

ERIE HIGHLANDS METROPOLITAN DISTRICT NO. 2

Weld County, Colorado

Financial Statements

December 31, 2025

ERIE HIGHLANDS METROPOLITAN DISTRICT NO. 2

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Dazzio & Associates, PC

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Erie Highlands Metropolitan District No. 2
Weld County, Colorado

Opinions

We have audited the accompanying financial statements of the governmental activities and each major fund of the Erie Highlands Metropolitan District No. 2, (the "District") as of and for the year ended December 31, 2025, 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, 2025, and the respective changes in financial position and the budgetary comparisons for the General Fund and the Carriage Homes Special Revenue 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 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 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 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.

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 opinion on the basic financial statements is not affected by this missing information.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Supplementary Information, as listed in the table of contents, is presented for 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. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplementary Information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the annual report. The Other Information, as listed in the table of contents, does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Duggio & Associates, P.C.

July 1, 2026

BASIC FINANCIAL STATEMENTS

ERIE HIGHLANDS METROPOLITAN DISTRICT NO. 2

STATEMENT OF NET POSITION

December 31, 2025

	Governmental Activities
Assets	
Cash and Investments	\$ 202,069
Cash and Investments - Restricted	1,501,118
Accounts Receivable	78,050
Property Taxes Receivable	1,407,782
Prepaid Expense	8,204
Capital Assets Not Being Depreciated	75,601
Capital Assets, Net	<u>1,287,152</u>
Total Assets	<u>4,559,976</u>
Liabilities	
Accounts Payable	45,735
Due to District No. 1	2,260
Unearned Revenue	42,525
Accrued Interest Payable	49,919
Noncurrent Liabilities	
Due Within One Year	175,000
Due In More Than One Year	<u>20,635,466</u>
Total Liabilities	<u>20,950,905</u>
Deferred Inflows of Resources	
Unearned Property Taxes	<u>1,407,782</u>
Net Position	
Net Investment In Capital Assets	1,362,753
Restricted:	
Emergencies	20,400
Debt Service	502,962
Unrestricted	<u>(19,684,826)</u>
Total Net Position	<u><u>\$ (17,798,711)</u></u>

The notes to the financial statements are an integral part of this statement.

ERIE HIGHLANDS METROPOLITAN DISTRICT NO. 2

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2025

Function/Program Activities	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Position
Governmental Activities					
General Government	\$ 630,743	\$ 244,532	\$ -	\$ -	\$ (386,211)
Interest and Related Costs on Long-term Debt	1,317,346	-	-	96,000	(1,221,346)
Total Governmental Activities	<u>\$ 1,948,089</u>	<u>\$ 244,532</u>	<u>\$ -</u>	<u>\$ 96,000</u>	<u>(1,607,557)</u>
General Revenues:					
					1,181,620
					47,904
					82,032
					31,456
					1,422,328
					<u>2,765,340</u>
					1,157,783
					(18,956,494)
					<u>\$ (17,798,711)</u>

The notes to the financial statements are an integral part of this statement.

ERIE HIGHLANDS METROPOLITAN DISTRICT NO. 2

**BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2025**

	General	Carriage Homes	Debt Service	Total
Assets				
Cash and Investments	\$ 165,570	\$ 36,499	\$ -	\$ 202,069
Cash and Investments - Restricted	-	-	1,501,118	1,501,118
Accounts Receivable	52,421	25,629	-	78,050
Property Taxes Receivable	385,342	-	1,022,440	1,407,782
Prepaid Expenditures	8,204	-	-	8,204
Total Assets	\$ 611,537	\$ 62,128	\$ 2,523,558	\$ 3,197,223
Liabilities				
Accounts Payable	\$ 41,310	\$ 4,425	\$ -	\$ 45,735
Due to District No. 1	2,260	-	-	2,260
Unearned Revenue	42,525	-	-	42,525
Total Liabilities	86,095	4,425	-	90,520
Deferred Inflows of Resources				
Unearned Property Taxes	385,342	-	1,022,440	1,407,782
Fund Balances				
Prepaid Expenses	8,204	-	-	8,204
Restricted				
Emergencies	14,800	5,600	-	20,400
Debt Service	-	-	1,501,118	1,501,118
Committed	-	52,103	-	52,103
Assigned for Subsequent Year's Expenditures	117,096	-	-	117,096
Total Fund Balances	140,100	57,703	1,501,118	1,698,921
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 611,537	\$ 62,128	\$ 2,523,558	\$ 3,197,223

The notes to the financial statements are an integral part of this statement.

ERIE HIGHLANDS METROPOLITAN DISTRICT NO. 2

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION**

December 31, 2025

Total Fund Balances - Governmental Funds	\$ 1,698,921
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Total net position reported for governmental activities in the statement of net position is different because:

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

Those assets consist of:

Capital Assets Not Being Depreciated	75,601
Capital Assets, Net	1,287,152

Long-term liabilities applicable to the District's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities - both current and long-term - are reported in the statement of net position.

Balances at year end are:

General Obligation Bonds Payable	\$ (16,829,000)
Matured Interest Payable on Subordinate Bonds	(3,981,466)
Accrued Interest Payable	(49,919)

Net Position - Governmental Activities	<u>\$ (17,798,711)</u>
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The notes to the financial statements are an integral part of this statement.

ERIE HIGHLANDS METROPOLITAN DISTRICT NO. 2

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS**

For the Year Ended December 31, 2025

	General	Carriage Homes	Debt Service	Total
Revenues				
Property Taxes	\$ 337,598	\$ -	\$ 844,022	\$ 1,181,620
Specific Ownership Tax	13,711	-	34,193	47,904
System Development Fees	-	-	96,000	96,000
Service and Facility Fees	57,119	181,937	-	239,056
Late Fees	878	3,623	-	4,501
Clubhouse Rentals	750	-	-	750
Pool Key Income	225	-	-	225
Interest income	8,918	709	72,405	82,032
Insurance Proceeds	28,956	-	-	28,956
Miscellaneous Income	2,500	-	-	2,500
Total Revenues	450,655	186,269	1,046,620	1,683,544
Expenditures				
Current				
General and Administrative	289,273	28,722	-	317,995
Operations and Maintenance	68,832	99,844	-	168,676
Clubhouse Operations	24,136	-	12,668	36,804
Pool Operations	60,361	-	-	60,361
Debt Service				
Bond Principal	-	-	155,000	155,000
Bond Interest	-	-	607,163	607,163
Paying Agent/Trustee Fees	-	-	11,873	11,873
Total Expenditures	442,602	128,566	786,704	1,357,872
Net Change in Fund Balances	8,053	57,703	259,916	325,672
Fund Balances - Beginning	132,047	-	1,241,202	1,373,249
Fund Balances - Ending	\$ 140,100	\$ 57,703	\$ 1,501,118	\$ 1,698,921

The notes to the financial statements are an integral part of this statement.

