	<u>1</u>	<u>-</u>	<u>(1,497)</u>	<u>(1,496)</u>
FUND BALANCES - END OF YEAR	<u>\$ (4,476)</u>	<u>\$ 6,868,822</u>	<u>\$ 58,155,756</u>	<u>\$ 65,020,102</u>

See accompanying Notes to Basic Financial Statements.

**HM METROPOLITAN DISTRICT NO. 2
RECONCILIATION OF THE STATEMENT 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 \$ 65,021,598

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

Long-term debt (e.g., bonds, 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. The net effect of these differences in the treatment of long-term debt and related items is as follows:

Bond Issuance	(68,687,361)
Developer Advance	(49,456)
Repay Developer Advance	98,158
Forgiveness of Debt	2,824

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 Developer Advances - Change in Liability	(17,964)
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Change in Net Position of Governmental Activities	\$ (3,632,201)
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**HM METROPOLITAN DISTRICT NO. 2
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
BUDGET AND ACTUAL
YEAR ENDED DECEMBER 31, 2021**

	Original and Final Budgets	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Other Revenue	\$ 5,000	\$ -	\$ (5,000)
Total Revenues	<u>5,000</u>	<u>-</u>	<u>(5,000)</u>
EXPENDITURES			
Accounting	15,000	17,666	(2,666)
Audit	5,000	4,500	500
Contingency	6,000	-	6,000
District Management	-	793	(793)
Dues and Licenses	-	1,018	(1,018)
Insurance	9,000	-	9,000
Legal	25,000	-	25,000
Transfers to the Authority - O&M	100,000	18,750	81,250
Total Expenditures	<u>160,000</u>	<u>42,727</u>	<u>117,273</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(155,000)</u>	<u>(42,727)</u>	<u>112,273</u>
OTHER FINANCING SOURCES (USES)			
Developer Advance	155,000	38,250	(116,750)
Total Other Financing Sources (Uses)	<u>155,000</u>	<u>38,250</u>	<u>(116,750)</u>
NET CHANGE IN FUND BALANCE	-	(4,477)	(4,477)
Fund Balances - Beginning of Year	<u>-</u>	<u>1</u>	<u>1</u>
FUND BALANCES - END OF YEAR	<u>\$ -</u>	<u>\$ (4,476)</u>	<u>\$ (4,476)</u>

See accompanying Notes to Basic Financial Statements.

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

NOTE 1 DEFINITION OF REPORTING ENTITY

HM Metropolitan District No. 2 (the District), a quasi-municipal corporation and political subdivision of the state of Colorado, was organized by order and decree of the District Court for Adams County, Colorado on November 22, 2019, 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 City of Aurora. The District is located in Aurora.

The District was established to provide financing for the design, acquisition, installation, construction and completion of public improvements and services, including street, safety protection, park and recreation, transportation, retaining walls, trails, open space, landscaping, drainage improvements, and irrigation system improvements.

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 property 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.

HM 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 as general revenues.

Separate financial statements are provided for the 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. Redemption of bonds is recorded as a reduction in liabilities.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The major sources of revenue susceptible to accrual are property taxes, specific ownership taxes and operations fees. All other revenue items are considered to be measurable and available only when cash is received by the District. The District has determined that Developer advances are not considered as revenue susceptible to accrual. Expenditures, other than interest on long-term obligations, are recorded when the liability is incurred or the long-term obligation 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 general obligation 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.

HM 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.

The District amended its annual budget for the year ended December 31, 2021.

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.

Capital Assets

Capital assets, which include infrastructure assets, are reported in the applicable governmental activities column in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000. Such assets are recorded 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.

The District had no capital assets as of December 31, 2021.

Equity

Net Position

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

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Equity (Continued)

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.

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.

Deficits

The General Fund reported a deficit in the fund financials state as of December 31, 2021. The deficits will be eliminated with the receipt of Developer advances in 2022.

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

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:

Cash and Investments	\$ 482
Cash and Investments - Restricted	<u>65,024,578</u>
Total Cash and Investments	<u><u>\$ 65,025,060</u></u>

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

Deposits with Financial Institutions	\$ 10,011
Investments	<u>65,015,049</u>
Total Cash and Investments	<u><u>\$ 65,025,060</u></u>

Deposits With Financial Institutions

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.

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 and carrying balance of \$10,011.

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.

