

Thompson Crossing Metropolitan District No. 2

Year Ended December 31, 2022
with
Independent Auditor's Report

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Board of Directors
Thompson Crossing Metropolitan District No. 2
Larimer County, Colorado

Independent Auditor’s Report

Opinions

We have audited the accompanying financial statements of the governmental activities and each major fund of Thompson Crossing Metropolitan District No. 2 (the “District”), as of and for the year ended December 31, 2022, 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 Thompson Crossing Metropolitan District No. 2 as of December 31, 2022, and the respective changes in financial position and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (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

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 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 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

Required Supplemental Information

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

Supplemental 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 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.

Wipfli LLP

Wipfli LLP
Lakewood, Colorado

December 29, 2023

Thompson Crossing Metropolitan District No. 2

Balance Sheet/Statement of Net Position Governmental Funds December 31, 2022

	<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	\$ 536,122	\$ -	\$ -	\$ 536,122	\$ -	\$ 536,122
Cash and investments - restricted	11,397	518,343	65,366	595,106	-	595,106
Receivable county treasurer	20,768	-	(12,542)	8,226	-	8,226
Property taxes receivable	418,211	-	1,241,293	1,659,504	-	1,659,504
Accounts receivable	-	-	75,469	75,469	-	75,469
Prepaid expenses	6,094	-	-	6,094	-	6,094
Capital assets not being depreciated	-	-	-	-	3,496,144	3,496,144
Capital assets, net of depreciation	-	-	-	-	<u>604,698</u>	<u>604,698</u>
Total Assets	<u>992,592</u>	<u>518,343</u>	<u>1,369,586</u>	<u>2,880,521</u>	<u>4,100,842</u>	<u>6,981,363</u>
DEFERRED OUTFLOWS OF RESOURCES						
Deferred loss on refunding	-	-	-	-	<u>1,057,922</u>	<u>1,057,922</u>
Total Deferred Outflows of Resources	-	-	-	-	<u>1,057,922</u>	<u>1,057,922</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 992,592</u>	<u>\$ 518,343</u>	<u>\$ 1,369,586</u>	<u>\$ 2,880,521</u>		
LIABILITIES						
Accounts payable	\$ 18,701	\$ 800	\$ 21,028	\$ 40,529	-	40,529
Accrued interest on bonds	-	-	-	-	73,860	73,860
Long-term liabilities:						
Bonds due within one year	-	-	-	-	355,000	355,000
Due in more than one year	-	-	-	-	<u>33,678,828</u>	<u>33,678,828</u>
Total Liabilities	<u>18,701</u>	<u>800</u>	<u>21,028</u>	<u>40,529</u>	<u>34,107,688</u>	<u>34,148,217</u>
DEFERRED INFLOWS OF RESOURCES						
Deferred property taxes	<u>418,211</u>	-	<u>1,241,293</u>	<u>1,659,504</u>	-	<u>1,659,504</u>
Total Deferred Inflows of Resources	<u>418,211</u>	-	<u>1,241,293</u>	<u>1,659,504</u>	-	<u>1,659,504</u>
FUND BALANCES						
Nonspendable:						
Prepays	6,094	-	-	6,094	(6,094)	-
Restricted:						
Emergencies	11,397	-	-	11,397	(11,397)	-
Debt service	-	477,562	-	477,562	(477,562)	-
Capital projects	-	-	107,265	107,265	(107,265)	-
Unassigned	<u>538,189</u>	<u>39,981</u>	-	<u>578,170</u>	<u>(578,170)</u>	-
Total Fund Balances	<u>555,680</u>	<u>517,543</u>	<u>107,265</u>	<u>1,180,488</u>	<u>(1,180,488)</u>	-
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 992,592</u>	<u>\$ 518,343</u>	<u>\$ 1,369,586</u>	<u>\$ 2,880,521</u>		
NET POSITION						
Net investment in capital assets					4,100,842	4,100,842
Restricted for:						
Emergencies					11,397	11,397
Debt service					403,702	403,702
Capital projects					107,265	107,265
Unrestricted					<u>(32,391,642)</u>	<u>(32,391,642)</u>
Total Net Position (Deficit)					<u>\$ (27,768,436)</u>	<u>\$ (27,768,436)</u>

