

**SADDLEHORN RANCH METROPOLITAN DISTRICT NO. 2**  
**EL PASO COUNTY, COLORADO**

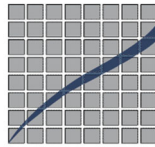
**FINANCIAL STATEMENTS**  
**DECEMBER 31, 2023**

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**BiggsKofford**

CERTIFIED PUBLIC ACCOUNTANTS

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## INDEPENDENT AUDITOR'S REPORT

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Board of Directors

**Saddlehorn Ranch Metropolitan District No. 2**

El Paso County, Colorado

We have audited the accompanying financial statements of the governmental activities and each major fund of Saddlehorn Ranch Metropolitan District No. 2 ("District") as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of December 31, 2023, the respective changes in financial position, and the 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 the 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, 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 auditing standards generally accepted in the United States of America 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 auditing standards generally accepted in the United States of America, 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 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 which 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 identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial

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

*BiggsKofford, P.C.*

Colorado Springs, Colorado

August 27, 2024

# SADDLEHORN RANCH METROPOLITAN DISTRICT NO. 2

## STATEMENT OF NET POSITION

DECEMBER 31, 2023

	<b>Governmental Activities</b>
<b><u>ASSETS</u></b>	
Cash and investments	\$ 28,827
Cash and investments - restricted	100
Receivable from County Treasurer	182
Property taxes receivable	161,248
Due from District No. 1	250,000
Capital assets:	
Construction in progress	8,813,124
Total assets	<u>9,253,481</u>
<b><u>LIABILITIES</u></b>	
Due to District No. 1	203,135
Noncurrent liabilities:	
Due in more than one year	9,357,022
Total liabilities	<u>9,560,157</u>
<b><u>DEFERRED INFLOWS OF RESOURCES</u></b>	
Deferred property taxes	161,248
Total deferred inflows of resources	<u>161,248</u>
<b><u>NET POSITION</u></b>	
Restricted for:	
Emergency reserve	200
Unrestricted	(468,124)
Total net position	<u>\$ (467,924)</u>

The accompanying notes and independent auditor's report  
should be read with these financial statements.

**SADDLEHORN RANCH METROPOLITAN DISTRICT NO. 2**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED DECEMBER 31, 2023**

	Program Revenues				
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions		Net (Expenses) Revenues and Changes in Net Position
	Expenses	Governmental Activities	Governmental Activities		Governmental Activities
<b><u>FUNCTIONS / PROGRAMS</u></b>					
Primary government					
Government activities:					
General government	\$ 5,366	\$ -	\$ -	\$	244,634
Interest and related costs on long-term debt	1,002,210	-	-	-	(1,002,210)
	\$ 1,007,576	\$ 250,000	\$ -	\$ -	(757,576)
Total government activities					
<b><u>GENERAL REVENUES</u></b>					
Property taxes					23,260
Specific ownership taxes					2,388
Investment income					990
Waste service fees within District No. 1					238
Water services and facilities fees within District No. 1					4,759
					31,635
Total general revenues					296,927
Forgiveness of developer advance					(429,014)
Change in net position					(38,910)
Net position, beginning of year (Note 6)					\$ (467,924)
Net position, end of year					\$ (467,924)

The accompanying notes and independent auditor's report  
should be read with these financial statements.

