

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

CITY OF THORNTON, COLORADO

FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITORS' REPORT

December 31, 2023



Crady, Puca & Associates

Certified Public Accountants & Consultants

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

Table of Contents

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	i-ii
Basic Financial Statements:	
Government – wide Financial Statements:	
Statement of Net Position.....	1
Statement of Activities	2
Fund Financial Statements:	
Balance Sheet – Governmental Funds	3
Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds	4
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of the Governmental Funds to the Statement of Activities.....	5
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund.....	6
Notes to Financial Statements.....	7-18
Supplementary Information:	
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Debt Service Fund	19



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
of Village at Dry Creek Metropolitan District No. 2

Opinions

We have audited the accompanying financial statements of the governmental activities and each major fund of Village at Dry Creek Metropolitan District No. 2 as of and for the year ended December 31, 2023, and related notes to the financial statements, which collectively comprise Village at Dry Creek Metropolitan District No. 2'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 respective financial position of the governmental activities and each major fund of Village at Dry Creek Metropolitan District No. 2 as of December 31, 2023, 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. 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 Village at Dry Creek Metropolitan District No. 2, 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, 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 Village at Dry Creek Metropolitan District No. 2'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 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 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 Village at Dry Creek 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 Village at Dry Creek 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.

Required Supplementary Information

Management has omitted 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 opinions on the basic financial statements are not affected by this missing information.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Village at Dry Creek Metropolitan District No. 2's basic financial statements. The individual fund budgetary comparison schedule on page 19 is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

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

Crady, Puca & Associates

Aurora, Colorado
July 16, 2024

GOVERNMENT-WIDE FINANCIAL STATEMENTS

VILLAGE AT DRY CREEK METROPOLITAN DISTRICT NO. 2
Statement of Net Position
December 31, 2023

	Total Governmental Activities
Assets:	
Cash and investments	\$ 37,964
Cash and investments - restricted	3,453,204
Due from county treasurer	1,894
Property tax receivable	329,784
Intergovernmental receivable	1,114,789
Total assets	4,937,635
Liabilities:	
Intergovernmental payable	24,858
Accrued interest	45,879
Capital and service obligation payable	6,649,901
Bonds payables:	
Due within one year	420,000
Due in more than one year	12,164,000
Total liabilities	19,304,638
Deferred inflows of resources:	
Unavailable revenue- property taxes	329,784
Total Deferred inflows of resources	329,784
Net position:	
Net investment in capital assets	-
Restricted for emergencies	11,285
Restricted for debt service	4,567,993
Unrestricted	(19,276,065)
Total net position	\$ (14,696,787)

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

VILLAGE AT DRY CREEK METROPOLITAN DISTRICT NO. 2
Statement of Activities
For the Year Ended December 31, 2023

	Total Governmental Activities
Expenditures:	
Governmental activities:	
Trustee fees	\$ 14,950
PIF collection fee	31,096
Treasurer fees	2,637
Interest on long-term debt	644,915
Transferred to District No.1	369,858
Intergovernmental expense for capital and service obligations	431,650
Total expenditures	<u>1,495,106</u>
General Revenues:	
PIF revenue	2,902,013
Property and specific ownership tax	359,656
Interest income	267,748
Other income	18,279
Total general revenues	<u>3,547,696</u>
Change in net position	2,052,590
Net position, beginning of year	<u>(16,749,377)</u>
Net position, end of year	<u>\$ (14,696,787)</u>

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

FUND FINANCIAL STATEMENTS

VILLAGE AT DRY CREEK METROPOLITAN DISTRICT NO. 2
Balance Sheet
Governmental Funds
December 31, 2023

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
Assets:			
Cash and investments	\$ 37,964	\$ -	\$ 37,964
Cash and investments - restricted	-	3,453,204	3,453,204
Due from county treasurer	1,894	-	1,894
Property tax receivable	329,784	-	329,784
Intergovernmental receivable	-	1,114,789	1,114,789
Total assets	<u>\$ 369,642</u>	<u>\$ 4,567,993</u>	<u>\$ 4,937,635</u>
Liabilities:			
Intergovernmental payable	\$ 24,858	\$ -	\$ 24,858
Total liabilities	<u>24,858</u>	<u>-</u>	<u>24,858</u>
Deferred inflows of resources:			
Unavailable revenue- property taxes	329,784	-	329,784
Total Deferred inflows of resources	<u>329,784</u>	<u>-</u>	<u>329,784</u>
Fund balance:			
Restricted for debt service	-	4,567,993	4,567,993
Restricted for emergencies	11,285	-	11,285
Unassigned	3,715	-	3,715
Total fund balance	<u>15,000</u>	<u>4,567,993</u>	<u>4,582,993</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 369,642</u>	<u>\$ 4,567,993</u>	<u>\$ 4,937,635</u>
Amounts reported for governmental activities in the statement of net position are different because:			
Total fund balance - governmental funds			\$ 4,582,993
Other long-term liabilities are not due and payable in the current period, and, therefore, are not reported in the funds.			(6,649,901)
Long-term liabilities, including bonds payable, are not due and payable in the current period, and therefore, are not reported in the funds.			<u>(12,629,879)</u>
Net position of governmental activities			<u>\$ (14,696,787)</u>