(See Notes to Basic Financial Statements)

Thompson Crossing Metropolitan District No. 2

Statement of Revenues, Expenditures and Changes in Fund Balances/Statement of Activities - Governmental Funds Year Ended December 31, 2022

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
EXPENDITURES						
Accounting and audit	\$ 22,823	\$ -	\$ -	\$ 22,823	\$ -	\$ 22,823
District management/administration	14,268	-	-	14,268	-	14,268
Elections	3,177	-	-	3,177	-	3,177
Engineering	-	-	36,393	36,393	-	36,393
General administration/bank fees	3,064	-	-	3,064	-	3,064
Legal	17,162	-	-	17,162	-	17,162
Paying agent fees	-	797	-	797	-	797
Sewer lines/sanitation	-	-	75,838	75,838	(75,838)	-
Treasurer's fees	6,940	24,695	-	31,635	-	31,635
Bond interest	-	893,988	-	893,988	59,795	953,783
Bond principal	-	355,000	-	355,000	(355,000)	-
Repay developer advance	-	30,925	-	30,925	(30,925)	-
Developer advance interest - capital	-	-	-	-	99,321	99,321
Developer advance interest - operations	-	-	-	-	237	237
District No. 1 operation costs	3,833	-	-	3,833	-	3,833
Depreciation	-	-	-	-	133,651	133,651
Total Expenditures	<u>71,267</u>	<u>1,305,405</u>	<u>112,231</u>	<u>1,488,903</u>	<u>(168,759)</u>	<u>1,320,144</u>
PROGRAM REVENUES						
Developer Advances	-	-	95,543	95,543	(95,543)	-
Total Program Revenues	<u>-</u>	<u>-</u>	<u>95,543</u>	<u>95,543</u>	<u>(95,543)</u>	<u>-</u>
Net Program Income (Expense)	(71,267)	(1,305,405)	(16,688)	(1,393,360)	73,216	(1,320,144)
GENERAL REVENUES						
Property taxes	346,569	1,233,242	-	1,579,811	-	1,579,811
Specific ownership taxes	25,065	89,123	-	114,188	-	114,188
Interest	3,265	17	-	3,282	-	3,282
Miscellaneous	5,000	-	30,925	35,925	-	35,925
Total General Revenues	<u>379,899</u>	<u>1,322,382</u>	<u>30,925</u>	<u>1,733,206</u>	<u>-</u>	<u>1,733,206</u>
CHANGE IN FUND BALANCE	308,632	16,977	14,237	339,846	(339,846)	
CHANGE IN NET POSITION					413,062	413,062
FUND BALANCE/NET POSITION:						
BEGINNING OF YEAR	<u>247,048</u>	<u>500,566</u>	<u>93,028</u>	<u>840,642</u>	<u>(29,022,140)</u>	<u>(28,181,498)</u>
END OF YEAR	<u>\$ 555,680</u>	<u>\$ 517,543</u>	<u>\$ 107,265</u>	<u>\$ 1,180,488</u>	<u>\$ (28,948,924)</u>	<u>\$ (27,768,436)</u>

(See Notes to Basic Financial Statements)

Thompson Crossing Metropolitan District No. 2

Statement of Revenues, Expenditures and Changes in Fund
Balance - Budget and Actual
General Fund
Year Ended December 31, 2022