# SADDLEHORN RANCH METROPOLITAN DISTRICT NO. 2

## BALANCE SHEETS - GOVERNMENTAL FUNDS

DECEMBER 31, 2023

	General Fund	Debt Service Fund	Capital Projects Fund	Tap Fee Special Revenue Fund	Total Governmental Funds
<b>ASSETS</b>					
Cash and investments	\$ 28,827	\$ -	\$ -	\$ -	\$ 28,827
Cash and investments - restricted	100	-	-	-	100
Receivable from County Treasurer	30	152	-	-	182
Property taxes receivable	26,875	134,373	-	-	161,248
Due from District No. 1	-	-	-	250,000	250,000
Due from other funds	-	20,950	-	-	20,950
<b>Total assets</b>	<b>\$ 55,832</b>	<b>\$ 155,475</b>	<b>\$ -</b>	<b>\$ 250,000</b>	<b>\$ 461,307</b>
<b>LIABILITIES</b>					
Due to District No. 1	\$ -	\$ 188,795	\$ 14,340	\$ -	\$ 203,135
Due to other funds	20,950	-	-	-	20,950
<b>Total liabilities</b>	<b>20,950</b>	<b>188,795</b>	<b>14,340</b>	<b>-</b>	<b>224,085</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Deferred property taxes	26,875	134,373	-	-	161,248
<b>Total deferred inflows of resources</b>	<b>26,875</b>	<b>134,373</b>	<b>-</b>	<b>-</b>	<b>161,248</b>
<b>FUND BALANCES</b>					
Restricted for:					
Emergency reserve	200	-	-	-	200
Debt service	-	(167,693)	-	-	(167,693)
Committed to:					
Tap fee special revenue	-	-	-	250,000	250,000
Assigned to:					
Capital projects	-	-	(14,340)	-	(14,340)
Unassigned:					
Unrestricted	7,807	-	-	-	7,807
<b>Total fund balances</b>	<b>8,007</b>	<b>(167,693)</b>	<b>(14,340)</b>	<b>250,000</b>	<b>75,974</b>
<b>Total liabilities, deferred inflows of resources, and fund balances</b>	<b>\$ 55,832</b>	<b>\$ 155,475</b>	<b>\$ -</b>	<b>\$ 250,000</b>	
Amounts reported in governmental activities in the statement of net position are different because:					
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:					
Construction in progress					8,813,124
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds:					
Bonds payable					(9,264,000)
Accrued interest on bonds payable					(93,022)
<b>Net position of governmental activities</b>					<b>\$ (467,924)</b>

The accompanying notes and independent auditor's report should be read with these financial statements.

# SADDLEHORN RANCH METROPOLITAN DISTRICT NO. 2

## STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS YEAR ENDED DECEMBER 31, 2023

	General Fund	Debt Service Fund	Capital Projects Fund	Tap Fee Special Revenue Fund	Total Governmental Funds
<b>REVENUES</b>					
Property taxes	\$ 3,877	\$ 19,383	\$ -	\$ -	\$ 23,260
Specific ownership taxes	398	1,990	-	-	2,388
Investment income	990	-	-	-	990
Tap fees within District No. 2	-	-	-	250,000	250,000
Waste service fees within District No. 1	238	-	-	-	238
Water services and facilities fees within District No. 1	4,759	-	-	-	4,759
<b>Total revenues</b>	<b>10,262</b>	<b>21,373</b>	<b>-</b>	<b>250,000</b>	<b>281,635</b>
<b>EXPENDITURES</b>					
Current:					
Bank charges	20	-	-	-	20
County Treasurer fees	58	291	-	-	349
Waste service fees paid to District No.1	238	-	-	-	238
Water services and facilities fees paid to District No. 1	4,759	-	-	-	4,759
Debt service:					
Bond interest payments	-	188,775	-	-	188,775
Capital projects:					
Bond issuance costs	-	-	466,220	-	466,220
Capital outlay	-	-	8,445,877	-	8,445,877
Interest payment on developer advance	-	-	295,923	-	295,923
Principal payment on developer advance	-	-	6,316,197	-	6,316,197
<b>Total expenditures</b>	<b>5,075</b>	<b>189,066</b>	<b>15,524,217</b>	<b>-</b>	<b>15,718,358</b>
<b>Excess of revenues over expenditures</b>	<b>5,187</b>	<b>(167,693)</b>	<b>(15,524,217)</b>	<b>250,000</b>	<b>(15,436,723)</b>
<b>OTHER FINANCING SOURCES AND USES</b>					
Proceeds from bond issuance	-	-	9,264,000	-	9,264,000
Proceeds from developer advances	-	-	6,245,877	-	6,245,877
<b>Total other financing sources and uses</b>	<b>-</b>	<b>-</b>	<b>15,509,877</b>	<b>-</b>	<b>15,509,877</b>
<b>Net change in fund balances</b>	<b>5,187</b>	<b>(167,693)</b>	<b>(14,340)</b>	<b>250,000</b>	<b>73,154</b>
Fund balances, beginning of year	2,820	-	-	-	2,820
<b>Fund balances, end of year</b>	<b>\$ 8,007</b>	<b>\$ (167,693)</b>	<b>\$ (14,340)</b>	<b>\$ 250,000</b>	<b>\$ 75,974</b>

The accompanying notes and independent auditor's report should be read with these financial statements.

