VDW Metropolitan District No. 2

Financial Statements

December 31, 2025

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Financial Statements
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McMahan and Associates, L.L.C.
Certified Public Accountants and Consultants

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
VDW Metropolitan District No. 2
Larimer County, Colorado

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities and each major fund of VDW 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 thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("U.S. GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

The District's management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for one year after the date that the financial statements are issued.

Member: American Institute of Certified Public Accountants

Denver, Colorado Avon, Colorado Florence, Alabama

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 U.S. GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with U.S. GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

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

The budgetary comparison information in section E is not a required part of the basic financial statements but is supplementary information required by U.S. GAAP. The budgetary comparison information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. GAAS. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

INDEPENDENT AUDITOR'S REPORT
To the Board of Directors
VDW Metropolitan District No. 2

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The individual fund budgetary comparison in Section F is presented for purposes of additional analysis and are not a required part of the basic financial statements.

The budgetary comparison found in Section F is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

McMahan and Associates, L.L.C.

McMahan and Associates, L.L.C.
Avon, Colorado
July 16, 2026

GOVERNMENT-WIDE FINANCIAL STATEMENTS

VDW Metropolitan District No. 2
Statement of Net Position
December 31, 2025

Assets:	
Cash and equivalents - Unrestricted	-
Cash and equivalents - Restricted	1,101,515
Amounts due from County	6,106
Property taxes receivable	1,103,659
Service Fees Receivable	939
Due from District No. 1	29,729
Total Assets	2,241,948
Liabilities:	
Current liabilities due in less than one year:	
Accounts payable	42,568
Accrued interest payable	28,615
Bonds payable	305,000
Non-current liabilities due in excess of one year:	
Bonds payable	9,678,070
Total Liabilities	10,054,253
Deferred Inflows of Resources:	
Property tax revenue	1,103,659
Total Deferred Inflows of Resources	1,103,659
Net Position:	
Restricted for debt service	1,095,721
Restricted for emergencies	20,552
Unrestricted	(10,032,237)
Total Net Position	(8,915,964)

The accompanying notes are an integral part of these financial statements.

VDW Metropolitan District No. 2
Statement of Activities
For the Year Ended December 31, 2025

		Program Revenues			Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue
Functions/Programs:					
Governmental activities:					
General government	708,138	-	191,262	-	(516,876)
Interest on long-term debt	332,454	-	-	-	(332,454)
Total primary government	1,040,592	-	191,262	-	(849,330)

General revenues:	
Taxes:	
Property tax	1,068,482
Specific ownership tax	74,336
Interest income	51,167
Total General Revenues	1,193,985
Change in Net Position	344,655
Net Position - Beginning, as Previously Presented	(9,231,529)
Error correction	(29,090)
Net Position - Beginning, as Restated	(9,260,619)
Net Position - Ending	(8,915,964)

The accompanying notes are an integral part of these financial statements.

FUND FINANCIAL STATEMENTS

VDW Metropolitan District No. 2
Balance Sheet
Governmental Funds
December 31, 2025

	General Fund	Debt Service Fund	Total Governmental Funds
Assets:			
Cash and equivalents - Unrestricted	-	-	-
Cash and equivalents - Restricted	-	1,101,515	1,101,515
Amounts due from County	3,659	2,447	6,106
Property taxes receivable	656,577	447,082	1,103,659
Service Fees Receivable	-	939	939
Due from District No. 1	-	29,729	29,729
Total Assets	660,236	1,581,712	2,241,948
Liabilities:			
Due to District No. 1	3,659	38,909	42,568
Total Liabilities	3,659	38,909	42,568
Deferred Inflows of Resources:			
Unavailable property tax revenue	656,577	447,082	1,103,659
Total Deferred Inflows of Resources	656,577	447,082	1,103,659
Fund Balances:			
Restricted for debt service	-	1,095,721	1,095,721
Restricted for emergencies	20,552	-	20,552
Unassigned	(20,552)	-	(20,552)
Total Fund Balances	-	1,095,721	1,095,721
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	660,236	1,581,712	2,241,948

The accompanying notes are an integral part of these financial statements.