	Original <u>Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
REVENUES			
Property taxes	\$ 351,314	\$ 346,569	\$ (4,745)
Specific ownership taxes	21,079	25,065	3,986
Interest	-	3,265	3,265
Miscellaneous	<u>1,500</u>	<u>5,000</u>	<u>3,500</u>
Total Revenues	<u>373,893</u>	<u>379,899</u>	<u>6,006</u>
EXPENDITURES			
Accounting and audit	30,200	22,823	7,377
District management/administration	12,480	14,268	(1,788)
Elections	3,000	3,177	(177)
General administration/bank fees	4,000	3,064	936
Insurance	5,832	-	5,832
Legal	15,000	17,162	(2,162)
Treasurer's fees	7,026	6,940	86
District No. 1 operation costs	11,108	3,833	7,275
Transfer to Capital Fund	250,000	-	250,000
Contingency	<u>5,000</u>	<u>-</u>	<u>5,000</u>
Total Expenditures	<u>343,646</u>	<u>71,267</u>	<u>272,379</u>
CHANGE IN FUND BALANCE	<u>30,247</u>	<u>308,632</u>	<u>278,385</u>
BEGINNING FUND BALANCE	<u>249,819</u>	<u>247,048</u>	<u>(2,771)</u>
ENDING FUND BALANCE	<u>\$ 280,066</u>	<u>\$ 555,680</u>	<u>\$ 275,614</u>

(See Notes to Basic Financial Statements)

Thompson Crossing Metropolitan District No. 2

Notes to Basic Financial Statements
Year Ended December 31, 2022

Note 1: Summary of Significant Accounting Policies

The accounting policies of the Thompson Crossing Metropolitan District No. 2 (the "District"), located in Larimer 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 on October 3, 2005, as a quasi-municipal organization established under the State of Colorado Special District Act. The District's service area is located entirely within the Town of Johnstown (the "Town"). The current developer of the District is Gerrard Family Limited Partnership, LLLPC (the "Developer"). The Developer and the District have assumed the responsibilities and rights associated with all intergovernmental agreements (See Note 6).

The District was established to provide financing for the construction, acquisition, and operation and maintenance of water, streets, traffic and safety controls, television relay and translation, transportation, parks and recreation facilities, and sanitation. The District's primary revenue is property taxes. The District is governed by a five-member Board of Directors elected by eligible electors.

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 provide 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.

Thompson Crossing Metropolitan District No. 2

Notes to Basic Financial Statements
Year Ended December 31, 2022

Basis of Presentation

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

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 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. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered 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.

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.

Thompson Crossing Metropolitan District No. 2

Notes to Basic Financial Statements
Year Ended December 31, 2022

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

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.

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, 2022, 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.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has one item that qualifies for reporting in this category. It is the deferred loss on refunding reported in the government-wide statement of net position. A deferred loss on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

Thompson Crossing Metropolitan District No. 2

Notes to Basic Financial Statements
Year Ended December 31, 2022

Deferred Outflows/Inflows of Resources (continued)

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

Original Issue Premium and Loss on Refunding

Original issue premium and loss on refunding from the Series 2016 Bonds are being amortized over the respective terms of the bonds using the effective interest rate method and straight-line method, respectively. Accumulated amortization of original issue premium and loss on refunding amounted to \$352,702 and \$264,480, respectively, with unamortized balances of \$1,410,807 and \$1,057,922, respectively at December 31, 2022.

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 one year. 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 capital 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. Property, plant and equipment are depreciated using the straight-line method over the following estimated useful lives:

Infrastructure	20 years
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During 2022, the District recognized approximately \$133,700 in depreciation expense.

Property Taxes

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

Property taxes, net of estimated uncollectible taxes, are recorded initially as deferred inflows in the year they are levied and measurable since they are not normally available nor are they budgeted as a resource until the subsequent year. The deferred property taxes are recorded as revenue in the subsequent year when they are available or collected.

Thompson Crossing Metropolitan District No. 2

Notes to Basic Financial Statements Year Ended December 31, 2022

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.

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

The 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.

The nonspendable fund balance in the General Fund in the amount of \$6,094 represents prepaid expenditures.

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 \$11,397 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 \$477,562 is restricted for the payment of the Series 2016 Bonds (see Note 4) and includes bond proceeds held by the trustee as a "reserve requirement".