ERIE HIGHLANDS METROPOLITAN DISTRICT NO. 2

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2025

Net Change in Fund Balances - Total Governmental Funds	\$	325,672
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Amounts reported for governmental activities in the statement of
activities are different because:

Governmental funds report capital outlays as expenditures. However, in the
statement of activities the cost of those assets is allocated over their
estimated useful lives and reported as depreciation expense.

Depreciation expense	(59,575)
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The net effect of various miscellaneous transactions involving capital
assets (i.e. sales and transfers) is to increase net position. In the
statement of activities, only the gain on the disposition of capital
assets is reported. However, in the governmental funds, the proceeds
from the disposition, if any, increases financial resources. Thus, the
change in net position differs from the change in fund balance by the
net book value of the asset disposed.

Contributed assets	1,422,328
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The issuance of long-term debt (e.g., bonds, leases) provides current
financial resources to governmental funds, while the repayment of the
principal of long-term debt consumes the current financial resources of
governmental funds. Neither transaction, however, has any effect on
net position. Also, governmental funds report the effect of premiums,
discounts, and similar items when debt is first issued, whereas these
amounts are deferred and amortized in the statement of activities.

Principal Paid on Long Term Debt	155,000
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Some expenses reported in the statement of activities do not require
the use of current financial resources and, therefore, are not reported
as expenditures in governmental funds:

Accrued Interest on 2018A Bonds	678
Accrued Interest on 2018B Bonds	(219,809)
Accrued Interest on 2018C Bonds	(466,511)

Change in Net Position - Governmental Activities	\$	<u>1,157,783</u>
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The notes to the financial statements are an integral part of this statement.

ERIE HIGHLANDS METROPOLITAN DISTRICT NO. 2

GENERAL FUND

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL**

For the Year Ended December 31, 2025

(With Comparative Totals for the Year Ended December 31, 2024)

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget	2024 Actual
Revenues					
Property Taxes	\$ 337,599	\$ 337,599	\$ 337,598	\$ (1)	\$ 301,801
Specific Ownership Tax	13,504	13,504	13,711	207	10,925
Service and Facility Fees	-	83,000	57,119	(25,881)	-
Late Fees	-	-	878	878	-
Clubhouse Rentals	-	-	750	750	-
Pool Key Income	-	-	225	225	-
Settlement Funds	-	-	-	-	109,934
Interest income	2,500	2,500	8,918	6,418	3,855
Insurance Proceeds	-	-	28,956	28,956	-
Miscellaneous Income	-	-	2,500	2,500	9,678
Total Revenues	353,603	436,603	450,655	14,052	436,193
Expenditures					
General and Administrative					
Accounting	23,000	23,000	46,672	(23,672)	14,957
Auditing	5,500	5,500	6,000	(500)	5,400
County Treasurer Fee	5,063	5,063	5,067	(4)	4,674
Election	3,000	3,000	121	2,879	102
District Management	24,000	24,000	51,238	(27,238)	8,332
Transfer to District 4	-	-	-	-	141,989
Insurance	16,000	16,000	11,656	4,344	-
Dues and Memberships	1,000	1,000	-	1,000	-
Legal	60,000	60,000	141,176	(81,176)	128,001
Christmas Lights	-	-	2,650	(2,650)	-
Miscellaneous Expense	4,000	4,000	8,243	(4,243)	691
Property Management	16,000	16,000	16,450	(450)	-
Contingency	-	87,045	-	87,045	-
Emergency Reserve	10,128	10,128	-	10,128	-
Subtotal	167,691	254,736	289,273	(34,537)	304,146
Operations and Maintenance					
Landscaping	42,000	42,000	33,301	8,699	-
Covenant Control	-	-	-	-	-
Irrigation Repairs	10,000	10,000	13,738	(3,738)	-
Snow Removal	17,000	17,000	842	16,158	-
Repairs and Maintenance- Ops	3,000	3,000	505	2,495	-
Playground Maintenance	1,500	1,500	-	1,500	-
Native Area Maintenance	1,500	1,500	-	1,500	-
Monument Maintenance	700	700	-	700	-
Landscape Repairs	700	700	-	700	-
Fence Repairs	500	500	-	500	-
Utilities - Ops	15,000	15,000	20,446	(5,446)	-
Subtotal	91,900	91,900	68,832	23,068	-

(Continued)

ERIE HIGHLANDS METROPOLITAN DISTRICT NO. 2

GENERAL FUND

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL**

For the Year Ended December 31, 2025

(With Comparative Totals for the Year Ended December 31, 2024)

(Continued)

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget	2024 Actual
Clubhouse Operations					
Clubhouse Management	8,000	8,000	-	8,000	-
Clubhouse Ops and Maintenance	8,375	8,375	1,987	6,388	-
Security	2,063	2,063	660	1,403	-
Work Order Repairs	2,000	2,000	-	2,000	-
Clubhouse Rentals/Events	2,000	2,000	-	2,000	-
Cleaning and Supplies	2,500	2,500	5,250	(2,750)	-
Clubhouse General Repairs	1,500	1,500	657	843	-
Clubhouse Electric Repairs	800	800	-	800	-
Clubhouse Plumbing Repairs	800	800	264	536	-
Mechanical System Repairs	600	600	-	600	-
Fencing Repairs- Clubhouse	250	250	-	250	-
Grounds Maintenance	3,900	3,900	735	3,165	-
Plant Material Replacements	1,313	1,313	-	1,313	-
Irrigation Repairs-Clubhouse	750	750	-	750	-
Snow Removal- Clubhouse	3,750	3,750	-	3,750	-
Utilities- Clubhouse	20,000	20,000	14,583	5,417	-
Subtotal	58,601	58,601	24,136	34,465	-
Pool Operations					
Lifeguards	17,000	17,000	32,042	(15,042)	-
Pool Maintenance	12,000	12,000	27,514	(15,514)	-
Pool Chemicals	5,500	5,500	-	5,500	-
Pool Repairs	2,513	2,513	805	1,708	-
Hot Tub Maintenance	2,750	2,750	-	2,750	-
Subtotal	39,763	39,763	60,361	(20,598)	-
Total Expenditures	357,955	445,000	442,602	2,398	304,146
Net Change in Fund Balance	(4,352)	(8,397)	8,053	16,450	132,047
Fund Balance - Beginning	8,752	8,752	132,047	123,295	-
Fund Balance - Ending	\$ 4,400	\$ 355	\$ 140,100	\$ 139,745	\$ 132,047

The notes to the financial statements are an integral part of this statement.