VDW Metropolitan District No. 2
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Position
December 31, 2025

Governmental Funds Total Fund Balance		1,095,721
Long-term liabilities, including bonds payable and leases payable, are not due and payable in the current period and, therefore, are not reported in the funds. This is the amount of District long-term liabilities. Details of these amounts are as follows:		
Bonds payable	(9,660,000)	
Bond issuance premium	(323,070)	
Accrued interest payable	(28,615)	
		(10,011,685)
Net Position of Governmental Activities		(8,915,964)

The accompanying notes are an integral part of these financial statements.

VDW Metropolitan District No. 2
Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds
For the Year Ended December 31, 2025

	General Fund	Debt Service Fund	Total Governmental Funds
Revenues:			
Property taxes	640,304	428,178	1,068,482
Specific ownership taxes	44,547	29,789	74,336
Service fees from District No. 3	-	191,262	191,262
Interest income	218	50,949	51,167
Total Revenues	685,069	700,178	1,385,247
Expenditures:			
General government	685,069	23,067	708,136
Debt service			
Principal payments	-	285,000	285,000
Interest payments	-	349,083	349,083
Total Expenditures	685,069	657,150	1,342,219
Net Change in Fund Balances	-	43,028	43,028
Fund Balances - Beginning	-	1,052,693	1,052,693
Fund Balances - Ending	-	1,095,721	1,095,721

The accompanying notes are an integral part of these financial statements.

VDW 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 for total governmental funds		43,028
The repayment of the principal of long-term debt consumes current financial resources of governmental funds. This transaction, however, has no effect on net position. This amount is the net effect of these differences in the treatement of long-term debt repayments.		
Principal repayments - Bonds payable	285,000	
Amortization of premium on bonds payable	16,154	
		301,154
The change in accrued interest reported in the Statement of Activities does not require the use of current financial resources and, therefore, is not reported as an expenditure in governmental funds.		473
Change in Net Position of Governmental Activities		344,655

The accompanying notes are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

VDW Metropolitan District No. 2 (the District), a quasi-municipal corporation and political subdivision of the State of Colorado, was organized by order and decree of the District Court of Larimer County on June 20, 2002, and is governed pursuant to provisions of the Colorado Special District Act. The District's service area is located in the City of Loveland (City), Larimer County, Colorado.

The District was established to provide construction, installation, financing and operation of public improvements, including streets, traffic and safety controls, water, sanitation, storm drainage, transportation, television relay and translator, park and recreation facilities, and mosquito and pest control. Pursuant to the consolidated service plan for VDW Metropolitan Districts No. 1, 2 and 3, the District operates as the Residential District, VDW Metropolitan District No. 1 operates as the Operating District and VDW Metropolitan District No. 3 operates as the Commercial District.

The District's financial statements are prepared in accordance with generally accepted accounting principles ("GAAP"). The Governmental Accounting Standards Board ("GASB") is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The more significant accounting policies established by GAAP used by the District are discussed below.

A. Reporting Entity

The reporting entity consists of (a) the primary government; i.e., the District, and (b) organizations for which the District is financially accountable. The District is considered financially accountable for legally separate organizations if it is able to appoint a voting majority of an organization's governing body and is either able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the District. Consideration is also given to other organizations which are fiscally dependent; i.e., unable to adopt a budget, levy taxes, or issue debt without approval by the District. Organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete are also included in the reporting entity.

Based on the criteria discussed above, the District is not financially accountable for any other entity, nor is the District a component unit of any other government.

B. Government-wide and Fund Financial Statements

The District's basic financial statements include both government-wide (reporting the District as a whole) and fund financial statements (reporting the District's major funds). Both the government-wide and fund financial statements categorize primary activities as governmental type.

1. Government-wide Financial Statements

In the government-wide Statement of Net Position, all balances are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The government-wide focus is on the sustainability of the District as an entity and the change in the District's net position resulting from the current year's activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

I. Summary of Significant Accounting Policies (continued)

B. Government-wide and Fund Financial Statements (continued)

2. Fund Financial Statements

The financial transactions of the District are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues and expenditures/expenses. The fund focus is on current available resources and budget compliance.

The District reports the following governmental funds:

The *General Fund* is the District's primary operating fund. It 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 resources accumulated and payments made for principal and interest on long-term general obligation debt of the governmental funds.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Measurement focus refers to whether financial statements measure changes in current resources only (current financial focus) or changes in both current and long-term resources (long-term economic focus). Basis of accounting refers to the point at which revenues, expenditures, or expenses are recognized in the accounts and reported in the financial statements. Financial statement presentation refers to classification of revenues by source and expenses by function.