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

NOTE 3 CASH AND INVESTMENTS (CONTINUED)

Investments (Continued)

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

- . Obligations of the United States, certain U.S. government agency securities, and 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

As of December 31, 2021, the District had the following investments:

<u>Investment</u>	<u>Maturity</u>	<u>Amount</u>
Morgan Stanley Institutional Liquidity Funds	Weighted Average Under 60 Days	<u>\$ 65,015,049</u>

Morgan Stanley Institutional Liquidity Funds

The debt service money that is included in the trust accounts at United Missouri Bank is invested in the Morgan Stanley Institutional Liquidity Funds' Treasury Securities Portfolio. This portfolio is a money market fund that is managed by Morgan Stanley Investment Management and each share is equal in value to \$1.00. The fund is AAAM rated and invests exclusively in U.S. Treasury obligations and repurchase agreements collateralized by U.S. Treasury securities. The average maturity of the underlying securities is 90 days or less. The fund records its investments at amortized cost and the District records its investments in the fund at net asset value as determined by amortized cost. There are no unfunded commitments, the redemption frequency is daily and there is no redemption notice period.

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

NOTE 4 LONG-TERM OBLIGATIONS

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

	Balance - December 31, 2020	Additions	Retirements	Balance - December 31, 2021	Due Within One Year
Governmental Activities:					
Series 2021 Convertible					
Capital Appreciation Bonds	\$ -	\$ 68,687,361	\$ -	\$ 68,687,361	\$ -
Developer Advances:					
Operations	18,750	38,250	-	57,000	-
Capital	174,466	11,206	86,678	98,994	-
Accrued Interest on					
Developer Advances:					
Operations	234	3,508	-	3,742	-
Capital	44	14,456	14,304	196	-
Total	<u>\$ 193,494</u>	<u>\$ 68,754,781</u>	<u>\$ 100,982</u>	<u>\$ 68,847,293</u>	<u>\$ -</u>

Limited Tax General Obligation and Special Revenue Convertible Capital Appreciation Bonds, Series 2021 (the Bonds)

Bond Proceeds

The District issued the Bonds on December 22, 2021, in the par amount of \$68,687,361 (value at issuance) and \$97,595,000 (value at conversion date). Proceeds from the sale of the Bonds were used for the purposes of: (i) paying or reimbursing a portion of the costs of acquiring, constructing, and installing certain public infrastructure improvements related to the Development; (ii) funding an initial deposit to the Surplus Fund; and (iii) paying the costs of issuing the Bonds.

Details of the Bonds

The Bonds are capital accretion bonds that automatically convert to current interest bonds on December 1, 2027. Prior to conversion to current interest bonds, the Bonds do not pay current interest and accrete in value at an annual yield equal to 6.000%. The accreted amount compounds semiannually on each June 1 and December 1, beginning June 1, 2022, from the date of delivery, to December 1, 2027.

The accreted principal balance (the accreted amount together with the original principal amount of the Bonds) at conversion on December 1, 2027, will be \$97,595,000. Upon conversion to current interest bonds, the Bonds will bear interest at the rate of 5.750%, payable semiannually on June 1 and December 1, commencing on June 1, 2028. Annual principal payments are due on December 1 of each year beginning December 1, 2030. The Bonds mature on December 1, 2051.

On and after conversion to current interest bonds, to the extent principal of any Bond is not paid when due, such principal shall remain outstanding until paid, subject to discharge, and shall continue to bear interest at the rate then borne by the Bond.

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

NOTE 4 LONG-TERM OBLIGATIONS (CONTINUED)

Limited Tax General Obligation and Special Revenue Convertible Capital Appreciation Bonds, Series 2021 (the Bonds) (Continued)

Details of the Bonds (Continued)

To the extent interest accrued on the accreted value of any Bond is not paid when due, such unpaid interest shall compound semiannually on each interest payment date at the rate borne by the Bond.

In the event that any amount of principal of or interest on the Bonds remains unpaid after the application of all Pledged Revenue available therefor on December 1, 2061, the Bonds shall be deemed discharged.

Optional Redemption

The Bonds are subject to redemption prior to maturity, at the option of the District, on December 1, 2029, 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>
December 1, 2029 to November 30,2030	3.00 %
December 1, 2030 to November 30,2031	2.00
December 1, 2031 to November 30,2032	1.00
December 1, 2032 and Thereafter	0.00

Pledged Revenue

The Bonds are secured by and payable solely from and to the extent of Pledged Revenue which means: (a) all Property Tax Revenues; (b) all Specific Ownership Tax Revenues; (c) all PIF (Public Improvement Fee) Revenue; (d) all PILOT (Payment in Lieu of Taxes) Revenues; and (e) any other legally available moneys which the District determines, in its absolute discretion, to credit to the Bond Fund.