ERIE HIGHLANDS METROPOLITAN DISTRICT NO. 2

CARRIAGE HOMES SPECIAL REVENUE FUND

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL**

For the Year Ended December 31, 2025

(With Comparative Totals for the Year Ended December 31, 2024)

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget	2024 Actual
Revenues					
Carriage Home District Fee	\$ 110,400	\$ 175,000	\$ 181,937	\$ 6,937	\$ -
Late Fees	-	-	3,623	3,623	-
Interest income	-	-	709	709	-
Total Revenues	110,400	175,000	186,269	11,269	-
Expenditures					
General and Administrative					
Billing	20,000	20,000	17,440	2,560	-
Legal- Carriage Home	-	-	10,742	(10,742)	-
Miscellaneous Expense	-	-	540	(540)	-
Landscape Maintenance	34,000	34,000	33,433	567	-
Operations and Maintenance	20,000	20,000	23,813	(3,813)	-
Snow Removal	25,000	25,000	37,388	(12,388)	-
Repairs and Maintenance	2,500	2,500	342	2,158	-
Winter Watering	2,000	2,000	-	2,000	-
Irrigation Repairs	3,500	3,500	4,868	(1,368)	-
Contingency	3,400	68,000	-	68,000	-
Total Expenditures	110,400	175,000	128,566	46,434	-
Net Change in Fund Balance	-	-	57,703	57,703	-
Fund Balance - Beginning	-	-	-	-	-
Fund Balance - Ending	\$ -	\$ -	\$ 57,703	\$ 57,703	\$ -

The notes to the financial statements are an integral part of this statement.

ERIE HIGHLANDS METROPOLITAN DISTRICT NO. 2

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2025

NOTE 1 – DEFINITION OF REPORTING ENTITY

Erie Highlands Metropolitan District No. 2 (the District), a quasi-municipal corporation and political subdivision of the State of Colorado, was organized by Order and Decree and recorded with the Weld County Clerk and Recorder on December 2, 2013, and is governed pursuant to provisions of the Colorado Special District Act (Title 32, Article 1, Colorado Revised Statutes). The District's service area is located entirely within the Town of Erie (the Town), in Weld County (the County), Colorado. The District was established to provide for the planning, design, acquisition, construction, installation, relocation and/or redevelopment and financing of water, sanitation, solid waste disposal, streets, safety, parks and recreation, transportation, fire protection, mosquito control, television relay and translation, and services within and without its boundaries.

The District was organized in conjunction with Erie Highlands Metropolitan District Nos. 1, 3, 4, and 5 (each District Nos. 1, 3, 4, and 5, respectively, and together with the District, the Districts) and operates under a Consolidated Service Plan approved by the Town on September 24, 2013.

The Districts initially entered into an Intergovernmental Agreement Concerning District Operations (the "District IGA") on September 10, 2018, which set forth the respective roles, responsibilities and obligations of each district with respect to the provision of administrative services, ownership, operation and maintenance of public improvements serving the property within the Districts. The Districts engaged District No. 4 as the operator of public improvements owned by one or more of the Districts. District No. 4 acted as the district responsible for overall administrative services, and the remaining districts agreed to compensate District No. 4 for those services as well as for the operations of public improvements.

The District IGA was terminated on August 4, 2024. At such time, the District and District No. 1 assumed administrative and operational responsibility for their respective public improvements.

The District follows the Governmental Accounting Standards Board (GASB) accounting pronouncements which provide guidance for determining which governmental activities, organizations and functions should be included within the financial reporting entity. GASB pronouncements set forth the financial accountability of a governmental organization's elected governing body as the basic criterion for including a possible component governmental organization in a primary government's legal entity. Financial accountability includes, but is not limited to, appointment of a voting majority of the organization's governing body, ability to impose its will on the organization, a potential for the organization to provide specific financial benefits or burdens and fiscal dependency.

ERIE HIGHLANDS METROPOLITAN DISTRICT NO. 2

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2025

The District is not financially accountable for any other organization, nor is the District a component unit of any other primary governmental entity, including the other Erie Highlands Metropolitan Districts.

The District has no employees and contracts for all of its management and professional services.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The more significant accounting policies of the District are described as follows:

Government-Wide and Fund Financial Statements

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

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

The statement of activities demonstrates the degree to which the direct and indirect expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

ERIE HIGHLANDS METROPOLITAN DISTRICT NO. 2

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2025

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The major sources of revenue susceptible to accrual are property taxes, specific ownership taxes, and facility fees. 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:

General Fund – This fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Carriage Homes Fund – This fund accounts for the resources accumulated from the imposition of the Carriage House Operations & Maintenance Fee to fund the cost of maintaining the public improvements located within Erie Highlands Filing No. 16.

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

Budgets

In accordance with the State Budget Law, the District's Board of Directors holds public hearings in the fall each year to approve the budget and appropriate the funds for the ensuing year. The appropriation is at the total fund expenditures and other financing uses level and lapses at year-end. The District's Board of Directors can modify the budget by line item within the total appropriation without notification. The appropriation can only be modified upon completion of notification and publication requirements. The budget includes each fund on its basis of accounting unless otherwise indicated.

The District has amended its annual budget for the year ended December 31, 2025.

Pooled Cash and Investments

The District follows the practice of pooling cash and investments of all funds to maximize investment earnings. Except when required by trust or other agreements, all cash is deposited to and disbursed from a single bank account. Cash in excess of immediate operating requirements is pooled for deposit and investment flexibility. Investment earnings are

ERIE HIGHLANDS METROPOLITAN DISTRICT NO. 2

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2025

allocated periodically to the participating funds based upon each fund's average equity balance in the total cash and investments.

Cash and investments are presented on the balance sheet in the basic financial statements at fair value.

Restricted Assets

Certain assets whose use is restricted for bonded debt service by debt indentures are segregated on the government-wide statement of net position and the fund balance sheet.

Property Taxes

Property taxes are levied by the District's Board of Directors. The levy is based on assessed valuations determined by the County Assessor generally as of January 1 of each year. The levy is normally set by December 15 by certification to the County Commissioners to put the tax lien on the individual properties as of January 1 of the following year. The County Treasurer collects the determined taxes during the ensuing calendar year. The taxes are payable by April 30 or if in equal installments, at the taxpayer's election, in February and June. Delinquent taxpayers are notified in August, and generally sales of the tax liens on delinquent properties are held in November or December. The County Treasurer remits the taxes collected monthly to the District.

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

Facility Fees

Facility fees consist of the fees imposed by the District pursuant to a resolution adopted by the District on August 9, 2018, with an effective date of March 1, 2018, in an amount equal to \$1,500 per single-family residential unit, \$1,000 per single family attached unit, and \$1.00 per square foot of any commercial property within the District. The Facility Fees are due and payable on the date of issuance of a building permit for the related residential unit. Effective January 1, 2025, the Facility Fees were increased to \$4,000 per single family detached unit and \$3,500 per single family attached unit.

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District Filing 16 (Carriage House) Fees

On June 5, 2022, the District adopted a Joint Resolution with District No. 4 imposing the "Carriage House Operations & Maintenance Fee" (the Fee) to fund the cost of maintaining the public improvements located within Erie Highlands Filing No. 16, in the amount of \$99.83 per month. The Fee was imposed by the District and the revenue is paid to District No. 4. On December 3, 2024, the District adopted a First Amendment to the Joint Resolution with District No. 4 whereby, effective January 1, 2025, the District collected the Fees and District 4 transferred all remaining Carriage House Operations & Maintenance Fee revenue collected on or before February 28, 2025.

