

Sierra Ridge Metropolitan District No. 2

Financial Statements

Year Ended December 31, 2021

with

Independent Auditor's Report

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Board of Directors
Sierra Ridge Metropolitan District No. 2
Douglas County, Colorado

Independent Auditor's Report

Opinion

We have audited the accompanying financial statements of the governmental activities and each major fund of Sierra Ridge Metropolitan District No. 2 (the "District"), as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, as listed in the table of contents.

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

Basis for Opinion

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

Correction of Error

As described in Note 9 to the financial statements, the net position in the capital projects fund was restated at December 31, 2020 to reflect a transaction not previously recorded. Our opinion is not modified with respect to that matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP), and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

Exercise professional judgment and maintain professional skepticism throughout the audit.

Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.

Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

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

Other Matters

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

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's financial statements as a whole. The supplemental information as listed in the table of contents is presented for the purposes of legal compliance and additional analysis and is not a required part of the financial statements. The supplemental information is the responsibility of management and was derived from and relates 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 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. In our opinion, such information is fairly stated in all material respects in relation to the financial statements as a whole.

The continuing disclosure annual financial information, as listed in the table of contents, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

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.



Wipfli LLP
Lakewood, Colorado

July 7, 2022

Sierra Ridge Metropolitan District No. 2

BALANCE SHEET/STATEMENT OF NET POSITION
GOVERNMENTAL FUNDS
December 31, 2021

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
ASSETS						
Cash and investments	\$ 543,509	\$ -	\$ -	\$ 543,509	\$ -	\$ 543,509
Cash and investments - restricted	196	4,189,873	2,945,350	7,135,419	-	7,135,419
Receivable - County Treasurer	2,729	13,643	-	16,372	-	16,372
Property taxes receivable	<u>435,228</u>	<u>2,176,180</u>	<u>-</u>	<u>2,611,408</u>	<u>-</u>	<u>2,611,408</u>
 Total Assets	 <u>\$ 981,662</u>	 <u>\$ 6,379,696</u>	 <u>\$ 2,945,350</u>	 <u>\$10,306,708</u>	 <u>-</u>	 <u>10,306,708</u>
LIABILITIES						
Payable to District No. 1	\$ 546,434	\$ -	\$ -	\$ 546,434	-	546,434
Accrued interest	-	-	-	-	1,366,542	1,366,542
Long-term liabilities:						
Due within one year	-	-	-	-	315,000	315,000
Due in more than one year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>30,017,614</u>	<u>30,017,614</u>
 Total Liabilities	 <u>546,434</u>	 <u>-</u>	 <u>-</u>	 <u>546,434</u>	 <u>31,699,156</u>	 <u>32,245,590</u>
DEFERRED INFLOWS OF RESOURCES						
Deferred property taxes	<u>435,228</u>	<u>2,176,180</u>	<u>-</u>	<u>2,611,408</u>	<u>-</u>	<u>2,611,408</u>
 Total Deferred Inflows of Resources	 <u>435,228</u>	 <u>2,176,180</u>	 <u>-</u>	 <u>2,611,408</u>	 <u>-</u>	 <u>2,611,408</u>
FUND BALANCES/NET POSITION						
Fund Balances:						
Restricted:						
Emergencies	196	-	-	196	(196)	-
Debt service	-	4,203,516	-	4,203,516	(4,203,516)	-
Capital projects	-	-	2,945,350	2,945,350	(2,945,350)	-
Unassigned	<u>(196)</u>	<u>-</u>	<u>-</u>	<u>(196)</u>	<u>196</u>	<u>-</u>
 Total Fund Balances	 <u>-</u>	 <u>4,203,516</u>	 <u>2,945,350</u>	 <u>7,148,866</u>	 <u>(7,148,866)</u>	 <u>-</u>
 Total Liabilities, Deferred Inflows of Resources and Fund Balances	 <u>\$ 981,662</u>	 <u>\$ 6,379,696</u>	 <u>\$ 2,945,350</u>	 <u>\$10,306,708</u>		
 Net Position:						
Restricted for:						
Emergencies					196	196
Debt service					2,836,974	2,836,974
Capital projects					2,945,350	2,945,350
Unrestricted					<u>(30,332,810)</u>	<u>(30,332,810)</u>
 Total Net Position					 <u>\$ (24,550,290)</u>	 <u>\$ (24,550,290)</u>

