

**EAST SMOKY HILL METROPOLITAN
DISTRICT NO. 2
Arapahoe County, Colorado**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED DECEMBER 31, 2021

EAST SMOKY HILL METROPOLITAN DISTRICT NO. 2
TABLE OF CONTENTS
YEAR ENDED DECEMBER 31, 2021

| | |
|---|-----------|
| INDEPENDENT AUDITOR'S REPORT | 1 |
| BASIC FINANCIAL STATEMENTS | |
| GOVERNMENT-WIDE FINANCIAL STATEMENTS | |
| STATEMENT OF NET POSITION | 1 |
| STATEMENT OF ACTIVITIES | 2 |
| FUND FINANCIAL STATEMENTS | |
| BALANCE SHEET – GOVERNMENTAL FUNDS | 3 |
| STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS | 4 |
| RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF THE GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES | 5 |
| GENERAL FUND – STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL | 6 |
| NOTES TO BASIC FINANCIAL STATEMENTS | 7 |
| SUPPLEMENTARY INFORMATION | |
| DEBT SERVICE FUND – SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL | 19 |
| OTHER INFORMATION | |
| SCHEDULE OF DEBT SERVICE REQUIREMENTS TO MATURITY | 21 |
| SCHEDULE OF ASSESSED VALUATION, MILL LEVY, AND PROPERTY TAXES COLLECTED | 22 |



SCHILLING & COMPANY, INC.

Certified Public Accountants

P.O. Box 631579
HIGHLANDS RANCH, CO 80163

PHONE: 720.348.1086

FAX: 720.348.2920

Independent Auditor's Report

Board of Directors
East Smoky Hill Metropolitan District No. 2
Arapahoe County, Colorado

Opinions

We have audited the accompanying financial statements of the governmental activities and each major fund of East Smoky Hill Metropolitan District No. 2 (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 financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of East Smoky Hill Metropolitan District No. 2, as of December 31, 2021, and the respective changes in financial position and the budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Responsibility of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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 Responsibility 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.

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and are not a required part of the financial statements. The supplementary information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Information

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

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

SCHILLING & COMPANY, INC.

Highlands Ranch, Colorado
July 13, 2022

BASIC FINANCIAL STATEMENTS

EAST SMOKY HILL METROPOLITAN DISTRICT NO. 2
STATEMENT OF NET POSITION
DECEMBER 31, 2021

| | <u>Governmental Activities</u> |
|---------------------------------------|------------------------------------|
| ASSETS | |
| Cash and Investments | \$ 1,288,391 |
| Cash and Investments - Restricted | 569,779 |
| Receivable - County Treasurer | 6,270 |
| Prepaid Expenses | 450 |
| Property Taxes Receivable | 1,162,115 |
| Total Assets | <u>3,027,005</u> |
| DEFERRED OUTFLOWS OF RESOURCES | |
| Cost of Bond Refunding, Net | 76,824 |
| Total Deferred Outflows of Resources | <u>76,824</u> |
| LIABILITIES | |
| Accounts Payable | 28,013 |
| Accrued Interest Payable | 9,862 |
| Noncurrent Liabilities: | |
| Due Within One Year | 505,000 |
| Due in More Than One Year | 3,431,900 |
| Total Liabilities | <u>3,974,775</u> |
| DEFERRED INFLOWS OF RESOURCES | |
| Deferred Property Tax Revenue | 1,162,115 |
| Total Deferred Inflows of Resources | <u>1,162,115</u> |
| NET POSITION | |
| Restricted for: | |
| Emergency Reserves | 16,600 |
| Debt Service | 543,317 |
| Unrestricted | <u>(2,592,978)</u> |
| Total Net Position | <u>\$ (2,033,061)</u> |

See accompanying Notes to Basic Financial Statements.