On December 23, 2024, the District adopted a Resolution concerning the Fee providing for:

- Collection of the Fee in the amount of \$99.83 per month by the District on a quarterly basis.
- Collection of the Fee from all lots located in Filing 16
- Provision of Additional Services by the District
- Authorizing the District, in its discretion, to increase the Fee annually based upon the Denver-Boulder-Lakewood CPI.
- Authorizing the District to charge property owners the costs and expenses incurred in collection of the Fee.

On December 30, 2025, the District adopted a Resolution Terminating the Provision of Services and Collection of the Operations and Maintenance Fee for Erie Highlands Carriage Houses (Filing No. 16). It is contemplated that during 2026, any funds remaining in the Carriage Homes fund will be refunded to Carriage Homeowners of record.

Service and Facility Fees

The District and District No. 1 charges a monthly Service and Facility fee of \$25 to all homeowners to be used to fund ongoing operations and maintenance of shared public amenities, including landscaping, the pool and the clubhouse facilities.

Pursuant to the Service and Facility Fee Resolution, the Districts are authorized to increase or decrease the amount of the monthly Service and Facility Fee and terms for collection, so long as the Service and Facility Fee is not imposed for more than five years (2025-2029). Additionally, the fee is not allowed to exceed \$636 annually.

Effective January 1, 2026, the service and facility fee was increased to \$35 per month.

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NOTES TO THE FINANCIAL STATEMENTS

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Deferred Inflows of Resources

In addition to liabilities, the statement of net position and the governmental funds balance sheet 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 assets that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has one item that qualifies for reporting in this category. Accordingly, one item, unavailable revenue – property tax, is reported in both the government-wide statement of net position and the governmental funds balance sheet. This amount is deferred and recognized as inflow of resources in the period that the amounts become available.

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. Bonds payable are reported net of the applicable bond premiums and discounts. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method and charged to interest expense.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Issuance costs, even if withheld from the actual new proceeds received, are reported as debt services expenditures, in both the government-wide statements and fund financial statements.

Fund Equity

Net Position

The government-wide financial statements utilize a net position presentation. Net position is categorized as net investment in capital assets, restricted and unrestricted.

Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.

Restricted net position is subject to restrictions by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provision or enabling legislation.

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NOTES TO THE FINANCIAL STATEMENTS December 31, 2025

Unrestricted net position represents assets that do not have any third-party limitations on their use.

Fund Balances

Generally, the fund balance represents the difference between the current assets and current liabilities. In the fund financial statements, governmental funds report fund balance classifications that comprise a hierarchy based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. Governmental funds report up to five classifications of fund balance: nonspendable, restricted, committed, assigned and unassigned. Due to circumstances which differ amongst governments, not every government or every governmental fund will present all of these components. The following classifications describe the relative strength of the spending constraints:

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

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

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

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

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

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

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NOTES TO THE FINANCIAL STATEMENTS
December 31, 2025

NOTE 3 – CASH AND INVESTMENTS

Cash and investments as of December 31, 2025 are classified in the accompanying financial statements as follows:

Statement of Net Position:

Cash and Investments	\$ 202,069
Cash and Investments - Restricted	<u>1,501,118</u>
Total Cash and Investments	<u>\$ 1,703,187</u>

Cash and investments as of December 31, 2025 consist of the following:

Deposits with Financial Institutions	\$ 24,167
Investments	<u>1,679,020</u>
Total Cash and Investments	<u>\$ 1,703,187</u>

Deposits with Financial Institutions

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

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

At December 31, 2025, the District's cash deposits had a bank balance of \$28,390 and a carrying balance of \$24,167.

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NOTES TO THE FINANCIAL STATEMENTS December 31, 2025

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 obligations of the United States, certain U.S. government agency securities and Local Government Investment Pools, which are believed to have minimal credit risk; minimal interest rate risk and no foreign currency risk. Additionally, the District is not subject to concentration risk 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 formally approved by the Board of Directors. Such actions are generally associated with a debt service reserve or sinking fund requirements.

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

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

At December 31, 2025, the District had the following investments:

<u>Investment</u>	<u>Maturity</u>	<u>Amount</u>
Colorado Surplus Asset Fund Trust (CSAFE)	Weighted Average under 60 Days	<u>\$ 1,679,020</u>

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NOTES TO THE FINANCIAL STATEMENTS

December 31, 2025

CSAFE

The District invested in the Colorado Surplus Asset Fund Trust (CSAFE) (the Trust), which is an investment vehicle established by state statute for local government entities to pool surplus assets. The State Securities Commissioner administers and enforces all State statutes governing the Trust. The Trust currently offers two portfolios – CSAFE CASH FUND and CSAFE CORE.

CSAFE CASH FUND operations similar to a money market fund, with each share valued at \$1.00. CSAFE may invest in U.S. Treasury securities, repurchase agreements collateralized by U.S. Treasury securities, certain money market funds and highest rated commercial paper, any security allowed under Section 24-75-601, C.R.S.

CSAFE CORE, a variable Net Asset Value (NAV) Local Government Investment Pool, offers weekly liquidity and is managed to approximate a \$2.00 transactional share price. CSAFE CORE may invest in securities authorized by Section 24-75-601, C.R.S., including U.S. Treasury securities, repurchase agreements collateralized by U.S. Treasury securities, certain obligations of U.S. government agencies, highest rated commercial paper, and any security allowed under Section 24-75-601, C.R.S.

A designated custodial bank serves as custodian for CSAFE's portfolio pursuant to a custodian agreement. The custodian acts as safekeeping agent for CSAFE's investment portfolio and provides services as the depository in connection with direct investments and withdrawals. The custodian's internal records segregate investments owned by CSAFE. CSAFE CASH FUND is rated AAmmf by Fitch Ratings and CSAFE CORE is rated AAaf/S1 by FitchRatings. CSAFE records its investments at amortized cost and the District records its investments in CSAFE using the amortized cost method. There are no unfunded commitments, the redemption frequency is daily and there is no redemption notice period.

Restricted Cash and Investments

At December 31, 2025, cash and investments in the amount of \$1,501,118 are restricted. This includes cash and investments held by the Debt Service Fund, pursuant to applicable debt requirements (see Note 5).

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NOTES TO THE FINANCIAL STATEMENTS **December 31, 2025**

NOTE 4 – CAPITAL ASSETS

An analysis of the changes in capital assets for the year ended December 31, 2025 follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets Not Being Depreciated:				
Land	\$ -	\$ 75,601	\$ -	\$ 75,601
	-	75,601	-	75,601
Capital Assets Being Depreciated:				
Pool and Clubhouse	-	1,314,543		1,314,543
Entryways	-	4,391	-	4,391
Fencing	-	25,346	-	25,346
Mailboxes	-	2,447	-	2,447
Total Capital Assets Being Depreciated	-	1,346,727	-	1,346,727
Accumulated Depreciation:				
Pool and Clubhouse	-	56,674	-	56,674
Entryways	-	325	-	325
Fencing	-	1,877	-	1,877
Mailboxes	-	699	-	699
Total Accumulated Depreciation	-	59,575	-	59,575
Total Capital Assets Being Depreciated, Net	-	1,406,302	-	1,287,152
Governmental Activities Capital Assets, Net	\$ -	\$ 1,481,903	\$ -	\$ 1,362,753

In April 2025, in accordance with the Settlement Agreement (see Note 7), assets consisting of the pool and clubhouse as well as certain other assets were transferred equally to the District and District No. 1.