**SADDLEHORN RANCH METROPOLITAN DISTRICT NO. 2**  
**RECONCILIATION OF THE STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND**  
**BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**  
**YEAR ENDED DECEMBER 31, 2023**

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Net change in fund balances	\$	73,154
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. In the statement of activities capital outlay is not reported as an expenditure. However, the statement of activities will report as depreciation expense the allocation of the cost of any depreciable assets over the estimated useful lives of the assets. Capital outlay, the conveyance of capital assets to other governments and depreciation expense in the current period are as follows:

<u>Capital outlay</u>		8,445,877
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The issuance of long-term debt (such as bonds, leases, and developer advances) provides current financial resources to governmental funds, while the repayment 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.

<u>Proceeds from bond issuance</u>		(9,264,000)
<u>Proceeds from developer advances</u>		(6,245,877)
<u>Principal payments on developer advance</u>		6,316,197
<u>Forgiveness of developer advance</u>		296,927

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

<u>Change in accrued interest on bonds payable</u>		(93,022)
<u>Change in accrued interest on developer advance</u>		41,730

Change in net position	\$	<u>(429,014)</u>
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The accompanying notes and independent auditor's report  
should be read with these financial statements.

**SADDLEHORN RANCH METROPOLITAN DISTRICT NO. 2**  
**GENERAL FUND - STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**(BUDGET AND ACTUAL)**  
**YEAR ENDED DECEMBER 31, 2023**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
<b><u>REVENUES</u></b>				
Property taxes	\$ 3,820	\$ 2,820	\$ 3,877	\$ 1,057
Specific ownership taxes	267	267	398	131
Investment income	-	-	990	990
Waste service fees within District No. 1	-	-	238	238
Water services and facilities fees within District No. 1	-	-	4,759	4,759
<b>Total revenues</b>	<b>4,087</b>	<b>3,087</b>	<b>10,262</b>	<b>7,175</b>
<b><u>EXPENDITURES</u></b>				
Bank charges	-	20	20	-
County Treasurer fees	57	58	58	-
Other	-	229,694	-	229,694
Waste service fees paid to District No.1	-	-	238	(238)
Water services and facilities fees paid to District No. 1	-	-	4,759	(4,759)
<b>Total expenditures</b>	<b>57</b>	<b>229,772</b>	<b>5,075</b>	<b>224,697</b>
<b>Net change in fund balance</b>	<b>\$ 4,030</b>	<b>\$ (226,685)</b>	<b>5,187</b>	<b>\$ 231,872</b>
Fund balance, beginning of year			2,820	
Fund balance, end of year			<b>\$ 8,007</b>	

The accompanying notes and independent auditor's report  
should be read with these financial statements.

# SADDLEHORN RANCH METROPOLITAN DISTRICT NO. 2

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2023

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### 1. DEFINITION OF REPORTING ENTITY

Saddlehorn Ranch Metropolitan District No. 2 ("District"), a quasi-municipal corporation and political subdivision of the state of Colorado, was jointly formed on November 15, 2019, along with Saddlehorn Ranch Metropolitan District No. 1 ("District No. 1") and Saddlehorn Ranch Metropolitan District No. 3 ("District No. 3") and is governed pursuant to provisions of the Colorado Special District Act. District No. 1 is the control district and is responsible for the coordination, the financing, and construction of public improvements. The District and District No. 3 are the financing districts and are responsible for providing the funding and tax basis necessary to finance the public improvements. The District, District No. 1 and District No. 3 are collectively referred to as the "Districts". The Districts' service area is located in El Paso County, Colorado ("County"). The District was organized to construct public improvements including water, streets, sanitation, drainage, safety protection, parks and recreation, mosquito control, and television relay and translation.

The District follows 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, and 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.

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

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### 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. Material interfund activity has been removed from these statements. Governmental activities are normally supported by taxes and intergovernmental revenues.

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

The statement of activities demonstrates the degree to which the direct and indirect expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and grants and contributions that are restricted to meet the operational or capital requirements of a particular function or segment. Taxes and other items are properly excluded from program revenues and are reported as general revenues.

#### Measurement focus, basis of accounting, and financial statement position

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.

See independent auditor's report.