EAST SMOKY HILL METROPOLITAN DISTRICT NO. 2
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2021

| | | Program Revenues | | | Net Revenues (Expenses) and Change in Net Position |
|---|----------------------------|--|--|----------------------------|---|
| Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | |
| FUNCTIONS/PROGRAMS | | | | | |
| Primary Government: | | | | | |
| Governmental Activities: | | | | | |
| General Government | \$ 184,404 | \$ - | \$ - | \$ - | |
| Interest and Related Costs on Long-Term Debt | 148,728 | - | - | - | |
| Total Governmental Activities | \$ 333,132 | \$ - | \$ - | \$ - | |
| GENERAL REVENUES | | | | | |
| Property Taxes | | | | 1,114,608 | |
| Specific Ownership Taxes | | | | 76,818 | |
| Net Investment Income | | | | 1,495 | |
| Total General Revenues | | | | 1,192,921 | |
| CHANGE IN NET POSITION | | | | | |
| Net Position - Beginning of Year | | | | (2,892,850) | |
| NET POSITION - END OF YEAR | | | | | |
| | | | | \$ (2,033,061) | |

See accompanying Notes to Basic Financial Statements.

**EAST SMOKY HILL METROPOLITAN DISTRICT NO. 2
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2021**

| | General | Debt Service | Total Governmental Funds |
|--|---------------------|---------------------|--------------------------------|
| ASSETS | | | |
| Cash and Investments | \$ 1,288,391 | \$ - | \$ 1,288,391 |
| Cash and investments - Restricted | 16,600 | 553,179 | 569,779 |
| Receivable - County Treasurer | 6,270 | - | 6,270 |
| Property Taxes Receivable | 274,964 | 887,151 | 1,162,115 |
| Prepaid Expenses | 450 | - | 450 |
| | <u>\$ 1,586,675</u> | <u>\$ 1,440,330</u> | <u>\$ 3,027,005</u> |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES | | | |
| LIABILITIES | | | |
| Accounts Payable | \$ 28,013 | \$ - | \$ 28,013 |
| Total Liabilities | <u>28,013</u> | <u>-</u> | <u>28,013</u> |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Deferred Property Tax Revenue | 274,964 | 887,151 | 1,162,115 |
| Total Deferred Inflows of Resources | <u>274,964</u> | <u>887,151</u> | <u>1,162,115</u> |
| FUND BALANCES | | | |
| Nonspendable - Prepaid Expense | 450 | - | 450 |
| Restricted for: | | | |
| Emergency Reserves | 16,600 | - | 16,600 |
| Debt Service | - | 553,179 | 553,179 |
| Assigned to: | | | |
| Subsequent Year's Expenditures | 233,988 | - | 233,988 |
| Unassigned | 1,032,660 | - | 1,032,660 |
| Total Fund Balances | <u>1,283,698</u> | <u>553,179</u> | <u>1,836,877</u> |
| Total Liabilities, Deferred Inflows of Resources, and Fund Balances | <u>\$ 1,586,675</u> | <u>\$ 1,440,330</u> | |

Amounts reported for governmental activities in the statement of net position are different because:

Long-term liabilities, including bonds payable are not due and payable in the current period and, therefore, are not reported in the funds.

| | |
|---------------------------------|----------------|
| Bonds Payable | (3,870,000) |
| Deferred Cost of Refunding, Net | 76,824 |
| Original Issue Premium, Net | (66,900) |
| Accrued Bond Interest Payable | (9,862) |
| | <u>(9,862)</u> |

| | |
|---|-----------------------|
| Net Position of Governmental Activities | <u>\$ (2,033,061)</u> |
|---|-----------------------|

See accompanying Notes to Basic Financial Statements.

EAST SMOKY HILL METROPOLITAN DISTRICT NO. 2
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2021