Depreciation expense was charged to the general government function of the District in the amount of \$59,575 for the year ended December 31, 2025.

ERIE HIGHLANDS METROPOLITAN DISTRICT NO. 2

NOTES TO THE FINANCIAL STATEMENTS December 31, 2025

NOTE 5 – LONG-TERM OBLIGATIONS

The following is an analysis of changes in the District’s long-term obligations for the year ended December 31, 2025:

Governmental activities:	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Limited Tax General Obligation					
Bonds - Series 2018A	\$ 11,565,000	\$ -	\$ 155,000	\$ 11,410,000	\$ 175,000
Subordinate Limited Tax General					
Obligation Bonds - Series 2018B					
Principal	1,819,000	-	-	1,819,000	-
Interest	1,063,749	219,809	-	1,283,558	-
Junior Lien Limited Tax General					
Obligation Bonds - Series 2018C:					
Principal	3,600,000	-	-	3,600,000	-
Interest	2,231,397	466,511	-	2,697,908	-
Total	<u>\$ 20,279,146</u>	<u>\$ 686,320</u>	<u>\$ 155,000</u>	<u>\$ 20,810,466</u>	<u>\$ 175,000</u>

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

Bond Details

The District issued Limited Tax General Obligation Bonds, Series 2018A (the “2018A Senior Bonds”), Subordinate Limited Tax General Obligation Bonds, Series 2018B (the “2018B Subordinate Bonds”), and Junior Lien Limited Tax General Obligation Bonds, Series 2018C (the “2018C Junior Lien Bonds,” and together with the 2018A Senior Bonds and the 2018B Subordinate Bonds, the “2018 Bonds”) on September 28, 2018 in the amounts of \$11,725,000, \$1,819,000, and \$3,600,000, respectively.

Proceeds of the 2018A Senior Bonds were used to: (i) finance public improvements; (ii) pay capitalized interest on the 2018A Senior Bonds; (iii) fund the Senior Reserve Fund; and (iv) pay other costs in connection with the issuance of the 2018A Senior Bonds. Proceeds of the 2018B Subordinate Bonds and the 2018C Junior Lien Bonds were used to finance additional public improvements. A portion of the proceeds amounting to \$5,449,578 were transferred to District No. 1 to repay developer advances incurred for public improvements constructed by District No. 1, such improvements benefiting both Districts.

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The 2018A Senior Bonds bear interest at 5.25%, payable semiannually on June 1 and December 1 of each year, commencing December 1, 2018. Annual mandatory sinking fund principal payments are due on December 1, beginning on December 1, 2023. The 2018 Bonds mature on December 1, 2048. To the extent the 2018A Senior Bonds are not paid when due, the unpaid principal will continue to bear interest and the unpaid interest will compound semi-annually on each June 1 and December 1 until the total repayment obligation of the District for the 2018A Senior Bonds equals the amount permitted by law. Any amounts due and owing on the 2018A Senior Bonds remaining outstanding on December 1, 2058, shall be deemed discharged and shall no longer be due and outstanding.

The 2018B Subordinate Bonds bear interest at 7.625% and mature on December 15, 2048. The 2018B Subordinate Bonds constitute subordinate “cash flow” bonds, meaning that no regularly scheduled principal payments are due prior to the maturity date, and interest payments not paid when due will accrue and compound until sufficient Subordinate Pledged Revenue is available for payment. Principal and interest payments are due on the 2018B Subordinate Bonds on each December 15 only to the extent Subordinate Pledged Revenue is available therefor. In the event that the Subordinate Pledged Revenue is insufficient to pay the 2018B Subordinate Bonds, the unpaid principal will continue to bear interest and the unpaid interest will compound annually until the total repayment obligation of the District for the 2018B Subordinate Bonds equals the amount permitted by law. Any amounts due and owing on the 2018B Subordinate Bonds remaining outstanding on December 15, 2058, shall be deemed discharged and shall no longer be due and outstanding.

The 2018C Junior Lien Bonds bear interest at 8% through December 14, 2023 and 6% thereafter. The 2018C Junior Lien Bonds mature on December 15, 2052. The 2018C Junior Lien Bonds constitute junior lien “cash flow” bonds, meaning that no regularly scheduled principal payments are due prior to the maturity date, and interest payments not paid when due will accrue and compound until sufficient Junior Lien Pledged Revenue is available for payment. Principal and interest payments are due on the 2018C Junior Lien Bonds on each December 15 only to the extent Junior Lien Pledged Revenue is available therefor. In no event will any amounts be paid on the 2018C Junior Lien Bonds until such time as there has been paid in full or defeased the 2018B Subordinate Bonds, and, to the extent required by the applicable Senior/Subordinate Obligation Indentures, any other Senior/Subordinate Obligations issued by the District.

In the event that the Junior Lien Pledged Revenue is insufficient to pay the 2018C Junior Lien Bonds, the unpaid principal will continue to bear interest and the unpaid interest will compound annually until the total repayment obligation of the District for the 2018C Junior Lien Bonds equals the amount permitted by law. In the event any amounts due and owing on the 2018C Junior Lien Bonds remain outstanding on December 15, 2058, such amounts shall be deemed discharged and shall no longer be due and outstanding.

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NOTES TO THE FINANCIAL STATEMENTS

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Optional Redemption

The 2018A Senior Bonds are subject to redemption prior to maturity, at the option of the District, on December 1, 2023, and on any date thereafter, upon payment of par, accrued interest, and a redemption premium equal to a percentage of the principal amount so redeemed, as follows:

<u>Date of Redemption</u>	<u>Redemption Premium</u>
December 1, 2023, to November 30, 2024	3.00%
December 1, 2024, to November 30, 2025	2.00
December 1, 2025, to November 30, 2026	1.00
December 1, 2026, and thereafter	0.00

The 2018B Subordinate Bonds are subject to redemption prior to maturity, at the option of the District, on December 15, 2023, and on any date thereafter, upon payment of par, accrued interest, and a redemption premium equal to a percentage of the principal amount so redeemed, as follows:

<u>Date of Redemption</u>	<u>Redemption Premium</u>
December 15, 2023, to December 14, 2024	3.00%
December 15, 2024, to December 14, 2025	2.00
December 15, 2025, to December 14, 2026	1.00
December 15, 2026, and thereafter	0.00

The 2018C Junior Lien Bonds are subject to redemption prior to maturity, at the option of the District, on December 15, 2023, and on any date thereafter, upon payment of par, accrued interest, and a redemption premium equal to a percentage of the principal amount so redeemed, as follows:

<u>Date of Redemption</u>	<u>Redemption Premium</u>
December 15, 2023, to December 14, 2024	3.00%
December 15, 2024, to December 14, 2025	2.00
December 15, 2025, to December 14, 2026	1.00
December 15, 2026, and thereafter	0.00

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NOTES TO THE FINANCIAL STATEMENTS

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Pledged Revenue

The 2018A Senior Bonds are payable solely from and to the extent of the Senior Pledged Revenue, defined generally in the 2018A Senior Indenture as the following, net of any costs of collection: (i) all Senior Property Tax Revenues; (ii) all Senior Specific Ownership Tax Revenues; (iii) all Capital Fees; and (iv) any other legally available moneys which the District determines, in its absolute discretion, to credit to the Senior Bond Fund. The 2018A Senior Bonds are additionally secured by the Senior Reserve Fund, which will initially be funded with proceeds of the 2018A Senior Bonds in the amount of the Reserve Requirement, capitalized interest which will be funded with proceeds of the 2018A Senior Bonds and by amounts in the Senior Surplus Fund, if any. The Senior Surplus Fund will not be funded as of the date of issuance of the 2018A Senior Bonds.

The 2018B Subordinate Bonds are payable solely from and to the extent of the Subordinate Pledged Revenue defined generally in the 2018B Subordinate Indenture as the following, net of any costs of collection: (i) all Subordinate Property Tax Revenues; (ii) all Subordinate Specific Ownership Tax Revenues; (iii) all Subordinate Capital Fee Revenue; and (iv) any other legally available moneys which the District determines, in its absolute discretion, to credit to the Subordinate Bond Fund.

The 2018C Junior Lien Bonds are payable solely from and to the extent of the Junior Lien Pledged Revenue, which is defined generally in the 2018C Junior Lien Indenture as the following, net costs of collection: (i) all Junior Lien Property Tax Revenues; (ii) all Junior Lien Specific Ownership Tax Revenues; (iii) all Junior Lien Capital Fee Revenue; and (iv) any other legally available moneys which the District determines, in its absolute discretion, to credit to the Junior Lien Bond Fund.

Property Tax Revenues

“Senior Property Tax Revenues” are generally defined as all moneys derived from imposition by the District of the Senior Required Mill Levy, but excluding Senior Specific Ownership Tax Revenues. Senior Property Tax Revenues are net of the costs of collection and any tax refunds or abatements authorized by or on behalf of the County.

“Subordinate Property Tax Revenues” are defined as all moneys derived from imposition by the District of the Subordinate Required Mill Levy, but excluding Subordinate Specific Ownership Tax Revenues. Subordinate Property Tax Revenues are net of the costs of collection and any tax refunds or abatements authorized by or on behalf of the County.

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NOTES TO THE FINANCIAL STATEMENTS

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“Junior Lien Property Tax Revenues” are defined as all moneys derived from imposition by the District of the Junior Lien Required Mill Levy, but excluding Junior Lien Specific Ownership Tax Revenues. Junior Lien Property Tax Revenues are net of the costs of collection and any tax refunds or abatements authorized by or on behalf of the County.

Required Mill Levy

Pursuant to the 2018A Senior Indenture, the District will impose a Senior Required Mill Levy on all taxable property of the District each year to pay the principal of and interest on the 2018A Senior Bonds, replenish the Reserve Fund to the Reserve Requirement and, for so long as it is in existence, fund the Surplus Fund to the Maximum Surplus Amount in an amount equal to: (i) 50 mills (subject to adjustment described below) or (ii) such lesser amount that will generate Property Tax Revenues which, when combined with moneys then on deposit in the Senior Bond Fund, the Surplus Fund, and the Reserve Fund will pay the 2018A Senior Bonds in full. In no event is the District to be required to impose the Senior Required Mill Levy after December 2057 (for collection in calendar year 2058).

In the event that the method of calculating assessed valuation is changed after January 1, 2014, the minimum and maximum mill levy of 50 mills will be increased or decreased to reflect such changes, such increases or decreases to be determined by the Board in good faith so that to the extent possible, the actual tax revenues generated by the mill levy, as adjusted, are neither diminished nor enhanced as a result of such changes. For purposes of the foregoing, a change in the ratio of actual valuation to assessed valuation shall be deemed to be a change in the method of calculating assessed valuation.

The 2018B Subordinate Indenture requires the District to impose the Subordinate Required Mill Levy, which is generally defined as an ad valorem mill levy equal to 50 mills less the Senior Obligation Mill Levy (the sum of the Senior Required Mill Levy and any other ad valorem property tax levy required to be imposed by the District for the payment of Senior Obligations), subject to adjustment.

The Junior Lien Required Mill Levy is generally defined in the 2018C Junior Lien Indenture as an ad valorem mill levy equal to 50 mills less the sum of the Senior Required Mill Levy required to be imposed by the District in accordance with the 2018A Senior Indenture, the Subordinate Required Mill Levy required to be imposed by the District in accordance with the 2018B Subordinate Indenture and any other ad valorem property tax levy required to be imposed by the District for the payment of other Senior/Subordinate Obligations, subject to adjustment. The maximum mill levy for the repayment of debt shall not apply to the District’s ability to increase its mill levy as necessary for the provision of operation and maintenance services to their taxpayers. The Consolidated Service Plan allows for the imposition of a maximum of 20 mills, as adjusted, for operations and maintenance.

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Specific Ownership Tax Revenues

"Senior Specific Ownership Tax Revenues" means the specific ownership taxes remitted to the District as a result of its imposition of the Senior Required Mill Levy. "Subordinate Specific Ownership Tax Revenues" means the specific ownership taxes remitted to the District as a result of its imposition of the Subordinate Required Mill Levy. "Junior Lien Specific Ownership Tax Revenues" means the specific ownership taxes remitted to the District as a result of its imposition of the Junior Lien Required Mill Levy.

Capital Fee Revenue

Capital Fees pledged to the payment of the 2018A Senior Bonds include Facilities Fees. The Facilities Fee were initially imposed in the amount of \$1,500 per single family detached unit, \$1,000 per single family attached unit, and \$1.00 per square foot of any commercial property within the District. The Facilities Fee is due and payable to the District upon issuance of a building permit for construction of structures on property within the District. Effective January 1, 2025, the Facilities Fees were increased to \$4,000 per single family detached unit and \$3,500 per single family attached unit.

"Subordinate Capital Fee Revenue" means any revenue from Capital Fees remaining after deduction of any amount thereof used, paid, pledged, or otherwise applied to the payment of any Senior Obligations.

"Junior Lien Capital Fee Revenue" means any revenue from Capital Fees remaining after deduction of any amount thereof used, paid, pledged, or otherwise applied to the payment of any Senior/Subordinate Obligations.

Senior Reserve Fund

Moneys in the Senior Reserve Fund shall be used solely for the purpose of paying the principal of and interest on the 2018A Senior Bonds to the extent the moneys in the Senior Bond Fund are insufficient for such purpose.