Property Tax Revenues

“Property Tax Revenues” means all moneys derived from imposition by the District of the Required Mill Levy and do not include Specific Ownership Tax Revenues. 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.

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

NOTE 4 LONG-TERM OBLIGATIONS (CONTINUED)

Limited Tax General Obligation and Special Revenue Convertible Capital Appreciation Bonds, Series 2021 (the Bonds) (Continued)

Required Mill Levy

The District is required to impose a Required Mill Levy upon all taxable property of the District each year in an amount necessary to generate Property Tax Revenues sufficient to pay the principal of, premium if any, and interest on the Bonds when due (less any amount then on deposit in the Bond Fund and, solely to the extent provided in the Indenture, the Surplus Fund), but not in excess of 30 mills (subject to adjustment for changes in the method of calculating assessed valuation or any constitutionally mandated tax credit, cut or abatement on or after changed after January 1, 2004) for the applicable Mill Levy Certification Date. Mill Levy Certification Date means the date each year on which the District is required to impose the Required Mill Levy.

Pledged Revenue

For so long as the amount on deposit in the Surplus Fund is less than the Maximum Surplus Amount, the Required Mill Levy shall be equal to 30 mills (subject to adjustment) for the applicable Mill Levy Certification Date, or such lesser amount that will generate Property Tax Revenues (A) sufficient to pay the principal of, premium if any, and interest on the Bonds when due and to fully fund the Surplus Fund to the Maximum Surplus Amount, or (B) which, when combined with moneys then on deposit in the Bond Fund and the Surplus Fund, will pay the Bonds in full in the year such levy is collected. The maximum mill levy of 30 mills (as adjusted) shall be reduced by the number of mills necessary to pay unlimited mill levy debt.

Additional Security for the Bonds

The Bonds are also secured by the Surplus Fund which was partially funded from proceeds of the Bonds in the amount of \$6,868,736. Pledged Revenue that is not needed to pay debt service on the Bonds in any year will be deposited to and held in the Surplus Fund, up to the Maximum Surplus Amount of \$13,737,472. Amounts on deposit in the Surplus Fund (if any) on the final maturity date of the Bonds shall be applied to the payment of the Bonds. The availability of such amount shall be taken into account in calculating the Required Mill Levy required to be imposed in the levy year prior to the year of final maturity of the Bonds. Except for the initial deposit to the Surplus Fund, the District has no obligation to fund the Surplus Fund in any amount.

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

NOTE 4 LONG-TERM OBLIGATIONS (CONTINUED)

Debt Authorization

On November 5, 2019 the District's voters authorized total indebtedness of \$6,500,000,000.

The authorized but unissued debt as of December 31, 2021 is as follows:

	Authorized November 5, 2019 Election	Authorization Used	Remaining at December 31, 2021
Street Improvements	\$ 500,000,000	\$ 6,868,737	\$ 493,131,263
Parks and Recreation	500,000,000	6,868,736	493,131,264
Water	500,000,000	6,868,736	493,131,264
Sanitation/Storm Sewer	500,000,000	6,868,736	493,131,264
Transportation	500,000,000	6,868,736	493,131,264
Mosquito Control	500,000,000	6,868,736	493,131,264
Traffic and Safety Protection	500,000,000	6,868,736	493,131,264
Fire Protection	500,000,000	6,868,736	493,131,264
TV Relay and Translation	500,000,000	6,868,736	493,131,264
Security	500,000,000	6,868,736	493,131,264
Refunding of Debt	1,500,000,000	-	1,500,000,000
Total	<u>\$ 6,500,000,000</u>	<u>\$ 68,687,361</u>	<u>\$ 6,431,312,639</u>

Pursuant to the Service Plan the District shall not issue debt in excess of \$500,000,000.