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

Sierra Ridge Metropolitan District No. 2

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

For the Year Ended December 31, 2021

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
EXPENDITURES						
Treasurer's fees	\$ 6,013	\$ 30,065	\$ -	\$ 36,078	\$ -	\$ 36,078
Trustee/paying agent fees	-	5,500	-	5,500	-	5,500
Bond interest expense	-	1,979,434	-	1,979,434	(208,143)	1,771,291
Bond principal	-	190,000	-	190,000	(190,000)	-
Transfer to District No. 1	<u>435,171</u>	<u>-</u>	<u>-</u>	<u>435,171</u>	<u>-</u>	<u>435,171</u>
Total Expenditures	<u>441,184</u>	<u>2,204,999</u>	<u>-</u>	<u>2,646,183</u>	<u>(398,143)</u>	<u>2,248,040</u>
GENERAL REVENUES						
Property taxes	400,731	2,003,693	-	2,404,424	-	2,404,424
Specific ownership taxes	38,646	193,233	-	231,879	-	231,879
Interest income	<u>1,807</u>	<u>2,427</u>	<u>-</u>	<u>4,234</u>	<u>-</u>	<u>4,234</u>
Total General Revenues	<u>441,184</u>	<u>2,199,353</u>	<u>-</u>	<u>2,640,537</u>	<u>-</u>	<u>2,640,537</u>
NET CHANGES IN FUND BALANCES	-	(5,646)	-	(5,646)	5,646	
CHANGE IN NET POSITION					392,497	392,497
FUND BALANCES/NET POSITION:						
BEGINNING OF YEAR, RESTATED	<u>-</u>	<u>4,209,162</u>	<u>2,945,350</u>	<u>7,154,512</u>	<u>(32,097,299)</u>	<u>(24,942,787)</u>
END OF YEAR	<u>\$ -</u>	<u>\$ 4,203,516</u>	<u>\$ 2,945,350</u>	<u>\$ 7,148,866</u>	<u>\$ (31,699,156)</u>	<u>\$ (24,550,290)</u>

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

Sierra Ridge Metropolitan District No. 2

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

For the Year Ended December 31, 2021

	Original & Final <u>Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
REVENUES			
Property taxes	\$ 400,731	\$ 400,731	\$ -
Specific ownership taxes	30,724	38,646	7,922
Interest income	<u>40,000</u>	<u>1,807</u>	<u>(38,193)</u>
Total Revenues	<u>471,455</u>	<u>441,184</u>	<u>(30,271)</u>
EXPENDITURES			
Treasurer's fees	6,012	6,013	(1)
Transfer to District No. 1	465,263	435,171	30,092
Emergency reserve	<u>180</u>	<u>-</u>	<u>180</u>
Total Expenditures	<u>471,455</u>	<u>441,184</u>	<u>30,271</u>
NET CHANGE IN FUND BALANCE	-	-	-
FUND BALANCE:			
BEGINNING OF YEAR	<u>-</u>	<u>-</u>	<u>-</u>
END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

Sierra Ridge Metropolitan District No. 2

Notes to Financial Statements December 31, 2021

Note 1: Summary of Significant Accounting Policies

The accounting policies of the Sierra Ridge Metropolitan District No. 2 (the “District”), located in Douglas County, Colorado, conform to the accounting principles generally accepted in the United States of America (“GAAP”) as applicable to governmental units. The Governmental Accounting Standards Board (“GASB”) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant policies consistently applied in the preparation of financial statements.

Definition of Reporting Entity

The District was organized in November 2005 as a quasi-municipal organization established under the State of Colorado Special District Act. The District was established to issue debt and collect tax revenues to pay off debt and to fund the construction, operations and maintenance of the public services and facilities of the District in coordination with Sierra Ridge Metropolitan District No. 1 (“District No. 1”) pursuant to an intergovernmental agreement between the Districts. The District was organized concurrently with District No. 1 and is governed by an elected Board of Directors.