If a withdrawal from the Senior Reserve Fund is made that reduces the balance in such fund below the Reserve Requirement of \$948,238, the District shall include in the computation of its next mill levy certification the amount necessary to replenish the Senior Reserve Fund to the Reserve Requirement.

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Amounts on deposit in the Senior Reserve Fund on the maturity date of the 2018A Senior Bonds shall be applied to the payment of the 2018A Senior Bonds on such date. The availability of such amount shall be taken into account in calculating the Senior Required Mill Levy required to be imposed in December 2047 for collection in calendar year 2048.

Senior Surplus Fund

Senior Pledged Revenue that is not needed to pay debt service on the 2018A Senior Bonds in any year will be deposited to and held in the Senior Surplus Fund, up to the Maximum Surplus Amount of \$1,172,500.

It is intended that amounts in the Senior Surplus Fund are to be transferred to the Senior Bond Fund prior to any transfer from the Senior Reserve Fund or the Senior Project Fund, for so long as such account remains in existence. Amounts on deposit in the Senior Surplus Fund (if any) on the maturity date of the 2018A Senior Bonds shall be applied to the payment of the 2018A Senior Bonds maturing on such date.

The District's long-term obligations on the 2018A Senior Bonds will mature as follows:

	Principal	Interest	Total
2026	\$ 175,000	\$ 599,025	\$ 774,025
2027	185,000	589,838	774,838
2028	210,000	580,125	790,125
2029	220,000	569,100	789,100
2030	250,000	557,550	807,550
2031-2035	1,560,000	2,571,450	4,131,450
2036-2040	2,265,000	2,091,339	4,356,339
2041-2045	3,150,000	1,408,839	4,558,839
2046-2048	3,395,000	411,339	3,806,339
	<u>\$ 11,410,000</u>	<u>\$ 9,378,605</u>	<u>\$ 20,788,605</u>

The amounts of principal and interest payments to be made in future years on the 2018B Subordinate Bonds and the 2018C Junior Lien Bonds will depend on pledged revenue collected and cannot be predicted with certainty.

ERIE HIGHLANDS METROPOLITAN DISTRICT NO. 2

NOTES TO THE FINANCIAL STATEMENTS December 31, 2025

Authorized Debt

On November 5, 2013, District voters approved debt authorization in the amount of \$540,000,000 for the construction of capital improvements. The voters also authorized debt of \$60,000,000 for the cost of operating and maintaining the District's systems, \$60,000,000 for management agreements, and \$60,000,000 for mortgages.

The District had authorized but unissued debt at December 31, 2025, for the following detailed purposes:

	Authorized November 5, 2013 Election	Series 2018A Authorization Used	Series 2018B Authorization Used	Series 2018C Authorization Used	Remaining at December 31, 2024
Streets	\$ 60,000,000	\$ 7,357,846	\$ 822,966	\$ 78,837	\$ 51,740,351
Water	60,000,000	1,498,578	214,094	20,509	58,266,819
Sanitary Sewer and Storm Sewer	60,000,000	2,342,323	388,554	37,222	57,231,901
Parks and Recreation	60,000,000	526,253	393,386	3,463,432	55,616,929
Traffic & Safety	60,000,000	-	-	-	60,000,000
Mosquito Control	60,000,000	-	-	-	60,000,000
Public Transportation	60,000,000	-	-	-	60,000,000
Television Relay and Translation	60,000,000	-	-	-	60,000,000
Operations and Maintenance	60,000,000	-	-	-	60,000,000
Debt Refunding	60,000,000	-	-	-	60,000,000
Mortgages	60,000,000	-	-	-	60,000,000
Management Services related to District Facilities	60,000,000	-	-	-	60,000,000
Total	\$ 720,000,000	\$ 11,725,000	\$ 1,819,000	\$ 3,600,000	\$702,856,000

Pursuant to the Consolidated Service Plan, each District shall not issue debt in an aggregate amount in excess of \$60,000,000. Additionally, the maximum debt mill levy is 50 mills as adjusted, which shall not be imposed for longer than 40 years after the year of the initial imposition of such debt mill levy.

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

ERIE HIGHLANDS METROPOLITAN DISTRICT NO. 2

NOTES TO THE FINANCIAL STATEMENTS December 31, 2025

NOTE 6 – NET POSITION

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

Restricted net position includes assets that are restricted for use either externally imposed by creditors, grantors, contributors, or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

The District had restricted net position as of December 31, 2025 as follows:

Restricted Net Position:

Emergencies	\$ 20,400
Debt Service	<u>502,962</u>
Total Restricted Net Position:	<u>\$ 523,362</u>

The District has a deficit in unrestricted net position. The deficit is a result of the District being responsible for the repayment of bonds issued for public improvements which were conveyed to other governmental entities and which costs were removed from the District's financial records.

NOTE 7 – DISTRICT AGREEMENTS

Advance and Reimbursement and Facilities Acquisition Agreement

The District and the Developer entered into an Advance and Reimbursement and Facilities Acquisition Agreement dated as of September 10, 2018 (the Acquisition Agreement). Pursuant to the Acquisition Agreement, the Developer agreed to advance funds to the District to be used for capital construction of certain Public Improvements (the "Advances"). In return, the District agreed to reimburse the Developer for the Advances, together with an interest rate of 3% per annum accruing from the date that the Advances were made, subject to annual appropriation and available funds of the District, and acquire any Public Improvements constructed by the Developer.

The District paid the Developer \$8,711,809 for the cost of certain Public Improvements from proceeds of the issuance of the 2018 Bonds. As of December 31, 2025, there were no outstanding amounts owed to the Developer by the District for Public Improvements.

ERIE HIGHLANDS METROPOLITAN DISTRICT NO. 2

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2025

Settlement Agreement and Release

On December 31, 2024, the Districts entered into a Settlement Agreement and Release (the Settlement Agreement) with the Developer. The terms of the Settlement Agreement provide for the following:

- Imposition of a Service and Facility Fee on all Lots, as defined in the Settlement Agreement, subject to Town approval, of up to \$636 per year for up to five years from 2025 - 2029.
- District 4 shall transfer all of the Carriage House Fee revenue in District 4's possession to the District and District 4 shall assign all existing service contracts for the Carriage House maintenance to the District.
- Cash payment to the District in the amount of \$109,934 to fund operations.
- Acknowledgement that there are no funds owed under the Acquisition Agreement described above and, to the extent any funds may be owed, the District is released and discharged and have no repayment obligation related to any such amounts, and terminating the Acquisition Agreement.
- Within 90 days of the effective date of the Settlement Agreement, the Developer and the Districts will each convey or cause to be conveyed to the indicated Districts any interest they each may have in tracts and Public Improvements located within such tracts as set forth in the Settlement Agreement.

Intergovernmental Cost Sharing Agreement

On March 5, 2025, the District entered into an Intergovernmental Cost Sharing Agreement with District No. 1. Pursuant to the Cost Sharing Agreement, the District and District No. 1 will share in the operations of the following areas within the District and District No. 1 (the "Community Amenities"):

- Any tracts owned by either district and within their boundaries, including, but not limited to, landscaping, parks, entry monuments, native areas, and stormwater facilities.
- The Clubhouse and Pool located at 185 Highlands Circle, Erie, CO 80516.