NOTE 5 AGREEMENTS

64th Ave ARI Authority Establishment Agreement

The 64th Ave ARI Authority Establishment Agreement became effective on April 7, 2020 between the District, CIC Metropolitan District No. 11 (CIC MD 11), Velocity Metropolitan District No. 4 (VMD 4), Velocity Metropolitan District No. 5 (VMD 5), and Velocity Metropolitan District No. 6 (VMD 6) establishing the 64th Ave ARI Authority (the Authority). The Agreement was amended on July 28, 2020 deleting the City of Aurora as a party and adding CIC Metropolitan District Nos. 6, 7, 8, 9, and 10. Pursuant to the Amended and Restated 64th Ave ARI Authority Establishment Agreement, the Authority has issued bonds in order to fund the planning, designing, financing, acquiring, constructing, maintaining, and installing the widening of the 64th Avenue bridge over E-470 and the extension of 64th Avenue from E-470 to Jackson Gap (the 64th Ave Regional Improvements). The District shall impose an ARI Mill Levy, the first \$50,000 collected beginning in 2020, and in every year thereafter, shall be committed to the payment of the Authority's administrative, operations, and maintenance expenses. The remainder of ARI Mill Levy Revenue shall be used to finance the 64th Ave Regional Improvements and eventually be pledged towards repayment of the Authority's bonds.

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

NOTE 5 AGREEMENTS (CONTINUED)

Intergovernmental Operation Funding Agreement

The District entered into an Intergovernmental Facilities Funding and Reimbursement Agreement (the Agreement) with L.C Fulenwider, Inc (the Developer) and the Authority on July 28, 2020. Pursuant to the Agreement, the Developer will provide advances to the District to finance administrative and operations and maintenance expenses for the Authority the event the ARI Mill Levy provides a shortfall. The advances will bear an interest rate of 8.00%.

Intergovernmental Facilities Funding and Reimbursement Agreement

The District entered into an Intergovernmental Facilities Funding and Reimbursement Agreement (the Facilities Agreement) with the Developer and the Authority on July 28, 2020. Pursuant to the Facilities Agreement, the Developer will provide advances to the District to finance the 64th Ave Regional Improvements. The advances will bear an interest rate of 8.00%.

Operation Funding Agreement

The District entered into a 2020 Operation Funding Agreement with the Developer on October 7, 2020 (“OFA”). Pursuant to the OFA, the Developer will provide advances to the District up to \$65,000 (“Shortfall Amount”) to pay for operations, maintenance, and administrative expenses pursuant to the terms of the OFA. Under the OFA, the Developer’s obligation to fund the Shortfall Advances terminates on December 31, 2020. The advances will bear an interest rate of 8%. The OFA was amended on December 2, 2020 to increase the Shortfall Amount to \$155,000 and to extend the Developer’s obligation to fund the Shortfall Amount through 2021.

Facilities Funding and Reimbursement Agreement

The District entered into a 2020 Facilities Funding and Reimbursement Agreement with the Developer on October 7, 2020 (“FFAA”). Pursuant to the FFAA, the Developer will provide advances to the District up to \$1,250,000 (“Developer Advance”) for the payment of funds related to the design, testing, engineering, and construction of improvements within the District, together with the related consultant and management fees associated with the construction of the improvements. The Developer Advances will bear an interest rate of 8%. On December 13, 2021 the District assigned the FFAA to HM Metropolitan District No. 1.

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

NOTE 5 AGREEMENTS (CONTINUED)

Facilities Funding and Reimbursement Agreement – Districts Funding Deposit and Project Budget Shortfall

The Authority (as defined above), the District, and Fulenwider entered into a Facilities Funding and Reimbursement Agreement – Districts Funding Deposit and Project Budget Shortfall (Post-Bond FFRA), effective October 7, 2020, which sets forth how much the District and Colorado International Center Metropolitan District Nos. 6-11 (the “CIC Districts”) will each contribute towards the Authority’s Project Budget and any potential Project Budget Shortfall, as those terms are defined in the Establishment Agreement (defined below). In the event of a Project Budget Shortfall to fund the actual cost of completion to final acceptance of the 64th Ave. Regional Improvements by the City, the Authority shall make revisions, if feasible, to the scope of the 64th Ave. Regional Improvements so as to make possible the completion to final acceptance with the funds available. In the event revisions to the scope do not reduce the cost of completion to final acceptance with the funds available, the CIC Districts shall jointly fund 77% of the Project Budget Shortfall the District shall fund the remaining 23%.

Capital Pledge Agreement

On April 7, 2020, and as amended and restated on July 28, 2020, the District, along with the CIC Districts, and Velocity Metropolitan District Nos. 4-6 (Velocity) formed the Authority pursuant to the Amended and Restated 64th Ave. ARI Authority Establishment Agreement (the “Establishment Agreement”) in order to provide for the financing, construction, and operation of 64th Ave. from E-470 to Jackson Gap. Subsequently, on October 29, 2020, the Authority issued its Special Revenue Bonds, Series 2020 and, pursuant to the Capital Pledge Agreement dated October 1, 2020, the District agreed to impose the ARI Mill Levy in support of the repayment thereof.