# SADDLEHORN RANCH METROPOLITAN DISTRICT NO. 2

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2023

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Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Revenues are considered to be available when they are collectable 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. All other revenue items are considered to be measurable and available only when cash is received by the District. Expenditures, other than interest on long-term obligations, are recorded when the liability is incurred or the long-term obligation is due.

The District reports the following major governmental funds:

The *general fund* accounts for all financial resources of the District except those required to be accounted for in another fund.

The *debt service fund* accounts for the servicing of general long-term debt and revenues generated and received by the District that are required to be used for repayment of debt.

The *capital projects fund* accounts for financial resources to be used for the acquisition and construction of capital equipment and facilities.

The *tap fee special revenue fund* accounts for financial resources obtained from tap fees to be used for costs associated with tap fees.

### Budgets

In accordance with state budget law, the District holds public hearings in the fall each year to approve the budget and appropriate funds for the ensuing year. The appropriation is at the total fund expenditures, fund balance remaining, 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, 2023.

### Pooled cash and investments

The District follows the practice of pooling cash and investments of funds to maximize investment earnings. Except when required by trust or other agreements, 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 balance.

### Property taxes

Property taxes are levied by the District's board of directors. The levy is based on assessed valuations determined by the County Assessor generally as of January 1 of each year. The levy is normally set by December 15 and attaches as an enforceable lien as of January 1 of the following year. The County Treasurer collects the taxes during the ensuing calendar year. The taxes are payable by April or, at the taxpayer's election, in February and June in equal installments. Delinquent taxpayers are notified in August and sales of tax liens on delinquent properties are generally held in November or December. The County Treasurer remits the taxes collected to the District monthly.

Property taxes, net of estimated uncollectable amounts, are recorded initially as deferred revenues in the year they are levied and measurable. The deferred property tax revenues are recorded as revenues in the year they are available or collected.

See independent auditor's report.

# SADDLEHORN RANCH METROPOLITAN DISTRICT NO. 2

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2023

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### Capital assets

Capital assets, which include property, equipment, and infrastructure assets (e.g., roads, sidewalks, and similar items), 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 and a useful life greater than one year. Such assets are recorded at cost or estimated cost if purchased or constructed. Contributed capital assets are recorded at estimated acquisition value at the date of contribution.

Maintenance and repairs are charged to expense as incurred. At the time of retirement or disposition of depreciable assets, the related cost and accumulated depreciation are removed from the accounts, and the resulting gain or loss, if any, is reflected in revenues or expenses.

Capital assets which are anticipated to be conveyed to other governmental entities are not depreciated or included in the calculation of net investment in capital assets component of the District's net position.

### Deferred inflows of resources

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenues) until that time. Accordingly, property taxes are deferred and recognized as an inflow of resources in the period that the amounts become available.

### Interfund balances and transactions

The District reports interfund balances and transfers that are representative of lending and borrowing arrangements between funds in the fund financial statements as due to other funds and due from other funds, respectively. The interfund balances have been eliminated in the government-wide statements.

### Net position and fund balances

#### *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.

#### *Fund balances*

Fund balances for governmental funds are 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. 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:

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

The *restricted fund balance* is 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.

The *committed fund balance* is 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.

See independent auditor's report.

# SADDLEHORN RANCH METROPOLITAN DISTRICT NO. 2

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2023

The *assigned fund balance* is 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.

The *unassigned fund balance* is the residual portion of fund balance that does not meet any of the criteria described above.

For fund presentation purposes, if more than one classification of fund balance is available for use when an expenditure is incurred, it is the District's policy to use the most restrictive classification first.

### Fund deficits

The debt service fund reported a fund balance deficit as of December 31, 2023. This deficit is expected to be eliminated with the receipt of pledged revenues in the future.

The capital projects fund reported a fund balance deficit as of December 31, 2023. This deficit is expected to be eliminated with the receipt of developer advances in the future.

### Use of estimates

The preparation of the basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

### Subsequent events

The District has evaluated subsequent events through the date of the attached independent auditor's report, the date of these financial statements were available to be issued.

## 3. CASH AND INVESTMENTS

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

Statement of net position:	
Cash and investments	\$ 28,827
Cash and investments - restricted	<u>100</u>
	<u>\$ 28,927</u>

The carrying amounts of cash and investments, which equal estimated fair value, as of December 31, 2023, are as follows:

Investments	<u>\$ 28,927</u>
	<u>\$ 28,927</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. The 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 102% of the aggregate uninsured deposits.

