

**PRAIRIESTAR METROPOLITAN
DISTRICT NO. 2**

Financial Statements

December 31, 2021

PRAIRIESTAR METROPOLITAN DISTRICT NO. 2

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Dazzio & Associates, PC

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinions

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund, of the District, as of December 31, 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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with generally accepted auditing standards, we:

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

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

Required Supplementary Information

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

Supplementary Information

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

Other Information

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

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

Duggio & Associates, P.C.

June 9, 2022

BASIC FINANCIAL STATEMENTS

PRAIRIESTAR METROPOLITAN DISTRICT NO. 2

STATEMENT OF NET POSITION

December 31, 2021

	Governmental Activities
Assets	
Cash and Investments - Restricted	\$ 3,766,856
Receivable from County Treasurer	3,203
Property Taxes Receivable	742,312
Prepaid Expense	6,679
Capital Assets Not Being Depreciated	1,454,171
Total Assets	5,973,221
Liabilities	
Due to District No. 1	3,320,814
Accrued Interest Payable	27,181
Noncurrent Liabilities:	
Due Within One Year	90,000
Due In More Than One Year	23,682,391
Total Liabilities	27,120,386
Deferred Inflows of Resources	
Unavailable Revenue - Property Taxes	742,312
Net Position	
Investment In Capital Assets	1,454,171
Restricted	
Debt Service	118,447
Unrestricted	(23,462,095)
Total Net Position	\$ (21,889,477)

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

PRAIRIESTAR METROPOLITAN DISTRICT NO. 2

**STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2021**

<u>Function/Program Activities</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Governmental Activities</u>	<u>Net (Expense) Revenue and Changes in Net Position</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>		<u>Capital Grants and Contributions</u>
Governmental Activities					
Administration	\$ 199,730	\$ 4,654	\$ 39,040	\$ -	\$ (156,036)
Interest and Related Costs on Long-term Debt	1,254,877	-	-	-	(1,254,877)
Payment to District No. 1	17,797,522	-	-	-	(17,797,522)
Transfer of Public Improvements from District No. 1	-	-	-	1,454,171	1,454,171
Total Governmental Activities	\$ 19,252,129	\$ 4,654	\$ 39,040	\$ 1,454,171	(17,754,264)
General Revenues:					
Property Taxes					634,038
Specific Ownership Taxes					48,234
Net Investment Income					694
Total General Revenues					682,966
Changes In Net Position					(17,071,298)
Net Position - Beginning					(4,818,179)
Net Position - Ending					\$ (21,889,477)

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

PRAIRIESTAR METROPOLITAN DISTRICT NO. 2

**BALANCE SHEET
GOVERNMENTAL FUNDS**

December 31, 2021

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>
Assets				
Cash and Investments - Restricted	\$ -	\$ 394,334	\$ 3,372,522	3,766,856
Receivable from County Treasurer	712	2,491	-	3,203
Property Taxes Receivable	164,952	577,360	-	742,312
Due from District No. 1	18,803	39,584	-	58,387
Prepaid Expense	6,679	-	-	6,679
Due from Other Funds	-	19,515	-	19,515
Total Assets	<u>\$ 191,146</u>	<u>\$ 1,033,284</u>	<u>\$ 3,372,522</u>	<u>\$ 4,596,952</u>
Liabilities				
Due to District No. 1	\$ 6,679	\$ -	\$ 3,372,522	\$ 3,379,201
Due to Other Funds	19,515	-	-	19,515
Total Liabilities	<u>26,194</u>	<u>-</u>	<u>3,372,522</u>	<u>3,398,716</u>
Deferred Inflows of Resources				
Property Taxes	164,952	577,360	-	742,312
Fund Balances				
Prepaid Expenses	6,679	-	-	6,679
Restricted for Debt Service	-	455,924	-	455,924
Unassigned	(6,679)	-	-	(6,679)
Total Fund Balances	<u>-</u>	<u>455,924</u>	<u>-</u>	<u>455,924</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 191,146</u>	<u>\$ 1,033,284</u>	<u>\$ 3,372,522</u>	<u>\$ 4,596,952</u>

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

PRAIRIESTAR METROPOLITAN DISTRICT NO. 2

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

December 31, 2021

Total Fund Balances - Governmental Funds		\$	455,924
Total net position reported for governmental activities in the statement of of net position is different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of:			
Construction in Process			1,454,171
Long-term liabilities applicable to the District's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the statement of net position.			
Balances at year-end are:			
Bonds Payable		\$	(21,840,000)
Bond Premium			(1,932,391)
Accrued Interest on Bonds			(27,181)
			<u>(23,799,572)</u>
Net Position - Governmental Activities		\$	<u>(21,889,477)</u>