As required by GAAP, these financial statements present the activities of the District, which is legally separate and financially independent of other state and local governments. The District follows the GASB pronouncements which provides guidance for determining which governmental activities, organizations and functions should be included within the financial reporting entity. GASB sets forth the financial accountability of a governmental organization’s elected governing body as the basic criterion for including a possible component governmental organization in a primary government’s legal entity. Financial accountability includes, but is not limited to, appointment of a voting majority of the organization’s governing body, ability to impose its will on the organization, a potential for the organization to provide specific financial benefits or burdens and fiscal dependency. The pronouncements also require including a possible component unit if it would be misleading to exclude it.

The District is not financially accountable for any other organization. The District has no component units as defined by the GASB.

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

Basis of Presentation

The accompanying financial statements are presented per GASB Statement No. 34 - Special Purpose Governments.

Sierra Ridge Metropolitan District No. 2

Notes to Financial Statements December 31, 2021

The government-wide financial statements (i.e. the governmental funds balance sheet/statement of net position and the governmental funds statement of revenues, expenditures, and changes in fund balances/statement of activities) report information on all of the governmental activities of the District. The statement of net position reports all financial and capital resources of the District. The difference between the (a) assets and deferred outflows of resources and the (b) liabilities and deferred inflows of resources of the District is reported as net position. The statement of activities demonstrates the degree to which expenditures/expenses of the governmental funds are supported by general revenues. For the most part, the effect of interfund activity has been removed from these statements.

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*.

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 the related cash flows. Property taxes are recognized as revenues in the year for which they are collected.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The material sources of revenue subject to accrual are property taxes and interest. Expenditures, other than interest on long-term obligations, are recorded when the liability is incurred or the long-term obligation is paid.

The District reports the following major governmental funds:

General Fund - The General Fund is the general operating fund of the District. It is used to account for all financial resources not accounted for and reported in another fund.

Sierra Ridge Metropolitan District No. 2

Notes to Financial Statements December 31, 2021

Capital Projects Fund – The Capital Projects Fund is used to account for all financial resources that are restricted, committed or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other assets.

Debt Service Fund – The Debt Service Fund is used to account for all financial resources that are restricted, committed or assigned to expenditures for principal, interest and other debt related costs.

Budgetary Accounting

Budgets are adopted on a non-GAAP basis for the governmental funds. In accordance with the State Budget Law of Colorado, the District's Board of Directors holds public hearings in the fall of each year to approve the budget and appropriate the funds for the ensuing year. 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 appropriation is at the total fund expenditures level and lapses at year end.

Assets, Liabilities and Net Position

Fair Value of Financial Instruments

The District's financial instruments include cash and investments, accounts receivable and accounts payable. The District estimates that the fair value of all financial instruments at December 31, 2021, does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying balance sheet. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

Deposits and Investments

The District's cash and investments are considered to be cash on hand and short-term investments with maturities of three months or less from the date of acquisition. Investments for the government are reported at fair value.

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 minimum number of bank accounts. Cash in excess of immediate operating requirements is pooled for deposit and investment flexibility. Investment earnings are allocated periodically to the participating funds based upon each fund's average equity balance in the total cash.

Estimates

The preparation of these financial statements in conformity with GAAP requires the District management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Sierra Ridge Metropolitan District No. 2

Notes to Financial Statements December 31, 2021

Deferred Outflows/Inflows of Resources

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

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

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items), are reported in the applicable governmental activities columns in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated acquisition value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the life of the asset are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable using the straight-line method. Depreciation on property that will remain assets of the District is reported on the Statement of Activities as a current charge. Improvements that will be conveyed to other governmental entities are classified as construction in progress and are not depreciated. Land and certain landscaping improvements are not depreciated. No depreciation expense was recognized during 2021.

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities.

Original Issue Premium

The original issue premium from the Series 2016 Bonds is being amortized over the life of the bonds using the effective interest method. Accumulated amortization of the original issue premium amounted to \$170,230 at December 31, 2021.

Sierra Ridge Metropolitan District No. 2

Notes to Financial Statements December 31, 2021

Fund Equity

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. Because circumstances differ among governments, not every government or every governmental fund will present all of these components. The following classifications make the nature and extent of the constraints placed on a government's fund balance more transparent:

Nonspendable Fund Balance

Nonspendable fund balance includes amounts that cannot be spent because they are either not spendable in form (such as inventory or prepaids) or are legally or contractually required to be maintained intact.