See independent auditor's report.

# SADDLEHORN RANCH METROPOLITAN DISTRICT NO. 2

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2023

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.

During the year ended December 31, 2023, the District did not have any deposits with financial institutions.

### 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 below which are believed to have minimal credit risk, minimal interest rate risk, and no foreign currency risk. The District is not subject to concentration risk disclosure requirements or subject to investment custodial credit risk for investments that are in the possession of another party.

Colorado revised statutes limit investment maturities to five years or less unless otherwise formally approved by the board of directors. Such actions are generally associated with a debt service reserve or sinking fund requirements.

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

- Obligations of the US and certain US government agency securities
- Certain international agency securities
- General obligation and revenue bonds of US local government entities
- Bankers' acceptances of certain banks
- Commercial paper
- Written repurchase agreements collateralized by certain authorized securities
- Certificates of deposit in Colorado PDPA approved banks or savings banks
- Certain money market funds
- Guaranteed investment contracts
- Local government investment pools

As of December 31, 2023, the District had the following in investments:

<u>Investment</u>	<u>Maturity</u>	<u>Amount</u>
Liquid Asset Trust (COLOTRUST)	Weighted average under 60 days	<u>\$ 28,927</u>

### COLOTRUST

The District invested in the Colorado Local Government Liquid Asset Trust ("COLOTRUST" or "Trust"), an investment vehicle established for local government entities in Colorado to pool surplus funds. The State Securities Commissioner administers and enforces all state statutes governing the Trust. The Trust offers three portfolios: COLOTRUST PRIME, COLOTRUST PLUS+, and COLOTRUST EDGE.

COLOTRUST PRIME and COLOTRUST PLUS+, which operate similarly to a money market fund in which each share is equal in value to \$1, offer daily liquidity. Both portfolios may invest in US Treasury securities and repurchase agreements collateralized by US Treasury securities. COLOTRUST PLUS+ may also invest in certain obligations of US government agencies, highest rated commercial paper, and any security allowed under CRS 24-75-601.

COLOTRUST EDGE, a variable net asset value ("NAV") local government investment pool, offers weekly liquidity and is managed to approximate a \$10 transactional share price. COLOTRUST EDGE may invest in US Treasury securities, repurchase agreement collateralized by US Treasury securities, certain obligations of US government agencies, highest rated commercial paper, and any security allowed under CRS 24-75-601.

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# SADDLEHORN RANCH METROPOLITAN DISTRICT NO. 2

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2023

A designated custodial bank serves as custodian for the Trust's portfolios pursuant to a custodian agreement. The custodian acts as safekeeping agent for the Trust's investment portfolios and provides services as the depository in connection with direct investments and withdrawals. The custodian's internal records segregate investments owned by the Trust. COLOTRUST PRIME and COLOTRUST PLUS+ are rated AAAM by Standard & Poor's. COLOTRUST EDGE is rated AAAs/S1 by FitchRatings. COLOTRUST records its investment at fair value and the District records its investment in COLOTRUST at NAV as determined by fair value. There are no unfunded commitments, the redemption frequency is daily or weekly, and there is no redemption notice period.

#### 4. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2023, is as follows:

	Balance 01-01-23	Additions	Dispositions	Reclassifications	Balance 12-31-23
<u>Governmental activities</u>					
Capital assets, not being depreciated:					
Construction in progress	\$ 367,247	\$ 6,245,877	\$ -	\$ -	\$ 6,613,124
Water rights	-	2,200,000	-	-	2,200,000
Capital assets, not being depreciated	\$ 367,247	\$ 8,445,877	\$ -	\$ -	\$ 8,813,124

#### 5. LONG-TERM OBLIGATIONS

The following is a summary of long-term debt of the District for the year ended December 31, 2023:

	Balance 01-01-23	Additions	Repayments / Forgiveness / Amortization	Balance 12-31-23	Due Within One Year
<u>Governmental activities</u>					
Bonds payable:					
Series 2023(3) Bonds	\$ -	\$ 9,264,000	\$ -	\$ 9,264,000	\$ -
Interest accrued on Series 2023(3) Bonds	-	281,817	(188,795)	93,022	-
Total bonds payable	-	9,545,817	(188,795)	9,357,022	-
Other long-term obligations:					
Developer advance - capital	367,247	6,245,877	(6,613,124)	-	-
Accrued interest on developer advance - capital	41,730	254,193	(295,923)	-	-
Total other long-term obligations	408,977	6,500,070	(6,909,047)	-	-
Total long-term obligations	\$ 408,977	\$ 16,045,887	\$ (7,097,842)	\$ 9,357,022	\$ -

See independent auditor's report.