Declaration of Covenants Imposing and Implementing the HM Metropolitan District No. 2 Public Improvement Fee (the PIF Covenant)

On December 16, 2021, the Developer executed the PIF Covenant and caused the same to be recorded in the real property records of Adams County against real property located within the boundaries of the HM Metropolitan District No. 2 (the PIF Covenant Area). Under the PIF Covenant, the PIF Revenues are intended pledged revenues to the Bonds.

Facilities Funding, Construction, and Operations Intergovernmental Agreement

On November 12, 2021, HM Metropolitan District No. 1 (the Maintenance District) entered into an agreement with the District and HM Metropolitan District Nos. 4, 5, 6, 7, 8, and 9 (collectively, the Taxing Districts). Under this agreement, the Maintenance District will own, operate, maintain, finance, and construct certain Public Improvements and the Taxing Districts will contribute to the costs of such Public Improvements. The Board of each District is to determine Public Improvements.

Per this agreement upon issuance of Bonds, the District shall remit Bond proceeds to the Maintenance District to reimburse Developer Advances for Public Improvements and fund additional actual capital costs in connection with Public Improvements necessary for development. During 2021, the District transferred \$1,974,636 to the Maintenance District under this agreement.

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

NOTE 6 NET POSITION

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

Restricted net position includes assets that are 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:

Debt Service	\$ 6,868,822
Total Restricted Net Position	<u>\$ 6,868,822</u>

The District has a deficit in unrestricted net position. The deficit at December 31, 2021 was primarily due to interest paid and related costs on long-term debts.

NOTE 7 RELATED PARTIES

The Developer of the property which constitutes the District is L.C. Fulenwider Inc. Certain members of the Board of Directors are employees, owners or otherwise associated with the Developer, and may have conflicts of interest in dealing with the District.

NOTE 8 TRANSFERS

The transfer from the Capital Projects Fund to the Debt Service Fund represents an initial deposit into the Surplus Fund from the issuance of the Bonds.

NOTE 9 RISK MANAGEMENT

Except as provided in the Colorado Governmental Immunity Act, §24-10-101, et seq., C.R.S., the District may be exposed to various risks of loss related to torts; thefts of, damage to, or destruction of assets; errors or omissions; injuries to employees; or acts of God.

The District is a member of the Colorado Special Districts Property and Liability Pool (Pool). 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, workers' compensation, and public officials' liability coverage. In the event aggregated losses incurred by the Pool exceed amounts recoverable from reinsurance contracts and funds accumulated by the Pool, the Pool may require additional contributions from the Pool members. Any excess funds which the Pool determines are not needed for purposes of the Pool may be returned to the members pursuant to a distribution formula.

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

NOTE 10 TAX, SPENDING, AND DEBT LIMITATIONS

Article X, Section 20 of the Colorado Constitution, referred to as the Taxpayer's Bill of Rights (TABOR), contains tax, spending, revenue and debt limitations which apply to the state of Colorado and all local governments.

Spending and revenue limits are determined based on the prior year's Fiscal Year Spending adjusted for allowable increases based upon inflation and local growth. Fiscal Year Spending is generally defined as expenditures plus reserve increases with certain exceptions. Revenue in excess of the Fiscal Year Spending limit must be refunded unless the voters approve retention of such revenue.

On November 5, 2019, a majority of the District's electors authorized the District to collect and spend or retain in a reserve all currently levied taxes and fees of the District without regard to any limitations under Article X, Section 20 of the Colorado Constitution.

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

**HM METROPOLITAN DISTRICT NO. 2
DEBT SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
BUDGET AND ACTUAL
YEAR ENDED DECEMBER 31, 2021**

	Original and Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Net Investment Income	\$ -	\$ 86	\$ 86
Total Revenues	<u>-</u>	<u>86</u>	<u>86</u>
EXPENDITURES			
Total Expenditures	<u>-</u>	<u>-</u>	<u>-</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>-</u>	<u>86</u>	<u>86</u>
OTHER FINANCING SOURCES (USES)			
Transfer from Other Fund	-	6,868,736	6,868,736
Total Other Financing Sources (Uses)	<u>-</u>	<u>6,868,736</u>	<u>6,868,736</u>
NET CHANGE IN FUND BALANCE	-	6,868,822	6,868,822
Fund Balance - Beginning of Year	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u><u>\$ -</u></u>	<u><u>\$ 6,868,822</u></u>	<u><u>\$ 6,868,822</u></u>