Restricted Fund Balance

The restricted fund balance includes amounts restricted for a specific purpose by external parties such as grantors, bondholders, constitutional provisions or enabling legislation.

The restricted fund balance in the General Fund represents Emergency Reserves that have been provided as required by Article X, Section 20 of the Constitution of the State of Colorado. A total of \$196 of the General Fund balance has been restricted in compliance with this requirement.

The restricted fund balance in the Debt Service Fund in the amount of \$4,203,516 is restricted for the payment of future debt service costs.

The restricted fund balance in the Capital Projects Fund in the amount of \$2,945,350 is restricted for the payment of costs in accordance with the Facilities Funding and Acquisition Agreement (see Note 4).

Committed Fund Balance

The portion of fund balance that can only be used for specific purposes pursuant to constraints imposed by a 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

Assigned fund balance includes amounts the District intends to use for a specific purpose. Intent can be expressed by the District's Board of Directors or by an official or body to which the Board of Directors delegates the authority.

Sierra Ridge Metropolitan District No. 2

Notes to Financial Statements
December 31, 2021

Unassigned Fund Balance

Unassigned fund balance includes amounts that are available for any purpose. Positive amounts are reported only in the General Fund, all other funds can report negative amounts.

For the classification of Governmental Fund balances, the District considers an expenditure to be made from the most restrictive first when more than one classification is available.

Net Position

Net Position represents the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources. The District can report three categories of net position, as follows:

Net investment in capital assets – consists of net capital assets, reduced by outstanding balances of any related debt obligations and deferred inflows of resources attributable to the acquisition, construction, or improvement of those assets and increased by balances of deferred outflows of resources related to those assets.

Restricted net position – net position is considered restricted if their use is constrained to a particular purpose. Restrictions are imposed by external organizations such as federal or state laws. Restricted net position is reduced by liabilities and deferred inflows of resources related to the restricted assets.

Unrestricted net position – consists of all other net position that does not meet the definition of the above two components and is available for general use by the District.

When an expense is incurred for purposes for which both restricted and unrestricted net position are available, the District will use the most restrictive net position first.

Note 2: Cash and Investments

As of December 31, 2021, investments are classified in the accompanying financial statements as follows:

Statement of Net Position:	
Investments	\$ 543,509
Investments – Restricted	<u>7,135,419</u>
Total	\$ <u>7,678,928</u>

Investments as of December 31, 2021, consist of the following:

Investments – COLOTRUST	\$ <u>7,678,928</u>
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Sierra Ridge Metropolitan District No. 2

Notes to Financial Statements December 31, 2021

Investments

Investment Valuation

Certain investments are measured at fair value within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The District's investment is not required to be categorized within the fair value hierarchy. This investment's value is calculated using the net asset value method ("NAV") per share.

Credit Risk

The District's investment policy requires that the District follow state statutes for investments. Colorado statutes specify the types of investments meeting defined rating and risk criteria in which local governments may invest. These investments include obligations of the United States and certain U.S. Government agency entities, certain money market funds, guaranteed investment contracts, and local government investment pools.

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

COLOTRUST

The local government investment pool, Colorado Local Government Liquid Asset Trust ("COLOTRUST") is rated AAAM by Standard & Poor's with a weighted average maturity of under 60 days. COLOTRUST is an investment trust/joint venture established for local government entities in Colorado to pool surplus funds. The State Securities Commissioner administers and enforces all State statutes governing COLOTRUST. COLOTRUST records its investments at fair value and the District records its investment in COLOTRUST using the net asset value method. COLOTRUST operates similarly to a money market fund with each share maintaining a value of \$1.00. COLOTRUST offers shares in two portfolios, COLOTRUST PRIME and COLOTRUST PLUS+. Both investments consist of U.S. Treasury bills and notes and repurchase agreements collateralized by U.S. Treasury securities. COLOTRUST PLUS+ may also invest in certain obligations of U.S. government agencies, highest rated commercial paper and repurchase agreements collateralized by certain obligations of U.S. government agencies. Designated custodian banks provide safekeeping and depository services to COLOTRUST. Substantially all securities owned by COLOTRUST are held by the Federal Reserve Bank in the accounts maintained for the custodian banks. The custodians' internal records identify the investments owned by COLOTRUST. At December 31, 2021, the District had \$7,678,928 invested in COLOTRUST.