# SADDLEHORN RANCH METROPOLITAN DISTRICT NO. 2

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2023

### Series 2023(3) General Obligation Limited Tax Bonds

On August 31, 2023, the District issued Series 2023(3) General Obligation Limited Tax Bonds ("Series 2023(3) Bonds") for the purpose of reimbursing Gorilla Capital ("Developer") for the costs of the public infrastructure and to pay other costs in connection with issuance of the bonds. The Series 2023(3) Bonds were issued in the amount of \$9,264,000 and bear interest at 9.00% payable to the extent of pledged revenues available each December 1, and mature on December 1, 2052. Accordingly, the timing of repayment is uncertain and a maturity schedule is not included in these financial statements. On December 2, 2066, the Series 2023(3) Bonds will be deemed to be paid, satisfied, and discharged regardless of the amount of principal and interest paid prior to that date.

### *Pledged revenue*

The Series 2023(3) Bonds are payable solely from and to the extent of pledged revenue, defined in the indenture as money derived by the District from the following sources: (a) the required mill levy; (b) portion of specific ownership tax collected as a result of the imposition of the required mill levy; and (c) any other legally available monies which the District determines, in its absolute discretion, to apply as pledged revenue.

### *Optional redemption*

The Series 2023(3) Bonds are subject to redemption prior to maturity, at the option of the District, as a whole or in integral multiples of \$1,000, in any order of maturity and in whole or partial maturities, on September 1, 2030, and on any date thereafter, upon payment of par, accrued interest, and a redemption premium on the principal redeemed, as follows:

<u>Date of Redemption</u>	<u>Redemption Premium</u>
September 1, 2030 to August 31, 2031	3.00%
September 1, 2031 to August 31, 2032	2.00%
September 1, 2032 to August 31, 2033	1.00%
September 1, 2033 and thereafter	0.00%

### *Events of default*

The occurrence of any one or more of the following events or the existence of any one or more of the following conditions will constitute an event of default under the indenture:

- (a) The District fails or refuses to impose the required mill levy or to apply the pledged revenue as required by the indenture;
- (b) The District defaults in the performance or observance of any other of the covenants, agreements, or conditions on the part of the District in the indenture or the bond resolution and fails to remedy the same after notice thereof pursuant to the indenture; or
- (c) The District files a petition under the federal bankruptcy laws or other applicable bankruptcy laws seeking to adjust the obligation represented by the Series 2023(3) Bonds.

It is acknowledged that, due to the limited nature of the pledged revenue, the failure to pay the principal of or interest on the bonds when due does not, in itself, constitute an event of default under the indenture.

See independent auditor's report.

# SADDLEHORN RANCH METROPOLITAN DISTRICT NO. 2

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2023

Upon the occurrence and continuance of an event of default, the trustee shall have the following rights and remedies which may be pursued:

i. Receivership - Upon the filing of a bill in equity or other commencement of judicial proceedings to enforce the rights of the trustee and of the owners, the trustee will be entitled as a matter of right to the appointment of a receiver or receivers of the trust estate, and of the revenues, income, product, and profits thereof pending such proceedings, subject however, to constitutional limitations inherent in the sovereignty of the District; but notwithstanding the appointment of any receiver or other custodian, the trustee shall be entitled to the possession and control of any cash, securities, or other instruments at the time held by, or payable or deliverable under the provisions of the indenture to, the trustee.

ii. Suit for judgment - The trustee may proceed to protect and enforce its rights and the rights of the owners by such suit, action, or special proceedings as the trustee, being advised by counsel, deems appropriate.

iii. Mandamus or other suit - The trustee may proceed by mandamus or any other suit, action, or proceeding at law or in equity, to enforce all rights of the owners.

Notwithstanding the foregoing, acceleration will not be an available remedy for an event of default.