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

	Budget		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Net Investment Income	\$ -	\$ -	\$ 643	\$ 643
Total Revenues	-	-	643	643
EXPENDITURES				
Accounting	-	180	180	-
Bond Issue Costs	-	1,600,247	1,600,247	-
Capital Outlay	599,857	-	-	-
Contingency	-	18,043	-	18,043
Transfers to the Authority - 64th Ave	1,000,000	-	-	-
Transfers to District No. 1	-	1,974,636	1,974,636	-
Total Expenditures	<u>1,599,857</u>	<u>3,593,106</u>	<u>3,575,063</u>	<u>18,043</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES				
	<u>(1,599,857)</u>	<u>(3,593,106)</u>	<u>(3,574,420)</u>	<u>18,686</u>
OTHER FINANCING SOURCES (USES)				
Bond Proceeds	-	68,687,361	68,687,361	-
Transfer to Other Fund	-	(6,868,736)	(6,868,736)	-
Developer Advance	1,599,857	11,206	11,206	-
Repay Developer Advance	-	(98,158)	(98,158)	-
Total Other Financing Sources (Uses)	<u>1,599,857</u>	<u>61,731,673</u>	<u>61,731,673</u>	<u>-</u>
NET CHANGE IN FUND BALANCE				
	-	58,138,567	58,157,253	18,686
Fund Balance - Beginning of Year	<u>-</u>	<u>-</u>	<u>(1,497)</u>	<u>(1,497)</u>
FUND BALANCE - END OF YEAR	<u><u>\$ -</u></u>	<u><u>\$ 58,138,567</u></u>	<u><u>\$ 58,155,756</u></u>	<u><u>\$ 17,189</u></u>

HM METROPOLITAN DISTRICT NO. 2
SCHEDULE OF DEBT SERVICE REQUIREMENTS TO MATURITY
DECEMBER 31, 2021

\$68,687,361
 Convertible Capital Appreciation Bonds
 Series 2021
 Dated December 22, 2021
 Interest at 5.75 - 6.00%
 Due June 1 and December 1

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ -	\$ -	\$ -
2023	-	-	-
2024	-	-	-
2025	-	-	-
2026	-	-	-
2027	-	-	-
2028	-	-	-
2029	-	-	-
2030	348,381	146,619	495,000
2031	999,396	420,604	1,420,000
2032	1,470,942	619,058	2,090,000
2033	1,565,955	659,045	2,225,000
2034	1,755,981	739,019	2,495,000
2035	1,861,551	783,449	2,645,000
2036	2,072,691	872,309	2,945,000
2037	2,199,375	925,625	3,125,000
2038	2,428,110	1,021,890	3,450,000
2039	2,575,908	1,084,092	3,660,000
2040	2,829,276	1,190,724	4,020,000
2041	3,001,707	1,263,293	4,265,000
2042	3,279,708	1,380,292	4,660,000
2043	3,476,772	1,463,228	4,940,000
2044	3,786,444	1,593,556	5,380,000
2045	4,011,660	1,688,340	5,700,000
2046	4,356,522	1,833,478	6,190,000
2047	4,616,928	1,943,072	6,560,000
2048	4,996,980	2,103,020	7,100,000
2049	5,292,576	2,227,424	7,520,000
2050	5,711,337	2,403,663	8,115,000
2051	6,049,161	2,545,839	8,595,000
Total	<u>\$ 68,687,361</u>	<u>\$ 28,907,639</u>	<u>\$ 97,595,000</u>

HM METROPOLITAN DISTRICT NO. 2
SCHEDULE OF ASSESSED VALUATION, MILL LEVY, AND PROPERTY TAXES COLLECTED
DECEMBER 31, 2021

Year Ended December 31,	Prior Year Assessed Valuation for Current Year Property Tax Levy	Mills Levied			Total Property Taxes		Percentage Collected to Levied
		General	Debt	ARI	Levied	Collected	
		2020	\$ 10	0.000	0.000	0.000	
2021	10	0.000	0.000	5.000	-	-	N/A
Estimated for the Year Ending December 31,							
2022	\$ 10	0.000	30.000	5.000	\$ -		

NOTE: Property taxes collected in any one year include collection of delinquent property taxes assessed in prior years, as well as reductions for property tax refunds or abatements. Information received from the County Treasurer does not permit identification of specific year of assessment.