1. Long-term Economic Focus and Accrual Basis

Governmental activities in the government-wide financial statements use the long-term economic focus and are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of the related cash flows.

2. Current Financial Focus and Modified Accrual Basis

The governmental fund financial statements use the current financial focus and are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or soon enough thereafter (60 days) to be used to pay liabilities of the current period. Expenditures are generally recognized when the related liability is incurred. The exception to this general rule is that principal and interest on general long-term debt, if any, is recognized when due.

I. Summary of Significant Accounting Policies (continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)

3. Financial Statement Presentation

Amounts reported as program revenues include capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes and interest income.

D. Financial Statement Accounts

1. Cash and Cash Equivalents

Cash and equivalents are defined as deposits that can be withdrawn at any time without notice or penalty and investments with maturities of three months or less.

Investments are stated at net asset value. The change in fair value or net asset value of investments is recognized as an increase or decrease to investment assets and investment income. The District's investment policy is detailed in note III.A.

2. Receivables

Receivables are reported net of an allowance for uncollectible accounts. There was no allowance as of December 31, 2025.

3. Prepaid Expenses

Prepaid expenses represent costs incurred in advance for goods or services that will be consumed or utilized in future periods. These amounts are recorded as assets at the time of payment and are subsequently expensed over the period in which the related benefits are received.

4. Long-term Obligations

The District's long-term obligations cosnsist of outstanding bonds. These obligations are recorded in the government-wide financial statements, at their principal amount, net of any applicable bond discounts or premiums, which are amortized over the life of the related debt.

Bonds Payable represent limited tax general obligation bonds issued to finance infrastructure and capital improvements or refund previously issued debt for the same purposes. Interest on the bonds is recognized as an expense when incurred, and principal payments are made in accordance with the debt service schedule.

Debt issuance costs, excluding prepaid bond insurance, are expense as incurred in accordance with applicable accounting standards.

I. Summary of Significant Accounting Policies (continued)

D. Financial Statement Accounts (continued)

5. Fund Balance

The District classifies governmental fund balances as follows:

Nonspendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual requirements.

Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.

Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision-making authority which is the Board of Directors.

Assigned – includes spendable fund balance amounts that are intended to be used for specific purposes that are neither considered restricted nor committed. Fund balance may be assigned by the Board of Directors or its management designee.

Unassigned – includes residual positive fund balance within the General Fund which has not been classified within the other above-mentioned categories. Unassigned fund balance may also include negative balances for any governmental fund if expenditures exceed amounts restricted, committed, or assigned for those specific purposes.

The District uses restricted amounts first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as in grant agreements requiring dollar-for-dollar spending. Additionally, the District first uses committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

The District does not have a formal minimum fund balance policy. However, the District’s budget includes a calculation of targeted reserve positions and management reports the targeted amounts annually to the Board of Directors.

I. Summary of Significant Accounting Policies (continued)

E. Use of Estimates

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

II. Stewardship, Compliance, and Accountability

A. Budgetary Information

In the fall of each year, the District's Board of Directors formally adopts a budget with appropriations by fund for the ensuing year pursuant to the Local Government Budget Law of Colorado. The budgets for the funds are adopted on a basis consistent with generally accepted accounting principles ("GAAP").

The District followed the following timetable in approving and enacting a budget for 2025:

(1) A public hearing on the proposed budget and capital program was held by the Board.
(2) For the 2025 budget, prior to December 15, 2024, the District computed and certified to the County Commissioners a rate of levy that derived the necessary property taxes as computed in the proposed budget.
(3) For the 2025 budget, the final budget and appropriating resolution was adopted prior to December 31, 2024.

After adoption of the budget resolution, the District may make the following changes: a) it may transfer appropriated monies between funds or between spending agencies within a fund, as determined by the original appropriation level; b) it may approve supplemental appropriations to the extent of revenues in excess of those estimated in the budget; c) it may approve emergency appropriations; and d) it may reduce appropriations for which originally estimated revenues are insufficient.