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

VILLAGE AT DRY CREEK METROPOLITAN DISTRICT NO. 2
Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds
For the Year Ended December 31, 2023

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
Revenues:			
Credit PIF revenue	\$ -	\$ 2,257,121	\$ 2,257,121
Add-on PIF revenue	-	644,892	644,892
Property tax	336,602	-	336,602
Specific ownership tax	23,054	-	23,054
Interest income	6,503	261,245	267,748
Other income	9,991	8,288	18,279
Total revenues	<u>376,150</u>	<u>3,171,546</u>	<u>3,547,696</u>
Expenditures:			
Current:			
General government:			
PIF collection fee	-	31,096	31,096
Trustee fees	-	14,950	14,950
Treasurer fees	2,637	-	2,637
Debt service:			
Principal	-	2,353,000	2,353,000
Bond interest	-	653,494	653,494
Total expenditures	<u>2,637</u>	<u>3,052,540</u>	<u>3,055,177</u>
Excess of revenue over (under) expenditures	<u>373,513</u>	<u>119,006</u>	<u>492,519</u>
Other financing sources (uses):			
Transferred to District No.1	<u>(369,858)</u>	<u>-</u>	<u>(369,858)</u>
Total other financing sources (uses)	<u>(369,858)</u>	<u>-</u>	<u>(369,858)</u>
Net change in fund balance	3,655	119,006	122,661
Fund balance, beginning of year	<u>11,345</u>	<u>4,448,987</u>	<u>4,460,332</u>
Fund balance, end of year	<u>\$ 15,000</u>	<u>\$ 4,567,993</u>	<u>\$ 4,582,993</u>

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

VILLAGE AT DRY CREEK METROPOLITAN DISTRICT NO. 2
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund
Balance of the Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2023

	Total Governmental Funds
	<hr/>
Net change in fund balance of the governmental funds	\$ 122,661
Amounts reported for governmental activities in the statement of activities are different because:	
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal on long-term debt consumes the current financial resources of governmental funds. This amount is the net effect of these differences in the treatment of long-term debt.	2,353,000
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds.	<hr/> (423,071)
Change in net position of governmental activities	<hr/> \$ 2,052,590 <hr/>

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

VILLAGE AT DRY CREEK METROPOLITAN DISTRICT NO. 2
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
General Fund
For the Year Ended December 31, 2023

	Original and Final Budget	Actual	Variance to Final Budget
Revenues:			
Property tax	\$ 335,486	\$ 336,602	\$ 1,116
Specific ownership tax	26,839	23,054	(3,785)
Interest income	1,500	6,503	5,003
Other income	10,000	9,991	(9)
Total revenues	<u>373,825</u>	<u>376,150</u>	<u>2,325</u>
Expenditures:			
General government:			
Treasurer fees	5,032	2,637	2,395
Contingency	10,000	-	10,000
Total expenditures	<u>15,032</u>	<u>2,637</u>	<u>12,395</u>
Excess of revenues over (under) expenditures	<u>358,793</u>	<u>373,513</u>	<u>14,720</u>
Other financing sources (uses):			
Transfer to District No. 1	(359,000)	(369,858)	(10,858)
Total other financing sources (uses)	<u>(359,000)</u>	<u>(369,858)</u>	<u>(10,858)</u>
Net change in fund balance	(207)	3,655	3,862
Fund balance, beginning of year	<u>14,435</u>	<u>11,345</u>	<u>(3,090)</u>
Fund balance, end of year	<u>\$ 14,228</u>	<u>\$ 15,000</u>	<u>\$ 772</u>

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

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

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

Reporting Entity

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

The District complies with GASB accounting pronouncements, which provide guidance for determining which governmental activities, organizations, and functions should be included within the financial reporting entity. It defines component units as legally separate entities for which the elected officials of the primary government are financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading. Financial accountability includes, but is not limited to, appointment of a voting majority of the organization's governing body, ability to impose its will on the organization, a potential for the organization to provide specific financial benefits or burdens, and fiscal dependency.