### Debt authorization

As of December 31, 2023, the Districts' debt authorized, authorization used, and amounts authorized but unissued are as follows:

	Electoral Authorization	Service Plan Authorization
Amount authorized	\$ 1,035,000,000	\$ 45,000,000
Authorization used: Series 2023(3) Bonds	(9,264,000)	(9,264,000)
Authorized but unissued indebtedness	<u>\$ 1,025,736,000</u>	<u>\$ 35,736,000</u>

On November 5, 2019, the Districts' voters authorized the issuance of indebtedness at an interest rate not to exceed 18%. The service plan set the maximum mill levy for debt service at 50 mills, subject to Gallagher adjustment.

### Public improvements acquisition and reimbursement agreement

On November 4, 2021, the District entered into a public improvements acquisition and reimbursement agreement with Gorilla Capital Co Saddlehorn Ranch, LLC ("Developer"). The District agreed to reimburse the Developer for eligible costs incurred by the Developer at a simple interest rate not to exceed the prime interest rate plus two points from the effective date of acceptance of eligible costs by the District. The agreement terminates on November 4, 2041, at which time any remaining obligation by the District to reimburse the developer including accrued interest will be forgiven in its entirety. Proceeds from the Series 2023(3) Bonds were utilized to repay the outstanding developer advance in the amount of \$6,612,120. The difference between the outstanding balance of \$6,909,047 at the time of repayment and the total amount repaid with bond proceeds of \$6,612,120 represents forgiveness of the developer advance of \$296,927.

See independent auditor's report.

# SADDLEHORN RANCH METROPOLITAN DISTRICT NO. 2

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2023

### 6. NET POSITION

The District has net position consisting of restricted and unrestricted.

Restricted net position includes balances with external restrictions 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 a restricted net position as of December 31, 2023 as follows:

Restricted net position:

Emergency reserve (Note 11)	\$	200
Debt service (Note 5)		<u>(167,693)</u>
	\$	<u>(167,493)</u>

The District has a deficit in unrestricted net position as of December 31, 2023. This deficit is primarily a result of bond issuance costs. The deficit is expected to be eliminated with the receipt of pledged revenue in the future.

District management determined that interest from an acceptance of eligible costs under the public improvements acquisition and reimbursement agreement had not been recorded in the December 31, 2022 audit exemption form. Beginning net position has been adjusted as follows:

	As Previously Reported	Adjustment	As Presented on Statement of Activities
Government-wide financial statements:			
Governmental activities net position	\$ 2,820	\$ (41,730)	\$ (38,910)

### 7. FEES

#### Water tap fee

Effective April 17, 2023, the District and District No. 1 approved a joint resolution imposing a water tap fee in the amount of \$25,000 due upon the issuance of a building permit from El Paso County. District No. 1 agrees to impose and collect the tap fees on behalf of the District. Tap fees are required to be accounted for separately from other revenues of the District and District No. 1, and are to be used solely for paying tap fee costs.

#### Waste service fee

Effective July 31, 2023, the District and District No. 1 approved a joint resolution imposing a waste service fee in the amount of \$17.00 per month per residence within the District's and District No. 1's boundaries. Waste service fees are required to be accounted for separately from other revenues of the District and District No. 1, and are to be used solely for paying waste service costs.

#### Water services and facilities fees

Effective December 9, 2022, the District and District No. 1 approved a joint resolution imposing various fees, rates, penalties, and charges for water services and facilities. Fees under the agreement include service fees and charges imposed at (a) a flat rate of \$50, (b) \$6.00 per 1,000 gallons for the first 5,000 gallons, and (c) \$8.50 per 1,000 gallons after 5,000 gallons. These fees are to be accounted for separately from other revenues of the District and District No. 1, and are to be used solely for paying the improvement, reconstruction, operation, and maintenance of water improvements, facilities, appurtenances, and rights-of-way within the boundaries of the District and District No. 1.

See independent auditor's report.

# SADDLEHORN RANCH METROPOLITAN DISTRICT NO. 2

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2023

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### 8. RELATED PARTIES

The developers of the property within the District are ROI Properties, LLC and Gorilla Capital Co Saddlehorn Ranch, LLC. The members of the board of directors are officers, employees, or associated with the developers and may have conflicts of interest in dealing with the District.