| | General | Debt Service | Total Governmental Funds |
|---|--------------|-----------------|--------------------------------|
| REVENUES | | | |
| Property Taxes | \$ 472,864 | \$ 641,744 | \$ 1,114,608 |
| Specific Ownership Taxes | 76,818 | - | 76,818 |
| Net Investment Income | 1,152 | 343 | 1,495 |
| Total Revenues | 550,834 | 642,087 | 1,192,921 |
| EXPENDITURES | | | |
| Current: | | | |
| Accounting | 25,900 | - | 25,900 |
| Annual Flowers | 18,600 | - | 18,600 |
| Audit | 4,700 | - | 4,700 |
| County Treasurer's Fees | 7,097 | 9,631 | 16,728 |
| Directors' Fees | 2,300 | - | 2,300 |
| Dues and Licenses | 834 | - | 834 |
| District Management | 30,714 | - | 30,714 |
| Insurance and Bonds | 10,467 | - | 10,467 |
| Repairs and Maintenance | 10,597 | - | 10,597 |
| Landscaping | 15,601 | - | 15,601 |
| Landscape Contract | 36,000 | - | 36,000 |
| Landscape - Trees | 2,330 | - | 2,330 |
| Legal | 12,285 | - | 12,285 |
| Miscellaneous | 109 | - | 109 |
| Irrigation Repairs | 5,999 | - | 5,999 |
| Playground Maintenance | 680 | - | 680 |
| Payroll Taxes | 191 | - | 191 |
| Debt Service: | | | |
| Bond Principal | - | 485,000 | 485,000 |
| Bond Interest | - | 137,744 | 137,744 |
| Paying Agent Fees | - | 200 | 200 |
| Total Expenditures | 184,404 | 632,575 | 816,979 |
| EXCESS OF REVENUES OVER (UNDER) EXPENDITURES | 366,430 | 9,512 | 375,942 |
| OTHER FINANCING SOURCES (USES) | | | |
| Transfers In (Out) | (197,871) | 197,871 | - |
| Total Other Financing Sources (Uses) | (197,871) | 197,871 | - |
| NET CHANGE IN FUND BALANCES | 168,559 | 207,383 | 375,942 |
| Fund Balances - Beginning of Year | 1,115,139 | 345,796 | 1,460,935 |
| FUND BALANCES - END OF YEAR | \$ 1,283,698 | \$ 553,179 | \$ 1,836,877 |

See accompanying Notes to Basic Financial Statements.

**EAST SMOKY HILL METROPOLITAN DISTRICT NO. 2
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF THE GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2021**

Net Change in Fund Balances - Governmental Funds \$ 375,942

Amounts reported for governmental activities in the statement of activities are different because:

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

| | |
|--|----------|
| Amortization of Cost of Bond Refunding | (21,450) |
| Current Year Bond Principal | 485,000 |
| Amortization of Bond Premium | 18,680 |

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

| | |
|---|-------|
| Accrued Bond Interest - Change in Liability | 1,617 |
|---|-------|

| | |
|--|------------|
| Changes in Net Position of Governmental Activities | \$ 859,789 |
|--|------------|

**EAST SMOKY HILL METROPOLITAN DISTRICT NO. 2
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL
YEAR ENDED DECEMBER 31, 2021**

| | Original and Final Budget | Actual Amounts | Variance with Final Budget Positive (Negative) |
|---|---------------------------------|---------------------|---|
| REVENUES | | | |
| Property Taxes | \$ 472,864 | \$ 472,864 | \$ - |
| Specific Ownership Taxes | 33,100 | 76,818 | 43,718 |
| Net Investment Income | 6,000 | 1,152 | (4,848) |
| Total Revenues | <u>511,964</u> | <u>550,834</u> | <u>38,870</u> |
| EXPENDITURES | | | |
| Accounting | 30,000 | 25,900 | 4,100 |
| Annual Flowers | 20,000 | 18,600 | 1,400 |
| Audit | 5,000 | 4,700 | 300 |
| County Treasurer's Fees | 7,093 | 7,097 | (4) |
| Directors' Fees | 2,500 | 2,300 | 200 |
| Dues and Licenses | 700 | 834 | (134) |
| District Management | 30,000 | 30,714 | (714) |
| Insurance and Bonds | 11,500 | 10,467 | 1,033 |
| Repairs and Maintenance | 6,000 | 10,597 | (4,597) |
| Landscaping | 60,000 | 15,601 | 44,399 |
| Landscape Contract | 45,000 | 36,000 | 9,000 |
| Landscape - Trees | 7,500 | 2,330 | 5,170 |
| Landscaping Maintenance | 45,000 | - | 45,000 |
| Legal | 8,000 | 12,285 | (4,285) |
| Miscellaneous | 3,000 | 109 | 2,891 |
| Irrigation Repairs | 20,000 | 5,999 | 14,001 |
| Park Improvements | 130,000 | - | 130,000 |
| Payroll Taxes | 191 | 191 | - |
| Playground Maintenance | 10,000 | 680 | 9,320 |
| Reserve Study | 5,000 | - | 5,000 |
| Contingency | 16,016 | - | 16,016 |
| Total Expenditures | <u>462,500</u> | <u>184,404</u> | <u>278,096</u> |
| EXCESS OF REVENUES OVER (UNDER) EXPENDITURES | 49,464 | 366,430 | 316,966 |
| OTHER FINANCING SOURCES (USES) | | | |
| Operating Transfers In (Out) | - | (197,871) | (197,871) |
| Total Other Financing Sources (Uses) | <u>-</u> | <u>(197,871)</u> | <u>(197,871)</u> |
| NET CHANGE IN FUND BALANCE | 49,464 | 168,559 | 119,095 |
| Fund Balance - Beginning of Year | <u>1,396,480</u> | <u>1,115,139</u> | <u>(281,341)</u> |
| FUND BALANCE - END OF YEAR | <u>\$ 1,445,944</u> | <u>\$ 1,283,698</u> | <u>\$ (162,246)</u> |