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

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

Basis of Presentation

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

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

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

Basis of Presentation (continued)

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. The exceptions to this general rule are that principal and interest on general long-term debt are recognized when due. General capital asset acquisitions are reported as expenditures in governmental funds.

The District reports the following major governmental funds:

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

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

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

Deposits and Investments

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

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

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

Fair Value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The District categorizes its fair value within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted market prices in active markets for identical assets; level 2 inputs are significant other observable inputs; and level 3 inputs are significant unobservable inputs. At December 31, 2023, the District did not hold any investments required to be reported under fair value.

Property Taxes

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

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

Receivables

Intergovernmental receivables consist of public improvement fees (PIF) earned as of December 31, 2023, net of PIF collection fees incurred for the same period. The receivable includes amounts collected by District No. 1 not yet paid to the District as well as amounts due from customers. The District considers all receivables collectible as of December 31, 2023. See Note 4 for additional information.

Deferred Outflows/Inflows of Resources

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

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

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

Deferred Outflows/Inflows of Resources (continued)

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

Long-Term Obligations

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

Fund Balance

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

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

Restricted fund balance. This classification reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed fund balance. These amounts can only be used for specific purposes pursuant to constraints imposed by formal resolutions of the District's Board of Directors, the District's highest level of decision-making authority.

Assigned fund balance. This classification reflects the amounts constrained by the District's intent to be used for specific purposes, but are neither restricted nor committed. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as nonspendable and are neither restricted nor committed.

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

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

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

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

Net Position

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

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

Use of Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

Budgets and Budgetary Accounting

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

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

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

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

Prior to December 15, the District computes and certifies to the County Commissioners a rate of levy that derives the necessary property taxes as computed in the proposed budget. The budget and the appropriating resolution are adopted prior to December 15.

2. Stewardship, Compliance, and Accountability (continued)

Budgets and Budgetary Accounting (continued)

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

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

TABOR Amendment - Revenue and Spending Limitation Amendment

In November 1992, Colorado voters amended Article X of the Colorado Constitution by adding Section 20 commonly known as the Taxpayer's Bill of Rights ("TABOR"). TABOR contains revenue, spending, tax and debt limitations that apply to the State of Colorado and local governments. Spending and revenue limits are determined based upon inflation and local growth. Fiscal Year Spending is generally defined as expenditures plus reserve increases with certain exceptions. Revenue in excess of the Fiscal Year Spending limit must be refunded unless the voters approve retention of such revenue.

TABOR also requires local governments to establish emergency reserves to be used for declared emergencies only. Emergencies, as defined by TABOR, exclude economic conditions, revenue shortfalls, or salary or fringe benefit increases. These reserves must be at least 3% of Fiscal Year Spending (excluding bonded debt service, federal grants and sales of assets). The District has reserved a portion of its December 31, 2023 year-end fund balance in the General Fund for emergencies required under TABOR totaling \$11,285 which is the approximate required reserve at December 31, 2023.

On November 6, 2012 and November 3, 2015, the District held elections at which a majority of the District's electors authorized the District to collect, retain, and spend the full amount of any and all amounts annually from any revenue sources whatsoever, including, but not limited to taxes, tax increment revenues, grants, gifts, and any other fee, rate, toll, penalty, income, or charge imposed collected, or authorized by law or contract, without regard to any limitations under Article X, Section 20 of the Colorado Constitution, the limits imposed on increases in property taxation by Section 29-1-301, C.R.S, or any other law which purports to limit the District's revenue or expenditures.

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

VILLAGE AT DRY CREEK METROPOLITAN DISTRICT NO. 2
Notes to Financial Statements
December 31, 2023

3. Detailed Notes on the Funds

Deposits and Investments

At December 31, 2023, cash and investments are classified in the accompanying financial statements as follows:

Cash and investments	\$ 37,964
Cash and investments - restricted	<u>3,453,204</u>
	<u>\$ 3,491,168</u>

The following is a summary of deposits and investments held by the District at December 31, 2023:

<u>Type</u>	<u>Ratings per S&P Global Ratings</u>	<u>Total as of December 31, 2023</u>
COLOTRUST PLUS+	AAAm	\$ <u>3,491,168</u>
Total		\$ <u>3,491,168</u>

Cash Deposits

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

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

Investments

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

As of December 31, 2023, the District invested in the Colorado Local Governmental Liquid Asset Trust (COLOTRUST), a local government investment vehicle established for local governmental entities in Colorado to pool surplus funds. COLOTRUST offers three investment options, one of which is COLOTRUST PLUS+. As an investment pool, COLOTRUST operates under the Colorado Revised Statutes (24-75-701) and is overseen by the Colorado Securities Commissioner. COLOTRUST PLUS+ may invest in U.S. Treasuries, government agencies, the highest-rated commercial paper, certain corporate securities, certain money market funds, and certain repurchase agreements, and collateralized bank deposits, and limits its investments to those allowed by State statutes. Purchases and redemptions are available daily at a net asset value (NAV) of \$1.00. A designated custodial bank provides safekeeping and depository services to COLOTRUST in connection with the direct investment and withdrawal function of COLOTRUST. The custodian's internal records identify the investments owned by participating governments.