Taxes levied in one year are collected in the succeeding year. Thus, had taxes been certified in 2024 they would have been collected in 2025 and taxes certified in 2025 will be collected in 2026. Taxes are due on January 1st in the year of collection; however, they may be paid in either one installment (no later than April 30th) or two equal installments (not later than February 28th and June 15th) without interest or penalty. Taxes which are not paid within the prescribed time bear interest at the rate of one percent (1%) per month until paid. Unpaid amounts and the accrued interest thereon become delinquent on June 15th.

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

II. Stewardship, Compliance, and Accountability (continued)

B. TABOR Amendment

In November 1992, Colorado voters amended Article X of the Colorado Constitution by adding Section 20, commonly known as the Taxpayer's Bill of Rights ("TABOR"). TABOR contains revenue, spending, tax and debt limitations that apply to the State of Colorado and local governments. TABOR requires, with certain exceptions, advance voter approval for any new tax, tax rate increase, mill levy above that for the prior year, extension of any expiring tax, or tax policy change directly causing a net tax revenue gain to any local government. Any revenues earned in excess of the fiscal year spending limit must be refunded in the next fiscal year, unless voters approve retention of such excess revenue.

Except for refinancing bonded debt at a lower interest rate or adding new employees to existing pension plans, TABOR requires advance voter approval for the creation of any multiple-fiscal year debt or other financial obligation unless adequate present cash reserves are pledged irrevocably and held for payments in all future fiscal years.

TABOR also requires local governments to establish an emergency reserve to be used for declared emergencies only. The reserve is calculated at 3% of fiscal year spending. Fiscal year spending excludes bonded debt service and enterprise spending. The District has reserved $20,552, which is the approximate required reserve, at December 31, 2025.

Under TABOR, the initial base for local government spending and revenue limits is December 31, 1992 fiscal year spending. Future spending and revenue limits are determined based on the prior year's fiscal year spending adjusted for inflation in the prior calendar year plus annual local growth. Fiscal year spending is generally defined as expenditures and reserve increases with certain exceptions. Revenue, if any, in excess of the fiscal year spending limit must be refunded in the next fiscal year unless voters approve retention of such revenue.

On May 7, 2002, the District's electorate approved the following:

SHALL VDW METROPOLITAN DISTRICT NO. 2 TAXES BE INCREASED $500,000 ANNUALLY (SUCH TAX INCREASE TO BE COLLECTED IN SUCH AMOUNT NOTWITHSTANDING ANY PROPERTY TAX CUT SPECIFIED BY ARTICLE X, SECTION 20 OF THE COLORADO CONSTITUTION, AS IT CURRENTLY EXISTS OR AS AMENDED), OR BY SUCH LESSER ANNUAL AMOUNT AS MAY BE NECESSARY TO PAY THE DISTRICT'S OPERATIONS, MAINTENANCE, AND OTHER EXPENSES; SUCH TAXES TO CONSIST OF AN AD VALOREM MILL LEVY IMPOSED WITHOUT LIMITATION OF RATE OR WITH SUCH LIMITATIONS AS MAY BE DETERMINED BY THE BOARD, AND IN AMOUNTS SUFFICIENT TO PRODUCE THE ANNUAL INCREASE SET FORTH ABOVE OR SUCH LESSER AMOUNTS AS MAY BE NECESSARY, TO BE USED FOR THE PURPOSE OF PAYING THE DISTRICT'S OPERATIONS, MAINTENANCE, AND OTHER EXPENSES; AND SHALL THE PROCEEDS OF SUCH TAXES AND INVESTMENTS INCOME THEREON CONSTITUTE VOTER-APPROVED REVENUE CHANGES AND BE COLLECTED AND SPENT BY THE DISTRICT IN 2002 AND IN EACH YEAR THEREAFTER WITHOUT REGARD TO ANY SPENDING, REVENUE-RAISING, OR OTHER LIMITATION CONTAINED WITHIN ARTICLE X, SECTION 20 OF THE COLORADO CONSTITUTION, OR SECTION 29-1-301, COLORADO REVISED STATUTES?

The District's management believes it is in compliance with the financial provisions of TABOR. However, TABOR is complex and subject to interpretation. Many of its provisions, including the interpretation of how to calculate fiscal year spending limits, will require judicial interpretation.