See accompanying Notes to Basic Financial Statements.

EAST SMOKY HILL METROPOLITAN DISTRICT NO. 2
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021

NOTE 1 DEFINITION OF REPORTING ENTITY

East Smoky Hill Metropolitan District No. 2 (the District), a quasi-municipal corporation and political subdivision of the state of Colorado, was organized by order and decree on November 23, 1994, and is governed pursuant to provisions of the Colorado Special District Act (Title 32, Article 1, Colorado Revised Statutes). The District's service area is located in Arapahoe County, Colorado. The District was established primarily to provide for the financing of the acquisition, construction, completion, installation, and/or operation of street improvements, water, sanitation, safety protection, park and recreation, and transportation services. The District has conveyed most facilities and improvements to Arapahoe County, East Cherry Creek Valley Water and Sanitation District, Arapahoe Park and Recreation District, or other entities for maintenance and operation after completion of construction.

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

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

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Government-Wide and Fund Financial Statements

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

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

EAST SMOKY HILL METROPOLITAN DISTRICT NO. 2
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government-Wide and Fund Financial Statements (Continued)

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. Indirect expenses are not allocated.

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

The District reports the following major governmental funds:

The General Fund is the District's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

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

Amounts reported as program revenues include: 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

EAST SMOKY HILL METROPOLITAN DISTRICT NO. 2
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budgets

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

Pooled Cash and Investments

The District follows the practice of pooling cash and investments of all funds to maximize investment earnings. Except when required by trust or other agreements, all cash is deposited to and disbursed from a single bank account. Cash in excess of immediate operating requirements is pooled for deposit and investment flexibility. Investment earnings are allocated periodically to the participating funds based upon each fund's average equity balance in the total cash.

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 taxpayer's election, in February and June. Delinquent taxpayers are notified in August and generally sales of the tax liens on delinquent properties are held in November or December. The County Treasurer remits the taxes collected monthly to the District.

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

Original Issue Premium

In the government-wide financial statements, bond premiums are deferred and amortized over the life of the bonds using the effective interest method.

Cost of Bond Refunding

In the government-wide financial statements, the deferred cost of bond refunding is being amortized using the interest method over the life of the new bonds. The amortization amount is a component of interest expense and the unamortized deferred cost is reflected as a deferred outflow of resources.

EAST SMOKY HILL METROPOLITAN DISTRICT NO. 2
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Inflows of Resources

In addition to assets, the statement of net position reports 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 and so will not be recognized as an outflow of resources (expense/expenditure) until that time. The District has one item that qualifies for reporting in this category. Accordingly, the item, costs of bond refunding, is deferred and recognized as an outflow of resources in the period that the amount is incurred.

In addition to liabilities, the statement of net position reports 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 and so will not be recognized as an inflow of resources (revenue) until that time. The District has one item that qualifies for reporting in this category. Accordingly, the item, deferred property tax revenue, is deferred and recognized as an inflow of resources in the period that the amount becomes available.