### 9. AGREEMENTS

#### District coordinating services agreement

On December 10, 2019, the District entered into a district coordinating services agreement with District No. 1 and District No. 3. As part of the agreement, District No. 1 agrees to perform administrative services, and will own, operate, and maintain all public improvements within the Districts' boundaries. District No. 2 and District No. 3 are responsible for any and all costs, fees, charges, and expenses incurred by District No. 1 in providing administrative, operation, and maintenance services.

### 10. RISK MANAGEMENT

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

The District is a member of the Colorado Special Districts Property and Liability Pool ("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, 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.

### 11. TAX, SPENDING, AND DEBT LIMITATIONS

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

Spending and revenue limits are determined based on the prior 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. Revenues in excess of the fiscal year spending limit must be refunded unless the voters approve retention of such revenues. On November 5, 2019, the District's voters approved a ballot issue allowing the District to retain all revenues.

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.

District management believes the District 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 likely require judicial interpretation.

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See independent auditor's report.

## **SUPPLEMENTARY INFORMATION**

# SADDLEHORN RANCH METROPOLITAN DISTRICT NO. 2

## DEBT SERVICE FUND - SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE (BUDGET AND ACTUAL) YEAR ENDED DECEMBER 31, 2023

	Original and Final Budget	Actual	Variance
<b><u>REVENUES</u></b>			
Property taxes	\$ 19,099	\$ 19,383	\$ 284
Specific ownership taxes	1,337	1,990	653
<b>Total revenues</b>	<b>20,436</b>	<b>21,373</b>	<b>937</b>
<b><u>EXPENDITURES</u></b>			
Bond interest payments	-	188,775	(188,775)
Bond issuance costs	560,000	-	560,000
County Treasurer fees	286	291	(5)
<b>Total expenditures</b>	<b>560,286</b>	<b>189,066</b>	<b>371,220</b>
<b>Excess of revenues over expenditures</b>	<b>(539,850)</b>	<b>(167,693)</b>	<b>372,157</b>
<b><u>OTHER FINANCING SOURCES AND USES</u></b>			
Proceeds from bond issuance	15,495,000	-	(15,495,000)
Transfers between funds	(14,935,000)	-	14,935,000
<b>Total other financing sources and uses</b>	<b>560,000</b>	<b>-</b>	<b>(560,000)</b>
<b>Net change in fund balance</b>	<b>\$ 20,150</b>	<b>(167,693)</b>	<b>\$ (187,843)</b>
Fund balance, beginning of year		-	
Fund balance, end of year		<b>\$ (167,693)</b>	

See independent auditor's report

# SADDLEHORN RANCH METROPOLITAN DISTRICT NO. 2

## CAPITAL PROJECTS FUND - SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE (BUDGET AND ACTUAL) YEAR ENDED DECEMBER 31, 2023

	Original Budget	Final Budget	Actual	Variance
<b><u>EXPENDITURES</u></b>				
Bond issuance costs	\$ -	\$ 466,220	\$ 466,220	\$ -
Capital outlay	14,919,871	8,445,877	8,445,877	-
Contingency	-	-	-	-
Interest payment on developer advance	-	295,923	295,923	-
Principal payment on developer advance	-	6,316,197	6,316,197	-
Total expenditures	14,919,871	15,524,217	15,524,217	-
Excess of revenues over expenditures	(14,919,871)	(15,524,217)	(15,524,217)	-
<b><u>OTHER FINANCING SOURCES AND USES</u></b>				
Proceeds from bond issuance	14,935,000	-	9,264,000	9,264,000
Proceeds from developer advances	-	-	6,245,877	6,245,877
Total other financing sources and uses	14,935,000	-	15,509,877	15,509,877
Net change in fund balance	\$ 15,129	\$ (15,524,217)	(14,340)	\$ 15,509,877
Fund balance, beginning of year				-
Fund balance, end of year				\$ (14,340)

See independent auditor's report

# SADDLEHORN RANCH METROPOLITAN DISTRICT NO. 2

## TAP FEE SPECIAL REVENUE FUND - SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE (BUDGET AND ACTUAL) YEAR ENDED DECEMBER 31, 2023

	Original and Final Budget	Actual	Variance
<b><u>REVENUES</u></b>			
Tap fees within District No. 2	\$ -	\$ 250,000	\$ 250,000
Total revenues	-	250,000	250,000
Net change in fund balance	\$ -	250,000	\$ 250,000
Fund balance, beginning of year		-	
Fund balance, end of year		\$ 250,000	

See independent auditor's report