II. Stewardship, Compliance, and Accountability (continued)

C. Authorized But Unissued Debt

Pursuant to C.R.S. 32-1-1101(2) a District is only authorized to issue bonds for a period up to twenty years following the date of the election at which such bonds were authorized by the District's voters. Accordingly, the District's remaining authorization expired in 2022.

III. Detailed Notes on all Funds

A. Deposits and Investments

The District's deposits are entirely covered by the Federal Deposit Insurance Corporation ("FDIC") or by collateral held under Colorado's Public Deposit Protection Act ("PDPA"). The FDIC insures the first $250,000 of the District's deposits at each financial institution. Deposit balances over $250,000 are collateralized as required by PDPA. The carrying amount of the District's demand deposits was $0 at year end.

Colorado statutes specify investment instruments meeting defined rating and risk criteria in which local governments, and entities such as the District, may invest which include:

- Obligations of the United States and certain U.S. government agency securities
- Certain international agency securities
- General obligation and revenue bonds of U.S. local government entities
- Bankers' acceptances of certain banks
- Commercial paper
- Written repurchase agreements collateralized by certain authorized securities
- Certain money market mutual funds
- Guaranteed investment contract
- Local government investment pools

Interest Rate Risk. As a means of limiting its exposure to interest rate risk, the District diversifies its investments by security type and institution, and limits holdings in any one type of investment with any one issuer and type of issuer. The District coordinates its investment maturities to closely match cash flow needs and restricts the maximum investment term to less than five years (less in some cases) from the purchase date. As a result of the limited length of maturities the District has limited its interest rate risk.

Credit Risk. District investment policy limits investments to those authorized by State statutes. The District's general investment policy is to apply the prudent-person rule: investments are made as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital, and, in general, avoid speculative investments.

Concentration of Credit Risk. The District diversifies its investments by security type and institution. Financial institutions holding District funds must provide the District a copy of the certificate from the Banking Authority that states that the institution is an eligible public depository.

III. Detailed Notes on all Funds (continued)

A. Deposits and Investments (continued)

At year end, the District had the following deposits and investments with the following maturities:

	Standard & Poors Rating	Carrying Amounts	Term to Maturity Less than one year	Term to Maturity More than one year
Deposits:				
Checking and savings	Not rated	-	-	-
Investments:				
Investment pool	AAAm	1,101,515	1,101,515	-
		1,101,515	1,101,515	-

At December 31, 2025, the District had the following recurring fair value measurements.

Investments Measured at Net	Total
Colotrust Plus+	1,101,515
	1,101,515

Fair Value of Investments. The District measures and records its investments using fair value measurement guidelines established by generally accepted accounting principles. These guidelines recognize a three-tiered fair value hierarchy, as follows:

- *Level 1:* Quoted prices for identical investments in active markets;
- *Level 2:* Observable inputs other than quoted market prices; and,
- *Level 3:* Unobservable inputs.

Investments classified in Level 1 are valued using prices quoted in active markets for those securities. Investments classified in Level 2 are valued using the following approaches:

- U.S. Treasuries, U.S. Agencies, and Commercial Paper: quoted prices for identical securities in markets that are not active;
- Repurchase Agreements, Negotiable Certificates of Deposit, and Collateralized Debt Obligations: matrix pricing based on the securities' relationship to benchmark quoted prices;
- Money Market, Bond, and Equity Mutual Funds: published fair value per share (unit) for each fund.

The Investment Pool represents investments in COLOTRUST. The net asset value of the pool is determined by the pool's share price. The District has no regulatory oversight for the pool. At December 31, 2025, the District's investments in COLOTRUST were 100% of the District's investment portfolio.

The District restricted cash is held in the 2022A-1 and 2022A-2 Bond Fund.

III. Detailed Notes on all Funds (continued)

A. Deposits and Investments (continued)

At December 31, 2025, the District had invested $1,101,515 in the Colorado Local Government Liquid Asset Trust (the "Trust"), an investment vehicle established for local government entities in Colorado to pool surplus funds. The State Securities Commission administers and enforces all State statutes governing the Trust. The Trust operates similarly to a money market fund and each share is equal in value to $1. The Trust offers shares in two portfolios, COLOTRUST PRIME and COLOTRUST PLUS+. COLOTRUST PRIME invests only in U.S. Treasury and government agencies. COLOTRUST PLUS+ can invest in U.S. Treasury, government agencies, and in the highest-rated commercial paper. A designated custodial bank serves as custodian for the Trust's portfolios pursuant to a custodian agreement. The custodian acts as a 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. The Trust is rated AAAm by Standard and Poor's and is measured at net asset value. There are no unfunded commitments, the redemption frequency is daily and there is no redemption notice period.