Equity

Net Position

For government-wide presentation purposes when both restricted and unrestricted resources are available for use, it is the District's practice to use restricted resources first, then unrestricted resources as they are needed.

Fund Balance

Fund balance for governmental funds should be reported in classifications that comprise a hierarchy based on the extent to which the government is bound to honor constraints on the specific purposes for which spending can occur. Governmental funds report up to five classifications of fund balance: nonspendable, restricted, committed, assigned, and unassigned. Because circumstances differ among governments, not every government or every governmental fund will present all of these components. The following classifications describe the relative strength of the spending constraints:

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

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

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

**EAST SMOKY HILL METROPOLITAN DISTRICT NO. 2
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Equity (Continued)

Fund Balance (Continued)

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

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

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

NOTE 3 CASH AND INVESTMENTS

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

Statement of Net Position:

| | |
|-----------------------------------|--------------|
| Cash and Investments | \$ 1,288,391 |
| Cash and Investments - Restricted | 569,779 |
| Total Cash and Investments | \$ 1,858,170 |

Cash and investments as of December 31, 2021, consist of the following:

| | |
|--------------------------------------|--------------|
| Deposits with Financial Institutions | \$ 7,809 |
| Investments | 1,850,361 |
| Total Cash and Investments | \$ 1,858,170 |

Deposits with Financial Institutions

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

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

**EAST SMOKY HILL METROPOLITAN DISTRICT NO. 2
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 3 CASH AND INVESTMENTS (CONTINUED)

Deposits with Financial Institutions (Continued)

At December 31, 2021, the District's cash deposits had a bank balance of \$7,809 and a carrying balance of \$7,809.

Investments

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

The District generally limits its concentration of investments to those noted with an asterisk (*) below, which are believed to have minimal credit risk, minimal interest rate risk, and no foreign currency risk. Additionally, the District is not subject to concentration risk or investment custodial risk disclosure requirements for investments that are in the possession of another party.

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

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

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

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

| <u>Investment</u> | <u>Maturity</u> | <u>Amount</u> |
|---|-----------------------------------|---------------|
| Colorado Local Government Liquid Asset Fund Trust (COLOTRUST PLUS+) | Weighted-Average Under 60 Days | \$ 1,850,361 |

EAST SMOKY HILL METROPOLITAN DISTRICT NO. 2
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021

NOTE 3 CASH AND INVESTMENTS (CONTINUED)

COLOTRUST

The District invested in the Colorado Local Government Liquid Asset Trust (COLOTRUST) (the Trust), an investment vehicle established for local government entities in Colorado to pool surplus funds. The State Securities Commissioner administers and enforces all state statutes governing the Trust. The Trust currently offers three portfolios – COLOTRUST PRIME, COLOTRUST PLUS+, and COLOTRUST EDGE. COLOTRUST PRIME and COLOTRUST PLUS+, which operate similarly to a money market fund and each share is equal in value to \$1.00, offer daily liquidity. Both portfolios may invest in U.S. Treasury securities 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 any security allowed under CRS 24-75-601.

COLOTRUST EDGE, a variable Net Asset Value (NAV) Local Government Investment Pool, offers weekly liquidity and is managed to approximate a \$10.00 transactional share price. COLOTRUST EDGE may invest in securities authorized by CRS 24-75-601, including U.S. Treasury securities, repurchase agreements collateralized by U.S. Treasury securities, certain obligations of U.S. government agencies, highest rated commercial paper, and any security allowed under CRS 24-75-601.

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

NOTE 4 LONG-TERM OBLIGATIONS

The following is an analysis of changes in the District's long-term obligations for the year ended December 31, 2021:

| | Balance - December 31, 2020 | Additions | Reductions | Balance - December 31, 2021 | Due Within One Year |
|-----------------------------------|-----------------------------------|-------------|-------------------|-----------------------------------|------------------------|
| Governmental Activities: | | | | | |
| General Obligation Bonds Payable: | | | | | |
| Series 2011 Bonds | \$ 4,355,000 | \$ - | \$ 485,000 | \$ 3,870,000 | \$ 505,000 |
| Original Issue Premium | 85,580 | - | 18,680 | 66,900 | - |
| Total | <u>\$ 4,440,580</u> | <u>\$ -</u> | <u>\$ 503,680</u> | <u>\$ 3,936,900</u> | <u>\$ 505,000</u> |