The restricted fund balance in the Capital Projects Fund in the amount of \$107,265 is restricted for the payment of the costs for capital improvements within the District.

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.

Thompson Crossing Metropolitan District No. 2

Notes to Basic Financial Statements
Year Ended December 31, 2022

Fund Equity (continued)

Unassigned Fund Balance

Unassigned fund balance includes amounts that are available for any purpose. Positive amounts are reported in the General Fund, and all 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.

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

Note 2: Cash and Investments

As of December 31, 2022, cash and investments are classified in the accompanying financial statements as follows:

Statement of Net Position:

Cash and investments	\$ 536,122
Cash and investments - restricted	595,106
	<u>\$ 1,131,228</u>

Cash and investments as of December 31, 2022, consist of the following:

Deposits with financial institutions	\$ 1,127,920
Investments - COLOTRUST	3,308
	<u>\$ 1,131,228</u>

Thompson Crossing Metropolitan District No. 2

Notes to Basic Financial Statements
Year Ended December 31, 2022

Deposits

Custodial Credit Risk

The Colorado Public Deposit Protection Act, ("PDPA") requires that all units of local government deposit cash in eligible public depositories. State regulators determine eligibility. Amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is determined by the PDPA. PDPA allows the institution to create a single collateral pool for all public funds. The pool is to be maintained by another institution or held in trust for all the uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the aggregate uninsured deposits. The State Commissioners for banks and financial services are required by statute to monitor the naming of eligible depositories and reporting of the uninsured deposits and assets maintained in the collateral pools.

The District follows state statutes for deposits. None of the District's deposits were exposed to custodial credit risk.

At December 31, 2022 the District's cash deposits had a bank balance and carrying balance of \$1,127,920.

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

Custodial and Concentration of Credit Risk

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

Interest Rate Risk

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

Thompson Crossing Metropolitan District No. 2

Notes to Basic Financial Statements Year Ended December 31, 2022

As of December 31, 2022, 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, 2022, the District had \$3,308 invested in COLOTRUST.

Note 3: Capital Assets

An analysis of the changes in capital assets for the year ending December 31, 2022, follows:

<u>Governmental Type Activities:</u>	<u>Balance</u> <u>#NAME?</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>#NAME?</u>
Capital assets not being depreciated:				
Construction in progress	\$ 3,420,306	\$ 75,838	\$ -	\$ 3,496,144
Total capital assets not being depreciated	<u>3,420,306</u>	<u>75,838</u>	<u>-</u>	<u>3,496,144</u>
Capital assets being depreciated:				
Infrastructure	2,673,015	-	-	2,673,015
Total capital assets being depreciated	<u>2,673,015</u>	<u>-</u>	<u>-</u>	<u>2,673,015</u>
Less accumulated depreciation:				
Infrastructure	(1,934,666)	(133,651)	-	(2,068,317)
Total accumulated depreciation	<u>(1,934,666)</u>	<u>(133,651)</u>	<u>-</u>	<u>(2,068,317)</u>
Total capital assets being depreciated, net of depreciation	<u>738,349</u>	<u>(133,651)</u>	<u>-</u>	<u>604,698</u>
Total net capital assets	<u>\$ 4,158,655</u>	<u>\$ (57,813)</u>	<u>\$ -</u>	<u>\$ 4,100,842</u>

Thompson Crossing Metropolitan District No. 2

Notes to Basic Financial Statements
Year Ended December 31, 2022

Note 4: Long-Term Obligations

A description of the long-term obligations as of December 31, 2022, is as follows:

\$6,460,000 General Obligation (Limited Tax Convertible to Unlimited Tax) Refunding Bonds, Series 2016A, \$14,160,000 General Obligation (Limited Tax Convertible to Unlimited Tax) Refunding Bonds, Series 2016B

On October 18, 2016, the District issued \$6,460,000 General Obligation (Limited Tax Convertible to Unlimited Tax) Refunding Bonds, Series 2016A, ("Series 2016A Bonds") and \$14,160,000 General Obligation (Limited Tax Convertible to Unlimited Tax) Refunding Bonds, Series 2016B ("Series 2016B Bonds"), or combined ("Series 2016 Bonds") for the purposes of funding capitalized interest and reserves to the extent provided by the Sale Certificate; paying the costs of refunding the Refunded Bonds; paying the project costs; and paying issuance and other costs in connection with the Bonds and the refunding of the Refunded Bonds.