B. Long-term Obligations

On February 10, 2022, the District issued its $7,220,000 Limited Tax General Obligation Refunding Bonds, Taxable Series 2022A-1, and $3,600,000 Limited Tax General Obligation Refunding Bonds, Series 2022A-2 (collectively, the "Series 2022 Bonds"), to refund the District's Series 2011, Series 2016A and Series 2016B bonds. The Series 2022A-1 Bonds bear interest at 1.350% to 3.750% and the Series 2022A-2 Bonds bear interest at 4.000%, payable semiannually on June 1 and December 1. The Series 2022A-2 Bonds were issued at a premium of $387,684, which is being amortized on a straight-line basis over the life of the bonds. The Bonds are limited tax general obligations payable from Pledged Revenue, are secured by a Reserve Policy in the amount of the $764,400 Required Reserve, and are insured by Build America Mutual Assurance Company. The Bonds are subject to optional redemption on and after December 1, 2031.

The District had the following activity during the year ended December 31, 2025:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable:					
Limited Tax G.O. Bonds, Series 2025A	6,345,000	-	(285,000)	6,060,000	305,000
Limited Tax G.O. Bonds, Series 2025B	3,600,000	-	-	3,600,000	-
Total bonds payable:	9,945,000	-	(285,000)	9,660,000	305,000
Add: Unamortized Premoium	339,224	-	(16,154)	323,070	-
Total	10,284,224	-	(301,154)	9,983,070	305,000

III. Detailed Notes on all Funds (continued)

B. Long-term Obligations (continued)

Future debt service requirements for the bonds are as follows:

	Principal	Interest	Total
2026	305,000	343,383	648,383
2027	310,000	336,520	646,520
2028	330,000	329,080	659,080
2029	340,000	320,665	660,665
2030	360,000	311,655	671,655
2031 - 2035	2,050,000	1,381,940	3,431,940
2036 - 2040	2,620,000	975,975	3,595,975
2041 - 2045	3,345,000	414,800	3,759,800
Total	9,660,000	4,414,018	14,074,018

IV. Other Information

A. Risk Management

Colorado Special Districts Property and Liability Pool

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and general liability. The District is a member of the Colorado Special Districts Property and Liability Pool ("Pool") for property and liability insurance.

The Pool was formed by an intergovernmental agreement to provide public officials, property, general and automobile liability coverage for claims up to $1,000,000, except if the claim falls within the governmental immunity statute, then the coverage is $424,000 per person and $1,195,000 per occurrence. The Pool is reinsured for 80% of the first $250,000 of all claims and 100% for claims in excess of $250,000. The District may be required to make additional contributions in the event aggregate losses incurred by the Pool exceed amounts recoverable from reinsurance contracts. 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. Any settled claims are not expected to exceed coverage. A summary of audited statutory basis financial information for the Pool can be found here: https://www.csdpool.org/financials

B. Commitments and Contingencies

During the normal course of business, the District may incur claims and other assertions against it from various agencies and individuals. Management of the District and their legal representatives have disclosed that they are not aware of any material outstanding claims against the District at December 31, 2025.

IV. Other Information (continued)

C. Related Parties

The developers of the property which constitutes the District are VDW Properties, LLC, and VDW Retail, LLC, which are managed by McWhinney Real Estate, LLC. (“MRES”). The members of the Board are employees of MRES, and may be otherwise associated with the developers and have disclosed any potential conflicts of interest in taking action on matters brought before the Board.

V. Intergovernmental Agreements

A. District Operations

VDW Metropolitan District No. 2 (the "District") is one of three affiliated metropolitan districts (collectively, the "Districts") operating under a Consolidated Service Plan approved by the City of Loveland, Colorado. Effective February 10, 2022, the Districts entered into an Amended and Restated Intergovernmental Agreement Concerning District Operations (the "Operations IGA"), which superseded the prior agreement dated February 2, 2016. Under the Operations IGA, VDW Metropolitan District No. 1 (the "Operating District") manages, owns, operates, and maintains certain district-owned improvements (landscaping, irrigation, storm drainage, and a monument sign) and provides administrative services, while the District and VDW Metropolitan District No. 3 (the "Taxing Districts") provide the necessary funding and tax base.