**EAST SMOKY HILL METROPOLITAN DISTRICT NO. 2
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 4 LONG-TERM OBLIGATIONS (CONTINUED)

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

General Obligation Bonds

\$8,170,000 General Obligation Refunding Bonds, Series 2011, dated December 29, 2011. On December 29, 2011, the District issued \$8,170,000 in Series 2011 General Obligation Refunding Bonds with interest of 2.00% to 4.00% (yield 2.6603%), consisting of serial bonds due through December 1, 2028. The bonds maturing on or after December 1, 2022, are subject to redemption prior to maturity on or after December 1, 2021, at the option of the District without redemption premium. The bonds were issued to advance refund all of the District's General Obligation Bonds, Series 2000 and to pay for the costs of issuing the 2011 bonds. The District used \$450,000 of current funds towards the refunding of the Series 2000 bonds. The bonds and interest are insured as to repayment by Assured Guaranty Municipal Corp (AGM). AGM is rated AA by Standard and Poor's and A2 by Moody's. The Series 2011 bonds are rated A+ by Standard and Poor's.

The bonds are secured by and payable from ad valorem property taxes to be levied on all taxable property in the District without limitation as to rate and in amounts sufficient, when combined with other legally available moneys of the District, if any, to pay the principal of and interest on the Series 2011 Bonds when due. For collection year 2022, the District levied 12.596 mills for Debt Service.

The District's long-term obligations will mature as follows:

| <u>Year Ending December 31,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|---------------------------------|---------------------|-------------------|---------------------|
| 2022 | \$ 505,000 | \$ 118,344 | \$ 623,344 |
| 2023 | 520,000 | 103,194 | 623,194 |
| 2024 | 535,000 | 87,594 | 622,594 |
| 2025 | 550,000 | 71,544 | 621,544 |
| 2026 | 570,000 | 55,044 | 625,044 |
| 2027-2028 | 1,190,000 | 57,607 | 1,247,607 |
| Total | <u>\$ 3,870,000</u> | <u>\$ 493,327</u> | <u>\$ 4,363,327</u> |

Authorized Debt

On November 8, 1994, the District's electors authorized the issuance of indebtedness in an amount of \$10,000,000 at an interest rate not to exceed 18% per annum. At December 31, 2021, the District had no authorized but unissued debt.

Per the Service Plan, the District is limited to issuing \$10,000,000 in debt. In addition, the maximum debt service mill levy for the District is 50 mills, as adjusted for changes in the ratio of actual value to assessed value of property within the District

EAST SMOKY HILL METROPOLITAN DISTRICT NO. 2
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021

NOTE 5 NET POSITION

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

The restricted component of net position consists of assets that are restricted for use either externally imposed by auditors, grantors, contributors, or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The District had a restricted net position as of December 31, 2021, as follows:

| | |
|-------------------------------|-------------------|
| Restricted Net Position: | |
| Emergency Reserves | \$ 16,600 |
| Debt Service | 543,317 |
| Total Restricted Net Position | <u>\$ 559,917</u> |

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

NOTE 6 AGREEMENTS

Saddle Rock Ridge HOA – License Agreement

On August 14, 2012, the District entered into a License Agreement with Saddle Rock Ridge Homeowners Association, Inc. (SRR HOA) (the Original License) granting the District a license to spend funds to make park improvements to property owned by SRR HOA located at the intersections of: (1) Lake Avenue and Lake Place, (2) Tibet Street and Belleview Place, and (3) Prentice Avenue and Valdai Street. The agreement expires on December 1, 2028.

On August 12, 2014, the District and SRR HOA amended the Original License (the Amended License) to allow the District to spend funds to make park improvements to additional property owned by SRR HOA located at the intersections of: (1) Valdai Court and Tempe Way, (2) Yakima Street and Lake Place, and (3) Versailles Street and Berry Avenue.