The Series 2016A and Series 2016B Bonds bear interest at the rates ranging between 2.0% and 5.0%, payable semiannually on each June 1 and December 1, commencing on June 1, 2017.

The Series 2016A and Series 2016B Bonds are subject to a mandatory sinking fund redemption commencing on December 1, 2027, and December 1, 2032, respectively. The Series 2016A Bonds and Series 2016B Bonds are subject to redemption prior to maturity, at the option of the District, as a whole or in integral multiples of \$5,000, in any order of maturity and in whole or partial maturities, commencing on December 1, 2026, upon payment of par and accrued interest, without redemption premium.

The Series 2016A Bonds are secured by a Policy issued by Assured Guaranty Municipal Corp. pursuant to a commitment letter dated November 4, 2016.

Advance and Reimbursement Agreement (Gerrard)

On December 21, 2005, the District entered into an Advance and Reimbursement Agreement with the Developer to provide for the advance of funds for improvements and services related to construction of streets, drainage improvements, traffic and safety controls, park and recreation facilities, water, sewer, television relay and translators, fire protection, covenant enforcement and design review and pest control infrastructure and facilities, and for costs associated with the organization and development of the District and provision of certain public improvements and facilities on behalf of or to the District. The purpose of the agreement is to establish the terms and conditions by which the District makes reimbursement for the Advances. This agreement is not considered to be a long-term debt of the District. The indebtedness bears interest at 7% per annum. The amounts due are payable from any available revenue including proceeds from future bonds. As of December 31, 2022, the District had outstanding advances totaling \$1,301,105 and accrued interest due of \$2,181,944.

Thompson Crossing Metropolitan District No. 2

Notes to Basic Financial Statements
Year Ended December 31, 2022

Advance and Reimbursement Agreement (2534 Development)

On December 21, 2005, the District entered into an Advance and Reimbursement Agreement with the Developer to provide for the advance of funds for improvements and services related to construction of streets, drainage improvements, traffic and safety controls, park and recreation facilities, water, sewer, television relay and translators, fire protection, covenant enforcement and design review and pest control infrastructure and facilities, and for costs associated with the organization and development of the District and provision of certain public improvements and facilities on behalf of or to the District. The purpose of the agreement is to establish the terms and conditions by which the District makes reimbursement for the Advances. This agreement is not considered to be a long-term debt of the District. The indebtedness bears interest at 7% per annum. The amounts due are payable from any available revenue including proceeds from future bonds. As of December 31, 2022, the District had accrued interest due of \$76,440.

Advance and Reimbursement Agreement (2534 Holdings)

On December 21, 2005, the District entered into an Advance and Reimbursement Agreement with the Developer to provide for the advance of funds for improvements and services related to construction of streets, drainage improvements, traffic and safety controls, park and recreation facilities, water, sewer, television relay and translators, fire protection, covenant enforcement and design review and pest control infrastructure and facilities, and for costs associated with the organization and development of the District and provision of certain public improvements and facilities on behalf of or to the District. The purpose of the agreement is to establish the terms and conditions by which the District makes reimbursement for the Advances. This agreement is not considered to be a long-term debt of the District. The indebtedness bears interest at 7% per annum. The amounts due are payable from any available revenue including proceeds from future bonds. As of December 31, 2022, the District had outstanding advances totaling \$85,688 and accrued interest due of \$899,105.