So long as the agreement is not terminated, the District has agreed to impose an ad valorem mill levy and, if necessary, fees sufficient to fund its allocable share of operations, maintenance, and administrative costs. Amounts payable are subject to annual budget and appropriation and are payable only to the extent funding is made available. The Operations IGA is subordinate to the District's obligations under the Capital Pledge Agreement securing its Series 2022 Bonds.

B. Capital Pledge

In connection with the issuance of its Limited Tax General Obligation Refunding Bonds, Taxable Series 2022A-1, and Series 2022A-2 (collectively, the "Series 2022 Bonds"), VDW Metropolitan District No. 2 (the "District," as Issuing District), VDW Metropolitan District No. 3, and UMB Bank, n.a., as Trustee, entered into a Capital Pledge Agreement dated February 1, 2022 (the "Pledge Agreement"). The Pledge Agreement supersedes the prior senior and subordinate capital pledge agreements, which were terminated upon defeasance of the refunded obligations.

Under the Pledge Agreement, the District and VDW Metropolitan District No. 3 (collectively, the "Taxing Districts") each pledge their "Pledged Revenue" - property tax revenues derived from imposition of the Required Mill Levy and the corresponding portion of specific ownership taxes. Each Taxing District is to impose an ad valorem mill levy in an amount sufficient to pay its allocated share of debt service, not to exceed 40 mills (adjusted to 50.355 mills for the District as of the agreement date) less the operations and maintenance mill levy, subject to its electoral authorization.

Each Taxing District's obligation is a limited tax general obligation payable solely from and to the extent of its available Pledged Revenue, and is subject to annual budget and appropriation. The bondholders are third-party beneficiaries of the Pledge Agreement, which remains in effect so long as the Series 2022 Bonds remain outstanding.

VI. Restatement

The District did not previously record accrued interest on the outstanding bonds, resulting in a decrease to beginning net position.

	Net Position, As Previously Reported	Error Correction	Net Position, As Restated
Government-Wide:			
Governmental activities	(9,231,529)	(29,090)	(9,260,619)
Total	(9,231,529)	(29,090)	(9,260,619)

REQUIRED SUPPLEMENTARY INFORMATION

VDW Metropolitan District No. 2
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
Governmental Funds - General Fund
For the Year Ended December 31, 2025

	Original & Final Budget	Actual	Final Budget Variance Positive (Negative)
Revenues:			
Property taxes	640,304	640,304	-
Specific ownership taxes	56,253	44,547	(11,706)
Interest income	10,000	218	(9,782)
Total Revenues	706,557	685,069	(21,488)
Expenditures:			
General government:			
Treasurer fees	12,806	12,811	(5)
Service fees to District No. 1	683,751	672,258	11,493
Contingency	10,000	-	10,000
Total Expenditures	706,557	685,069	21,488
Net Change in Fund Balance	-	-	-
Fund Balance - Beginning	-	-	-
Fund Balance - Ending	-	-	-

SUPPLEMENTARY INFORMATION

VDW Metropolitan District No. 2
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
Governmental Funds - Debt Service Fund
For the Year Ended December 31, 2025

	Original & Final Budget	Actual	Final Budget Variance Positive (Negative)
Revenues:			
Property taxes	428,178	428,178	-
Specific ownership taxes	34,617	29,789	(4,828)
Service fees from District No. 3	192,916	191,262	(1,654)
Interest income	25,000	50,949	25,949
Total Revenues	680,711	700,178	19,467
Expenditures:			
General government:			
Accounting and auditing	6,500	6,500	-
Treasurer fees	8,564	8,567	(3)
Paying agent fees	8,000	8,000	-
Contingency	25,000	-	25,000
Debt service:			
Principal payments	285,000	285,000	-
Interest payments	349,083	349,083	-
Total Expenditures	682,147	657,150	24,997
Net Change in Fund Balance	(1,436)	43,028	44,464
Fund Balance - Beginning	1,064,982	1,052,693	(12,289)
Fund Balance - Ending	1,063,546	1,095,721	32,175