On October 25, 2016, the District and SRR HOA entered into the Second Amended and Restated License Agreement (the Second Amended License), which superseded and replaced the Original License and the Amended License. Pursuant to the Second Amended License, SRR HOA granted the District a license over certain defined property to maintain and improvement landscaping improvements thereon. That property includes the following property owned by SRR HOA: (1) Tract 6D, Block 3, Saddle Rock Ridge Filing No. 6, located at East Lake Place and East Lake Avenue, (2) Tract 5C, Block 5, Saddle Rock Ridge Filing No. 3, located between South Valdai court and South Tempe Way, (3) Tract 3V, Block 18, Saddle Rock Ridge Filing No. 3, located at South Yakima Street; (4) Tract D, Block 12, Saddle Rock Ridge Filing No. 1, located at South Versailles Street between South Versailles Way and South Wenatchee Street, (5) Tract DD, Block 8, Saddle Rock Ridge Filing No.1, located at South Valdai Street between East Prentice Avenue and East Progress Avenue, and (6) Tract L, Block 1, Saddle Rock Ridge Filing No. 1, located on the corner of East Belleview Avenue and South Tempe Street.

EAST SMOKY HILL METROPOLITAN DISTRICT NO. 2
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021

NOTE 6 AGREEMENTS (CONTINUED)

Saddle Rock Ridge HOA – Median Maintenance Agreement

On May 17, 2016, the District entered into a Median Maintenance Agreement with SRR HOA granting the District responsible for maintaining the medians located within the County right-of-way. The agreement terminates on December 31, 2115.

NOTE 7 INTERFUND TRANSFER

The transfer from the Debt Service Fund to General Fund was the result of retaining revenues in excess of the Fiscal Year Spending limit.

NOTE 8 RISK MANAGEMENT

Except as provided in the Colorado Governmental Immunity Act, as may be amended from time to time, the District may be exposed to various risks of loss related to torts; thefts of, damage to, or destruction of assets; errors or omissions; injuries to employees; or acts of God.

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

The District pays annual premiums to the Pool for liability, public officials' liability, and workers' compensation coverage. In the event aggregated losses incurred by the Pool exceed amounts recoverable from reinsurance contracts and funds accumulated by the Pool, the Pool may require additional contributions from the Pool members. Any excess funds which the Pool determines are not needed for purposes of the Pool may be returned to the members pursuant to a distribution formula.

NOTE 9 TAX, SPENDING, AND DEBT LIMITATIONS

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

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

EAST SMOKY HILL METROPOLITAN DISTRICT NO. 2
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021

NOTE 9 TAX, SPENDING, AND DEBT LIMITATIONS (CONTINUED)

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 8, 1994, a majority of the District's electors authorized the District to collect and spend or retain in reserve \$275,000 annually in taxes generated by the certification of an operating mill levy not to exceed 25 mills commencing in 1995 and all subsequent years without any limitations under TABOR.

NOTE 10 SUBSEQUENT EVENT

On February 10, 2022, the District refunded its outstanding long-term obligations with the following:

General Obligation Bonds

\$3,456,000 General Obligation Refunding Bonds, Series 2022, dated February 10, 2022. On February 10, 2022, the District issued \$3,456,000 in Series 2022 General Obligation Refunding Bonds with interest of 1.50%, and the Bonds shall mature on December 1, 2028. The Bonds are subject to optional redemption prior to maturity on any date at a redemption price equal to the par amount redeemed plus accrued interest thereon. Notice of any such optional redemption shall be given by the Bond Registrar to the registered owner of the Bonds at least 30 days prior to any such redemption. The Bonds were issued to advance refund the General Obligation Bonds, Series 2011 and to pay for the costs of issuing the 2022 bonds. The District used \$550,000 of current funds towards the refunding of the Series 2011 bonds.