VILLAGE AT DRY CREEK METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements

December 31, 2023

3. Detailed Notes on the Funds (continued)

Investments (continued)

COLOTRUST PLUS+ records its investment at fair value and the District records its investment in COLOTRUST PLUS+ at net asset value. There are no unfunded commitments and there is no redemption notice period. The weighted average maturity is 60 days or less.

Custodial Credit Risk: As of December 31, 2023, all of the District’s deposits and investments were insured by the Federal Deposit Insurance Corporation or held in eligible public depositories as required by PDPA.

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

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

- Certain money market funds
- Local government investment pool

Long-Term Obligations

Changes in long-term obligations for the year ended December 31, 2023 are as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Direct borrowings and direct Placement debt:					
Series 2019 Bonds	\$ 14,937,000	\$ -	\$ (2,353,000)	\$ 12,584,000	\$ 420,000
Governmental activities long-term debt	\$ 14,937,000	\$ -	\$ (2,353,000)	\$ 12,584,000	\$ 420,000

General Obligation Bonds

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

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

3. Detailed Notes on the Funds (continued)

General Obligation Bonds (continued)

The Series 2019 Bonds are subject to mandatory excess funds redemption, without a redemption premium, in whole or in part, in minimum denominations for \$1,000, on any December 1 based on the availability of excess pledged revenue as defined in the Indenture of Trust dated July 31, 2019. In 2023, the District had excess pledged revenue sufficient to fund the early redemption of \$1,958,000.

The Series 2019 Bonds are secured by pledged Property Tax revenue, pledged Specific Ownership Tax which is collected as a result of pledged Property Tax revenue, Credit PIF revenue, Add-on PIF revenue, and any other legally available funds as determined by the District. In connection with the Series 2019 Bonds, the District is required to maintain a Reserve Fund in the amount of \$1,428,469 which was funded upon issuance. In addition, the District is required to build a Surplus Fund with a maximum balance of \$1,872,000. As of December 31, 2023, the Surplus Fund has a balance of \$1,990,740. Both the Reserve and Surplus Funds are held by the trustee and are reflected in the District's Debt Service Fund as restricted cash and investments.

If estimated PIF revenue is not sufficient to pay debt service for the upcoming year, maintain the Reserve Requirement, and meet the Maximum Surplus amount for the first time, then the District is required to impose a mill levy to generate property tax revenue for debt service. There was no debt service mill levy imposed for collection in 2023.

Events of default as defined in the bond agreement for the Series 2019 Bonds include (1) failure by the District to impose necessary mill levy and/or fee assessment and apply the proceeds thereof as required by the bond purchase agreement, (2) default by the District in performance or observance of any other covenants in the bond purchase agreement, the PIF Collection Agreement, or the resolution and such default continues for thirty days after written notice specifying such default and requiring remedy, (3) failure of the District to cooperate in the enforcement of the PIF Covenant and/or the PIF Collection Agreement upon failure of the party obligated to pay the PIF revenue to the District, and (4) the District files a petition under federal bankruptcy laws or other applicable bankruptcy laws seeking to adjust the debt represented by the bond purchase agreement. Failure to pay principal and interest on the bonds when due shall not, of itself, constitute an event of default under the bond purchase agreement. Remedies available in the event of default include suit, action, or special proceedings. Acceleration of the bonds is not an available remedy for default.

VILLAGE AT DRY CREEK METROPOLITAN DISTRICT NO. 2
Notes to Financial Statements
December 31, 2023

3. Detailed Notes on the Funds (continued)

General Obligation Bonds (continued)

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

Year Ending December 31,	Principal	Interest	Total
2024	\$ 420,000	\$ 550,550	\$ 970,550
2025	450,000	532,175	982,175
2026	485,000	512,488	997,488
2027	520,000	491,269	1,011,269
2028	555,000	468,519	1,023,519
2029-2033	3,355,000	1,945,563	5,300,563
2034-2038	4,515,000	1,115,188	5,630,188
2039-2042	2,284,000	157,369	2,441,369
Total	\$ 12,584,000	\$ 5,773,121	\$ 18,357,121

At December 31, 2023, the District had total authorized debt of \$280,000,000 of which \$18,720,000 has been issued, leaving an authorized but unissued balance of \$261,280,000. Per the District's Service Plan, the District and District Nos. 1, 3 and 4 cannot issue debt in excess of \$55,000,000, not including refinancing debt, without the approval of the City.