Advance and Reimbursement Agreement (Thompson Ranch)

On December 21, 2005, the District entered into an Advance and Reimbursement Agreement with the Thompson Ranch Development Co. to provide for the advance of funds for improvements and services related to construction of streets, drainage improvements, traffic and safety controls, park and recreation facilities, water, sewer, television relay and translators, fire protection, covenant enforcement and design review and pest control infrastructure and facilities, and for costs associated with the organization and development of the District and provision of certain public improvements and facilities on behalf of or to the District. The purpose of the agreement is to establish the terms and conditions by which the District makes reimbursement for the Advances. This agreement is not considered to be a long-term debt of the District. The indebtedness bears interest at 7% per annum. The amounts due are payable from any available revenue including proceeds from future bonds. As of December 31, 2022, the District had outstanding advances totaling \$87,013 and accrued interest due of \$8,181,726.

Thompson Crossing Metropolitan District No. 2

Notes to Basic Financial Statements Year Ended December 31, 2022

The following is a summary of the annual long-term debt principal and interest requirements for the Series 2016 Bonds:

	Principal	Interest	Total
2023	\$ 355,000	\$ 886,325	\$ 1,241,325
2024	400,000	878,663	1,278,663
2025	410,000	869,050	1,279,050
2026	445,000	857,575	1,302,575
2027	460,000	845,125	1,305,125
2028-2032	2,880,000	3,914,825	6,794,825
2033-2037	4,050,000	3,178,220	7,228,220
2038-2042	5,180,000	2,179,375	7,359,375
2043-2047	5,630,000	1,587,415	7,217,415
	\$ 19,810,000	\$ 15,196,573	\$ 35,006,573

An analysis of changes in long-term obligations for the year ending December 31, 2022, follows:

	Balance #NAME?	Additions	Deletions	Balance #NAME?	Current Portion
Bonds:					
Series 2016	\$ 20,165,000	\$ -	\$ 355,000	\$ 19,810,000	\$ 355,000
Premium on Series 2016	1,469,591	-	58,784	1,410,807	-
Developer advances:					
Capital - principal	1,387,621	113,719	30,925	1,470,415	-
Capital - interest	11,236,123	99,321	-	11,335,444	-
Operations - principal	3,391	-	-	3,391	-
Operations - interest	3,534	237	-	3,771	-
Total	\$ 34,265,260	\$ 213,277	\$ 444,709	\$ 34,033,828	\$ 355,000

The District received \$95,543 in developer advances in 2022. The District also received \$18,176 in developer advances that was recorded as a developer advance receivable as of December 31, 2021.

Thompson Crossing Metropolitan District No. 2

Notes to Basic Financial Statements
Year Ended December 31, 2022

Note 5: Related Parties

The members of the Board of Directors are employees, owners or are otherwise associated with the developers, Thompson Ranch Development Company and Gerrard Family Limited Partnership, and may have conflicts of interest in dealing with the District. The above named developers are the current developers of the property within the District and are the current holders of the Funding and Reimbursement Agreement between the District and the Developers dated December 21, 2005.

Note 6: Intergovernmental Agreements

The agreements listed below relate to one or more of the Districts and are not all-inclusive.

Intergovernmental Agreement with Thompson Crossing Metropolitan District Nos. 1 and 3

On October 12, 2009, Thompson Crossing Metropolitan Districts Nos. 1-3 signed an intergovernmental agreement to allocate the operation and administration costs of District 1 between all three Districts. Per the agreement, District Nos. 2 and 3 will be responsible for paying fifty percent each of the amount requested by District No. 1 in order to cover its operation and administration costs. The Districts may request District No. 1 to impose a surcharge on tap fees issues in which the surcharge collected will be remitted to the District that requested it to cover their portion of operation costs.

During 2022, District No. 1 went inactive, effectively reducing operational costs incurred to \$0 and releasing Districts No. 2 and 3 from their obligation under this agreement. District No. 2 paid approximately \$3,800 to District No. 1 for operational costs in 2022 before it went inactive.

Note 7: 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 (the "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.

Thompson Crossing Metropolitan District No. 2

Notes to Basic Financial Statements
Year Ended December 31, 2022

Note 8: 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.