SUPPLEMENTARY INFORMATION

**EAST SMOKY HILL METROPOLITAN DISTRICT NO. 2
DEBT SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL
YEAR ENDED DECEMBER 31, 2021**

| | Original and Final Budget | Actual Amounts | Variance with Final Budget Positive (Negative) |
|---|---------------------------------|-------------------|---|
| REVENUES | | | |
| Property Taxes | \$ 641,744 | \$ 641,744 | \$ - |
| Net Investment Income | 200 | 343 | 143 |
| Total Revenues | <u>641,944</u> | <u>642,087</u> | <u>143</u> |
| EXPENDITURES | | | |
| Bond Principal | 485,000 | 485,000 | - |
| Bond Interest | 137,744 | 137,744 | - |
| Paying Agent Fees | 2,500 | 200 | 2,300 |
| County Treasurer's Fees | 9,626 | 9,631 | (5) |
| Total Expenditures | <u>634,870</u> | <u>632,575</u> | <u>2,295</u> |
| EXCESS OF REVENUES OVER (UNDER) EXPENDITURES | 7,074 | 9,512 | 2,438 |
| OTHER FINANCING SOURCES (USES) | | | |
| Transfers In (Out) | - | 197,871 | 197,871 |
| Total Other Financing Sources (Uses) | <u>-</u> | <u>197,871</u> | <u>197,871</u> |
| NET CHANGE IN FUND BALANCE | 7,074 | 207,383 | 200,309 |
| Fund Balance - Beginning of Year | <u>65,587</u> | <u>345,796</u> | <u>280,209</u> |
| FUND BALANCE - END OF YEAR | <u>\$ 72,661</u> | <u>\$ 553,179</u> | <u>\$ 480,518</u> |

OTHER INFORMATION

EAST SMOKY HILL METROPOLITAN DISTRICT NO. 2
SCHEDULE OF DEBT SERVICE REQUIREMENTS TO MATURITY
DECEMBER 31, 2021

| | | | |
|---------------------------------|---|-------------------|---------------------|
| | \$8,170,000 | | |
| | General Obligation Refunding Bonds | | |
| | Series 2011 | | |
| | Dated December 29, 2011 | | |
| | Interest Rate 2.00% - 4.00% (Yield 2.6603%) | | |
| | Principal Due December 1 | | |
| | Interest Due June 1 and December 1 | | |
| <u>Year Ending December 31,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
| 2022 | \$ 505,000 | \$ 118,344 | \$ 623,344 |
| 2023 | 520,000 | 103,194 | 623,194 |
| 2024 | 535,000 | 87,594 | 622,594 |
| 2025 | 550,000 | 71,544 | 621,544 |
| 2026 | 570,000 | 55,044 | 625,044 |
| 2027 | 585,000 | 37,944 | 622,944 |
| 2028 | 605,000 | 19,663 | 624,663 |
| Total | <u>\$ 3,870,000</u> | <u>\$ 493,327</u> | <u>\$ 4,363,327</u> |

Bonds maturing on or after December 1, 2022, are callable on or after December 1, 2021, without redemption premium.

EAST SMOKY HILL METROPOLITAN DISTRICT NO. 2
SCHEDULE OF ASSESSED VALUATION, MILL LEVY, AND PROPERTY TAXES COLLECTED
DECEMBER 31, 2021

| Year Ended December 31, | Prior Year Assessed Valuation for Current Year Property Tax Levy | Percent Increase (Decrease) | Mills Levied for | | Total Property Taxes | | Percent Collected to Levied |
|---|--|-----------------------------------|------------------|-----------------|-------------------------|------------|-----------------------------------|
| | | | General | Debt Service | Levied | Collected | |
| | | | | | | | |
| 2017 | \$ 51,351,016 | 7.00% | 4.000 | 12.500 | \$ 847,292 | \$ 847,330 | 100.00 % |
| 2018 | 57,716,013 | 12.40 | 5.500 | 11.000 | 952,314 | 952,316 | 100.00 |
| 2019 | 57,739,028 | 0.04 | 5.500 | 11.000 | 952,695 | 952,695 | 100.00 |
| 2020 | 67,178,968 | 16.35 | 7.000 | 9.500 | 1,108,453 | 1,108,428 | 99.98 |
| 2021 | 67,552,972 | 0.56 | 7.000 | 9.500 | 1,114,608 | 1,114,608 | 100.00 |
| Estimated for the Year Ending December 31, 2022 | \$ 70,431,201 | 4.26% | 3.904 | 12.596 | \$ 1,162,115 | | |