4. Agreements

Public Finance Agreement

In October 2015, the District entered into a Public Finance Agreement with District Nos. 1, 3 and 4, Simon Acquisition II, LLC and the City of Thornton (City) for the development of a Retail Outlet Center (Outlet Center). In May 2017, the parties agreed to amend the agreement with the First Amendment to Public Finance Agreement, which acknowledged the assignment of the agreement from Simon Acquisition II, LLC to Denver Premium Outlet, LLC (collectively, the Developer). Under this amended agreement, the Developer agrees to impose a Credit Public Improvement Fee (PIF) and Add-on PIF of 1.4% and .4% on taxable sales, respectively. And if pledged, an Outparcel Add-on PIF. The Developer shall assign the Pledged PIF revenue to the District that issues the District Bonds or to the District Bond Trustee until the payment in full of the District Bonds. Add-on PIF Revenue that is not pledged shall be applied first to repay Eligible Accrued Interest for Developer Advances and then to any outstanding unreimbursed Developer Advances, prior to the application of such Remaining Add-On PIF Revenues to other purposes, as further described in the agreement. Under the agreement, the District may impose a debt service mill levy up to 50 mills during the terms of this agreement, subject to valuation adjustments.

4. **Agreements (continued)**

Public Finance Agreement (continued)

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

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

5. **Related Party**

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

6. **Risk Management**

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

The District pays annual premiums to the Pool for auto, public official's liability, property and general liability coverage. In the event aggregated losses incurred by the Pool exceed its amounts recoverable from reinsurance contracts and its accumulated reserves, the District may be called upon to make additional contributions to the Pool on the basis proportionate to other members. Any excess funds which the Pool determines are not needed for purposes of the Pool may be returned to the members pursuant to a distribution formula. During the year ended December 31, 2023, the Pool has made no distributions nor required additional contributions from the District.

VILLAGE AT DRY CREEK METROPOLITAN DISTRICT NO. 2
Notes to Financial Statements
December 31, 2023

7. Capital and Service Obligation Payable

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

8. Reconciliation of Government-Wide and Fund Financial Statements

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

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

Capital and service obligation payable to the coordinating district of \$6,649,901 is not due and payable in the current period and, therefore, not reported in the funds.

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

Series 2019 Bonds	\$ 12,584,000
Accrued interest on bonds	45,879
Net adjustment	<u>\$ 12,629,879</u>

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

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

The issuance of long-term debt (e.g. bonds payable) provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. The details of this difference are as follows:

Principal payments on bonds payable	<u>\$ 2,353,000</u>
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Another element of the reconciliation states that “some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.” The details of this difference are as follows:

Change in capital and service obligation payable	\$ (431,650)
Change in accrued interest on bonds	8,579
Net adjustment	<u>\$ (423,071)</u>

SUPPLEMENTARY INFORMATION

VILLAGE AT DRY CREEK METROPOLITAN DISTRICT NO. 2
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
Debt Service Fund
For the Year Ended December 31, 2023

	Original and Final Budget	Actual	Variance to Final Budget
Revenues:			
Credit PIF revenue	\$ 2,380,000	\$ 2,257,121	\$ (122,879)
Add-on PIF revenue	680,000	644,892	(35,108)
Interest income	162,750	261,245	98,495
Other income	312,000	8,288	(303,712)
Total revenues	<u>3,534,750</u>	<u>3,171,546</u>	<u>(363,204)</u>
Expenditures:			
General government:			
PIF collection fee	30,000	31,096	(1,096)
Trustee fees	7,000	14,950	(7,950)
Contingency	300,000	-	300,000
Debt service:			
Principal	2,750,000	2,353,000	397,000
Interest	653,494	653,494	-
Total expenditures	<u>3,740,494</u>	<u>3,052,540</u>	<u>687,954</u>
Net change in fund balance	(205,744)	119,006	324,750
Fund balance, beginning of year	<u>4,546,749</u>	<u>4,448,987</u>	<u>(97,762)</u>
Fund balance, end of year	<u>\$ 4,341,005</u>	<u>\$ 4,567,993</u>	<u>\$ 226,988</u>