Custodial and Concentration of Credit Risk

None of the District's investments are subject to custodial or concentration of credit risk.

Sierra Ridge Metropolitan District No. 2

Notes to Financial Statements
December 31, 2021

Interest Rate Risk

Colorado revised statutes limit investment maturities to five years or less unless formally approved by the Board of Directors.

Note 3: Long-Term Debt

\$25,500,000 Limited Tax General Obligation Bonds, Series 2016A and \$4,500,000 Subordinate Limited Tax General Obligation Bonds, Series 2016B

On June 2, 2016, the District issued \$25,500,000 of Limited Tax General Obligation Bonds, Series 2016A (“Series 2016A Bonds”), and \$4,500,000 of Subordinate Limited Tax General Obligation Bonds, Series 2016B (“Series 2016B Bonds”). The Series 2016A Bonds were issued for the purpose of financing public improvements, paying the Capitalized Interest on the 2016A Bonds, funding the Senior Reserve Fund, and paying the costs of issuance of the Bonds. The Series 2016B Bonds were issued to finance additional public improvements and to pay costs of issuance of the Bonds. The Series 2016A Bonds bear interest at rates ranging from 4.5% to 5.5% and mature on December 1, 2046. The Series 2016A Bonds will be secured by a required maximum mill levy of 50.00 mills, the portion of specific ownership taxes attributable to the property taxes used for debt service, and a Reserve Fund.

The Series 2016B Bonds bear interest at 7.625% and mature on December 15, 2046. The Subordinate Series 2016B Bonds are cash flow bonds with annual payments anticipated to be made on December 15. Unpaid interest compounds annually on December 15 at the rate of 7.625%. Payments toward interest and principal can be made provided the Series 2016A Bonds are current and the Reserve Fund and Surplus Funds for the Series 2016A Bonds are full. The District is required to impose the minimum required mill levy of 50.00 mills until the Subordinate Series 2016B Bonds are fully paid or discharged on December 15, 2056; however, only revenues resulting from the number of mills equal to 50.00 mills less the Senior Required Mill Levy are pledged to payment of the Subordinate Series 2016B Bonds.

The following is an analysis of changes in long-term debt for the year ending December 31, 2021:

	Balance 1/1/2021	Additions	Deletions	Balance 12/31/2021	Current Portion
<u>General Obligation Bonds</u>					
Series 2016A GO Bonds	\$ 25,490,000	\$ -	\$ 190,000	\$ 25,300,000	\$ 315,000
Series 2016B Subordinate Bonds	4,500,000	-	-	4,500,000	-
	29,990,000	-	190,000	29,800,000	315,000
Bond Premium - Series 2016A Bonds	563,097	-	30,483	532,614	-
Total	<u>\$ 30,553,097</u>	<u>\$ -</u>	<u>\$ 220,483</u>	<u>\$ 30,332,614</u>	<u>\$ 315,000</u>

Sierra Ridge Metropolitan District No. 2

Notes to Financial Statements
December 31, 2021

The following is a summary of the annual long-term debt principal and interest requirements on the 2016A Bonds.

	Principal	Interest	Total
2022	\$ 315,000	\$ 1,343,650	\$ 1,658,650
2023	345,000	1,329,475	1,674,475
2024	390,000	1,313,950	1,703,950
2025	410,000	1,296,400	1,706,400
2026	460,000	1,277,950	1,737,950
2027-2031	2,865,000	6,047,075	8,912,075
2032-2036	4,155,000	5,218,400	9,373,400
2037-2041	5,940,000	3,890,975	9,830,975
2042-2046	10,420,000	2,007,775	12,427,775
	\$ 25,300,000	\$ 23,725,650	\$ 49,025,650

Because of the uncertainty of the timing of payments under the subordinate Series 2016B Bonds, a schedule of principal and interest payments is not presented.