The costs to be shared by the District and District No. 1 related to the Community Amenities are:

- All operation, maintenance and repair costs.
- All capital repair and improvement costs.
- Reserve amounts needed and as determined in sole discretion of the District and District No. 1.

ERIE HIGHLANDS METROPOLITAN DISTRICT NO. 2

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2025

For 2025, the costs for the Community Amenities are to be funded by the District and District No. 1 with revenue from the Service and Facility Fee and property taxes contributed by both districts, into a fund called the Community Amenities Fund.

Infrastructure Acquisition Resolution

The District adopted an Infrastructure Acquisition Resolution dated as of December 23, 2024 (the Infrastructure Acquisition Resolution). The Infrastructure Acquisition Resolution provides for the District to acquire from the Developer each completed Public Infrastructure improvement authorized by the District's Service Plan upon satisfaction of the requirements and conditions of the Infrastructure Acquisition Resolution and upon adoption of a resolution by the District's Board of Directors accepting the Public Infrastructure and pursuant to an Engineer's certification of inventory and costs attached to the resolution. The Infrastructure Acquisition Resolution acknowledges that the District does not intend to purchase any Public Infrastructure from the Developer; however, there is no restriction to such Public Infrastructure being financed through or reimbursed by another governmental entity, including Erie Highlands Metropolitan District Nos. 3-5.

NOTE 8 – 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 natural disasters.

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

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

ERIE HIGHLANDS METROPOLITAN DISTRICT NO. 2

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2025

NOTE 9 – TAX, SPENDING, AND DEBT LIMITATIONS

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

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

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

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

On November 5, 2013, the District voters passed an election question to increase property taxes \$2,000,000 annually, with a maximum mill levy of 20 mills (subject to adjustment for changes occurring in the method of calculating assessed valuation), to pay the District's operations, maintenance and other expenses. Additionally, the District's electors authorized the District to collect, retain and spend all revenue annually, other than ad valorem taxes, without regard to limitations under TABOR.

Section 29-1-1702, C.R.S., contains limitations on revenues generated from property tax revenues that apply to certain local governments within the state of Colorado.

Annual operating property tax revenue is limited to a 5.25% increase (10.5% increase over a two-year period), such increase is determined based on a prior assessment period and adjusted for allowable exclusions and exemptions from qualified property tax revenues.

The District's management believes it is in compliance with the provisions of Section 29-1-1702, C.R.S. However, this section of the C.R.S. is complex and subject to interpretation.

SUPPLEMENTARY INFORMATION

ERIE HIGHLANDS METROPOLITAN DISTRICT NO. 2

DEBT SERVICE FUND

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL**

**For the Year Ended December 31, 2025
(With Comparative Totals for the Year Ended December 31, 2024)**

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget	2024 Actual
Revenues					
Property Taxes	\$ 844,023	\$ 844,023	\$ 844,022	\$ (1)	\$ 754,452
Specific Ownership Tax	33,760	33,760	34,193	433	27,313
System Development Fees	35,000	35,000	96,000	61,000	56,500
Interest income	57,000	57,000	72,405	15,405	75,247
Total Revenues	969,783	969,783	1,046,620	76,837	913,512
Expenditures					
Debt Service					
Bond Principal	155,000	155,000	155,000	-	135,000
Bond Interest	607,163	607,163	607,163	-	614,250
Treasurer's Fees	12,660	12,660	12,668	(8)	11,321
Paying Agent Fees	8,000	8,000	8,000	-	8,000
Trustee Fees	-	-	3,873	(3,873)	3,426
Contingency	-	4,177	-	4,177	-
Total Expenditures	782,823	787,000	786,704	296	771,997
Net Change in Fund Balance	186,960	182,783	259,916	77,133	141,515
Fund Balance - Beginning	1,215,040	1,215,040	1,241,202	26,162	1,099,687
Fund Balance - Ending	\$ 1,402,000	\$ 1,397,823	\$ 1,501,118	\$ 103,295	\$ 1,241,202

See the Accompanying Independent Auditor's Report

OTHER INFORMATION

ERIE HIGHLANDS METROPOLITAN DISTRICT NO. 2

**SCHEDULE OF DEBT SERVICE REQUIREMENTS TO MATURITY
December 31, 2025**

\$11,725,000
Limited Tax General Obligation Bonds
Dated September 28, 2018
Series 2018A
Interest Rate of 5.25%
Interest Payable June 1, December 1
Principal Due December 1

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2026	\$ 175,000	\$ 599,025	\$ 774,025
2027	185,000	589,838	774,838
2028	210,000	580,125	790,125
2029	220,000	569,100	789,100
2030	250,000	557,550	807,550
2031	260,000	544,425	804,425
2032	290,000	530,775	820,775
2033	310,000	515,550	825,550
2034	340,000	499,275	839,275
2035	360,000	481,425	841,425
2036	395,000	462,525	857,525
2037	415,000	441,788	856,788
2038	455,000	420,000	875,000
2039	480,000	396,113	876,113
2040	520,000	370,913	890,913
2041	545,000	343,613	888,613
2042	595,000	315,000	910,000
2043	625,000	283,763	908,763
2044	675,000	250,950	925,950
2045	710,000	215,513	925,513
2046	770,000	178,238	948,238
2047	810,000	137,813	947,813
2048	1,815,000	95,288	1,910,288
	<u>\$ 11,410,000</u>	<u>\$ 9,378,605</u>	<u>\$ 20,788,605</u>

ERIE HIGHLANDS METROPOLITAN DISTRICT NO. 2

SUMMARY OF ASSESSED VALUATION, MILL LEVY AND PROPERTY TAXES COLLECTED

Levy Year	Collection Year	Assessed Valuation	Mill Levy			Total Levy	Current Collection	Collection Rate
			General	Debt	Total			
2018	2019	\$ 1,948,370	22.111	55.277	77.388	\$ 150,780 *	\$ 132,689	88.00%
2019	2020	3,140,450	22.265	55.663	77.928	244,729	244,729	100.00%
2020	2021	5,334,870	22.265	55.663	77.928	415,736	415,228	99.88%
2021	2022	6,765,870	22.265	55.663	77.928	527,251	527,278	100.01%
2022	2023	8,564,600	22.379	55.949	78.328	670,848	671,023	100.03%
2023	2024	11,736,610	25.712	64.282	89.994	1,056,224	1,056,253	100.00%
2024	2025	13,130,000	25.712	64.282	89.994	1,181,622	1,181,620	100.00%

Estimated for
year ending
December 31,
2026

\$ 16,055,900 24.000 63.680 87.680 \$ 1,407,782

* In 2019, refunds and abatements totaled \$18,091.

Note:

Property taxes collected in any one year include collection of delinquent property taxes levied in prior years. Information received from the County Treasurer does not permit identification of specific year of levy.