On November 7, 2000, 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 9: Reconciliation of Government-Wide Financial Statements and Fund Financial Statements

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

- 1) Capital improvements used in government activities are not financial resources and, therefore are not reported in the funds; and,
- 2) long-term liabilities such as bonds payable, accrued bond interest payable, developer advance payable, accrued developer advance interest, deferred loss on refunding, and other bond related liabilities 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 capital outlays as expenditures; however, in the statement of activities, the costs of those assets are held in construction in progress pending transfer to another governmental entity or depreciated over their useful lives;
- 2) 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,
- 3) governmental funds report developer advances as income, however, in the government-wide financial statements, they are reported as changes in long-term liabilities.

SUPPLEMENTAL INFORMATION

Thompson Crossing Metropolitan District No. 2

Schedule of Revenues, Expenditures and Changes in Fund
Balance - Budget and Actual
Debt Service Fund
Year Ended December 31, 2022

	Original <u>Budget</u>	Final <u>Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
REVENUES				
Property taxes	\$ 1,248,920	\$ 1,248,920	\$ 1,233,242	\$ (15,678)
Specific ownership taxes	74,935	74,935	89,123	14,188
Interest	<u>-</u>	<u>-</u>	<u>17</u>	<u>17</u>
Total Revenues	<u>1,323,855</u>	<u>1,323,855</u>	<u>1,322,382</u>	<u>(1,473)</u>
EXPENDITURES				
Bond interest	893,988	893,988	893,988	-
Bond principal	355,000	355,000	355,000	-
Paying agent fees	800	800	797	3
Contingency	5,000	-	-	-
Repay developer advance	-	30,925	30,925	-
Treasurer's fees	<u>24,978</u>	<u>24,978</u>	<u>24,695</u>	<u>283</u>
Total Expenditures	<u>1,279,766</u>	<u>1,305,691</u>	<u>1,305,405</u>	<u>286</u>
CHANGE IN FUND BALANCE	<u>44,089</u>	<u>18,164</u>	<u>16,977</u>	<u>1,187</u>
BEGINNING FUND BALANCE	<u>520,573</u>	<u>520,573</u>	<u>500,566</u>	<u>20,007</u>
ENDING FUND BALANCE	<u>\$ 564,662</u>	<u>\$ 538,737</u>	<u>\$ 517,543</u>	<u>\$ 21,194</u>

Thompson Crossing Metropolitan District No. 2

Schedule of Revenues, Expenditures and Changes in Fund
Balance - Budget and Actual
Capital Projects Fund
Year Ended December 31, 2022

	Original & Final <u>Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
REVENUES			
Interest/Miscellaneous	\$ -	\$ 30,925	\$ 30,925
Total Revenues	<u>-</u>	<u>30,925</u>	<u>30,925</u>
EXPENDITURES			
Accounting and audit	\$ 10,000	\$ -	\$ 10,000
Engineering	100,000	36,393	63,607
Water	50,000	-	50,000
Non-potable system	40,000	-	40,000
Streets	1,000,000	-	1,000,000
Traffic & safety control	50,000	-	50,000
Sewer lines/sanitation	100,000	75,838	24,162
Storm drainage	<u>200,000</u>	<u>-</u>	<u>200,000</u>
Total Expenditures	<u>1,550,000</u>	<u>112,231</u>	<u>1,437,769</u>
OTHER FINANCING SOURCES			
Developer advances	<u>\$ 1,550,000</u>	<u>95,543</u>	<u>1,454,457</u>
NET OTHER SOURCES OF FUNDS	<u>1,550,000</u>	<u>95,543</u>	<u>1,454,457</u>
CHANGE IN FUND BALANCE	-	14,237	14,237
BEGINNING FUND BALANCE	<u>-</u>	<u>93,028</u>	<u>93,028</u>
ENDING FUND BALANCE	<u>\$ -</u>	<u>\$ 107,265</u>	<u>\$ 107,265</u>