Debt Authorization

First Amendment to Service Plan for Sierra Ridge Metropolitan District No. 1 and Sierra Ridge Metropolitan District No. 2

On March 22, 2016, the District approved the First Amendment to Service Plan for Sierra Ridge Metropolitan District No. 1 and Sierra Ridge Metropolitan District No. 2 for the purpose of increasing the debt limit issuance in an amount not to exceed \$33,000,000.

As of December 31, 2021, the District had remaining voted debt authorization of approximately \$317,000,000. The District has not budgeted to issue new debt during 2022. Per the District's Service Plan, the District combined with District No. 1 cannot issue debt in excess of \$33,000,000 (See Note 4).

Sierra Ridge Metropolitan District No. 2

Notes to Financial Statements December 31, 2021

Note 4: Other Agreements

Facilities Funding and Acquisition Agreement

On October 31, 2013, Sierra Ridge Metropolitan District No. 1 and Sierra Ridge Metropolitan District No. 2 (“the Districts”) entered into a Facilities Funding and Acquisition Agreement with Lennar Colorado, LLC. (“Lennar”), whereby Lennar has agreed to either construct improvements or to fund the construction of improvements, and the Districts have agreed to either acquire the improvements or to construct the improvements with funding from Lennar. The Districts will make payment to Lennar for the acquisition or the repayment of funds advanced by using either System Development Fees or by using proceeds of bonds issued by the Districts if Lennar agrees. The Districts will reimburse Lennar the advances or the cost of construction plus interest at 6.5%.

If System Development fees are used as repayment the Districts will make monthly payments to Lennar of all System Development Fees collected in the previous month. No payments are due until the improvements constructed by Lennar are accepted by the District pursuant to the Agreement. In the event the Districts are unable to reimburse Lennar in full within 30 years of the date of the Districts’ acceptance of the improvements or costs, any amount outstanding shall be deemed discharged and satisfied in full. In no event shall this Agreement be construed as or constitute a “debt” of the Districts in such a manner as would violate the Constitution or other laws of the State of Colorado, but shall in all other events constitute a valid and legally binding obligation of the Districts.

Facilities Development Agreement

On October 31, 2013, the Districts entered into a Facilities Development Agreement with Lennar, to outline the process for the implementation and construction of the improvements to be either constructed by Lennar and acquired by the Districts or constructed by the Districts and funded by Lennar.

Master IGA

On April 7, 2016, the Districts entered into an Intergovernmental Agreement Concerning District Operations and Outstanding Reimbursement Obligations (the “Master IGA”) concerning the manner in which the Districts will coordinate and implement the financing, construction, operation and maintenance of the public improvements within the Development. The Master IGA replaced an agreement dated June 1, 2006, and effective as of December 9, 2009. Pursuant to the Master IGA, and in accordance with the Service Plan, District No. 1 is obligated to own, operate and maintain public improvements authorized by the Service Plan (except for public improvements which have been dedicated to the County or other governmental entities), subject to the District providing moneys sufficient to fund the same. In addition, the District engages District No. 1 as the District administrator.

Sierra Ridge Metropolitan District No. 2

Notes to Financial Statements
December 31, 2021

Note 5: Tax, Spending and Debt Limitations

Article X, Section 20 of the Colorado Constitution, commonly known as the Taxpayer 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.

In November 2005 a majority of the District’s electors authorized the District to collect and spend or retain in a reserve all currently levied taxes and fees of the District without regard to any limitations under Article X, Section 20 of the Colorado Constitution

Note 6: Risk Management

Except as provided in the Colorado Governmental Immunity Act, 24-10-101, et seq., CRS, the District may be exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets; errors or omissions; injuries to agents; and natural disasters. The District has elected to participate in the Colorado Special Districts Property and Liability Pool (“Pool”) which is an organization created by intergovernmental agreement to provide common liability and casualty insurance coverage to its members at a cost that is considered economically appropriate. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

The District pays annual premiums to the Pool for auto, public officials’ liability, and property and general liability coverage. In the event aggregated losses incurred by the Pool exceed its amounts recoverable from reinsurance contracts and its accumulated reserves, the District may be called upon to make additional contributions to the Pool on the basis proportionate to other members. Any excess funds which the Pool determines are not needed for purposes of the Pool may be returned to the members pursuant to a distribution formula.

Sierra Ridge Metropolitan District No. 2

Notes to Financial Statements
December 31, 2021

Note 7: Reconciliation of Government-Wide Financial Statements and Fund Financial Statements

The Governmental Funds Balance Sheet/Statement of Net Position includes an adjustments column. The adjustments have the following elements:

- 1) Long-term liabilities such as bonds payable and accrued bond interest payable are not due and payable in the current period and, therefore, are not in the funds.

The Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances/Statement of Activities includes an adjustments column. The adjustments have the following elements:

- 1) Governmental funds report interest expense on the modified accrual basis; however, interest expense is reported on the full accrual method on the Statement of Activities; and,
- 2) governmental funds report long-term debt payments as expenditures; however, in the statement of activities, the payment of long-term debt is recorded as a decrease of long-term liabilities.

Note 8: Prior Period Adjustment

The District restated Net Position at 12/31/2020 to adjust for a 2019 Homebuilder credit not previously recorded. The beginning Fund Balance of the Capital Projects Fund has been restated as follows:

12/31/2020 Capital Projects Fund Balance, as originally reported	\$ 3,247,731
2019 Homebuilder credit not previously reported	<u>(302,381)</u>
12/31/2020 Capital Projects Fund Balance, restated	<u>\$ 2,945,350</u>

Note 9: Contingency

The District is a named party in an ongoing matter in a claim of construction defects related to construction of a pool and pool deck within the District. As of the date of this report, the outcome of the matter is uncertain and any potential financial impact to the District is undeterminable.

Sierra Ridge Metropolitan District No. 2

Notes to Financial Statements
December 31, 2021

Note 10: Subsequent Event

On March 10, 2022, the District issued \$25,840,000 of Limited Tax (Convertible to Unlimited Tax) General Obligation Refunding Bonds, Series 2022 (“Series 2022 Bonds”) for the purpose of refunding the Series 2016A and Series 2016B Bonds, purchasing a Bond Insurance Policy and Reserve Fund Insurance Policy, and paying the costs of issuance of the Bonds. The Series 2022 Bonds bear interest at a rate of 4.000% and mature on December 1, 2046.

SUPPLEMENTAL INFORMATION

Sierra Ridge Metropolitan District No. 2

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

For the Year Ended December 31, 2021

	Original & Final		Variance
	Budget	Actual	Favorable (Unfavorable)
REVENUES			
Property taxes	\$ 2,003,692	\$ 2,003,693	\$ 1
Specific ownership taxes	194,358	193,233	(1,125)
Interest income	45,000	2,427	(42,573)
Total Revenues	2,243,050	2,199,353	(43,697)
EXPENDITURES			
Treasurer's fees	30,055	30,065	(10)
Trustee/paying agent fees	5,500	5,500	-
Bond interest expense	2,017,495	1,979,434	38,061
Bond principal	190,000	190,000	-
Total Expenditures	2,243,050	2,204,999	38,051
NET CHANGE IN FUND BALANCE	-	(5,646)	(5,646)
FUND BALANCE:			
BEGINNING OF YEAR	4,077,550	4,209,162	131,612
END OF YEAR	\$ 4,077,550	\$ 4,203,516	\$ 125,966

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

Sierra Ridge Metropolitan District No. 2

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

For the Year Ended December 31, 2021

	Original & Final <u>Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
REVENUES			
System development fees	\$ -	\$ -	\$ -
Total Revenues	-	-	-
EXPENDITURES			
Transfer to District No. 1	3,247,731	-	3,247,731
Total Expenditures	3,247,731	-	3,247,731
NET CHANGE IN FUND BALANCE	(3,247,731)	-	3,247,731
FUND BALANCE:			
BEGINNING OF YEAR, RESTATED	3,247,731	2,945,350	(302,381)
END OF YEAR	\$ -	\$ 2,945,350	\$ 2,945,350

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

Sierra Ridge Metropolitan District No. 2

SUMMARY OF ASSESSED VALUATION, MILL LEVY AND PROPERTY TAXES COLLECTED

December 31, 2021

Collection Year Ended <u>December 31,</u>	Prior Year Assessed Valuation for Current Year Property <u>Tax Levy</u>	Mills Levied		Total Property Tax		Percent Collected to Levied
		<u>General Fund</u>	<u>Debt Service</u>	<u>Levied</u>	<u>Collected</u>	
2007	\$ 64,750	10.000	50.000	\$ 3,886	\$ 3,885	99.97%
2008	\$ 86,660	10.000	45.000	\$ 4,766	\$ 4,767	100.02%
2009	\$ 86,650	10.000	45.000	\$ 4,766	\$ 4,767	100.02%
2010	\$ 84,282	10.000	45.000	\$ 4,636	\$ 4,636	100.00%
2011	\$ 77,310	10.000	45.000	\$ 4,252	\$ 4,252	100.00%
2012	\$ 41,320	10.000	45.000	\$ 2,273	\$ 2,273	100.00%
2013	\$ 41,320	10.000	45.000	\$ 2,273	\$ 2,270	99.87%
2014	\$ 34,290	10.000	45.000	\$ 1,886	\$ 1,886	100.00%
2015	\$ 3,612,970	10.000	45.000	\$ 198,713	\$ 198,721	100.00%
2016	\$ 7,365,500	10.000	45.000	\$ 405,103	\$ 403,534	99.61%
2017	\$ 10,794,770	10.000	50.000	\$ 647,686	\$ 647,688	100.00%
2018	\$ 21,708,080	10.685	53.429	\$ 1,391,792	\$ 1,391,590	99.99%
2019	\$ 27,240,360	10.842	54.212	\$ 1,772,094	\$ 1,766,250	99.67%
2020	\$ 33,434,620	10.918	54.591	\$ 2,190,268	\$ 2,190,271	100.00%
2021	\$ 36,703,700	10.918	54.591	\$ 2,404,423	\$ 2,404,424	100.00%
Estimated for year ending December 31, 2022	\$ 39,863,340	10.918	54.591	\$ 2,611,408		

NOTE

Property taxes collected in any one year include collection of delinquent property taxes levied and/or abatements of valuations in prior years. Information received from the County Treasurer does not permit identification of specific year assessment.

CONTINUING DISCLOSURE ANNUAL FINANCIAL INFORMATION - UNAUDITED

Sierra Ridge Metropolitan District No. 2

TEN LARGEST OWNERS OF TAXABLE PROPERTY WITHIN THE DISTRICT

December 31, 2021

UNAUDITED

<u>Taxpayer Name</u>	<u>2021 Assessed Valuation</u>	<u>Percentage of Total Assessed Valuation</u>
PS Mountain West LLC	\$ 1,822,070	4.57%
Avon Townhouse Trust	69,920	0.18%
Private Homeowner #1	56,670	0.14%
Private Homeowner #2	54,870	0.14%
Private Homeowner #3	54,630	0.14%
Private Homeowner #4	53,870	0.14%
Private Homeowner #5	53,070	0.13%
Private Homeowner #6	52,690	0.13%
Private Homeowner #7	52,690	0.13%
Private Homeowner #8	52,560	0.13%
Total	<u>\$ 2,323,040</u>	<u>5.83%</u>

NOTE

Assessed Valuations were obtained from the Douglas County Assessor's Office.

Sierra Ridge Metropolitan District No. 2

ASSESSED VALUATION OF CLASSES
OF PROPERTY IN THE DISTRICT
December 31, 2021
UNAUDITED

<u>Class</u>	<u>2021 Assessed Valuation</u>	<u>Percent of Assessed Valuation</u>
Vacant land	\$ -	0.00%
Residential	37,083,070	93.03%
Commercial	1,822,070	4.57%
State assessed	957,900	2.40%
Natural Resources	300	0.00%
Total	<u>\$ 39,863,340</u>	<u>100.00%</u>

NOTE

Percentage is based on a 2021 certified assessed valuation of \$39,863,340

Sierra Ridge Metropolitan District No. 2

SELECTED DEBT RATIOS OF THE DISTRICT
December 31, 2021
UNAUDITED

	<u>12/31/21</u>
Amount of Direct Debt	\$ 29,800,000
Direct debt	<u><u>\$ 29,800,000</u></u>
2021 Certified Assessed Valuation	\$ 39,863,340
Ratio of Direct Debt to 2021 Certified Assessed Valuation	75%
2021 Statutory Actual Value	\$ 524,942,932
Direct Debt to 2021 Statutory Actual Value	6%