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

PRAIRIESTAR METROPOLITAN DISTRICT NO. 2

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

For the Year Ended December 31, 2021

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>
Revenues				
Property Taxes	\$ 140,891	\$ 493,147	\$ -	\$ 634,038
Specific Ownership Tax	10,718	37,516	-	48,234
Net Investment income	76	618	-	694
Developer Contribution	39,040	-	-	39,040
Miscellaneous Income	4,654	-	-	4,654
Total Revenues	<u>195,379</u>	<u>531,281</u>	<u>-</u>	<u>726,660</u>
Expenditures				
Current				
Payment to District No. 1	190,803	-	-	190,803
Treasurer's Fees	2,819	9,868	-	12,687
Debt Service				
Payment to District No. 1	-	13,645,000	-	13,645,000
Bond Issue Costs	-	721,965	-	721,965
Bond Principal	-	534,000	-	534,000
Bond Interest	-	341,579	-	341,579
Paying Agent Fees	-	6,000	-	6,000
Capital Outlay				
Payment to District No. 1	-	-	4,152,522	4,152,522
Total Expenditures	<u>199,730</u>	<u>15,258,412</u>	<u>4,152,522</u>	<u>19,610,664</u>
Excess Revenues Over (Under)				
Expenditures	<u>(4,351)</u>	<u>(14,727,131)</u>	<u>(4,152,522)</u>	<u>(18,884,004)</u>
Other Financing Sources (Uses)				
Bond Proceeds - Series 2021A	-	8,195,000	-	8,195,000
Bond Proceeds - Series 2021B	-	13,645,000	-	13,645,000
Bond Premium - Series 2021A	-	1,932,391	-	1,932,391
Payment to Refunded Escrow Agent	-	(5,838,968)	-	(5,838,968)
Transfer In (Out)	-	(4,152,522)	4,152,522	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>13,780,901</u>	<u>4,152,522</u>	<u>17,933,423</u>
Net Change in Fund Balances	<u>(4,351)</u>	<u>(946,230)</u>	<u>-</u>	<u>(950,581)</u>
Fund Balances - Beginning	<u>4,351</u>	<u>1,402,154</u>	<u>-</u>	<u>1,406,505</u>
Fund Balances - Ending	<u>\$ -</u>	<u>\$ 455,924</u>	<u>\$ -</u>	<u>\$ 455,924</u>

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

PRAIRIESTAR METROPOLITAN DISTRICT NO. 2

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

For the Year Ended December 31, 2021

Net Change in Fund Balances - Total Governmental Funds	\$ (950,581)
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Amounts reported for governmental activities in the statement of activities are different because:

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

Contributed assets	1,454,171
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The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. The net effect of these differences in the treatment of long-term debt is as follows:

Bond Proceeds	\$ (21,840,000)	
Bond Premium	(1,932,391)	
Bond Principal Payment	6,195,000	
Change in Bond Interest Payable	2,503	(17,574,888)

Change in Net Position - Governmental Activities	<u>\$ (17,071,298)</u>
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The notes to the financial statements are an integral part of this statement.

PRAIRIESTAR METROPOLITAN DISTRICT NO. 2

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

GENERAL FUND

For the Year Ended December 31, 2021

(With Comparative Totals for the Year Ended December 31, 2020)

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)	2020 Actual
Revenues					
Property Taxes	\$ 140,992	\$ 140,992	\$ 140,891	\$ (101)	\$ 109,171
Specific Ownership Tax	9,002	9,002	10,718	1,716	7,300
Developer Contribution	-	51,875	39,040	(12,835)	-
Net investment income	-	-	76	76	19
Miscellaneous Income	100	41,791	4,654	(37,137)	4,375
Total Revenues	150,094	243,660	195,379	(48,281)	120,865
Expenditures					
Current					
Management	-	4,475	4,475	-	-
Payment to District No. 1	153,672	242,184	190,803	51,381	114,852
Treasurer's Fee	2,113	2,819	2,819	-	1,638
Legal	-	286	286	-	-
Miscellaneous	100	1,347	1,347	-	24
Emergency Reserve	1,660	-	-	-	-
Total Expenditures	157,545	251,111	199,730	51,381	116,514
Net Change in Fund Balance	(7,451)	(7,451)	(4,351)	3,100	4,351
Fund Balance - Beginning	7,451	7,451	4,351	(3,100)	-
Fund Balance - Ending	\$ -	\$ -	\$ -	\$ -	\$ 4,351

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

PRAIRIESTAR METROPOLITAN DISTRICT NO. 2

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2021

Note 1 – Definition of Reporting Entity

The PrairieStar Metropolitan District No. 2 (the “District”), was originally organized by recorded Order and Decree of the District Court for the County of Larimer on December 8, 2010, and is governed pursuant to provisions of the Colorado Special District Act (Title 32, Article 1, Colorado Revised Statutes).

The District operates under a Service Plan approved by the Town of Berthoud (the “Town”) on July 27, 2010. The District’s service boundaries are located entirely within the Town. The District is one of four related districts: PrairieStar Metropolitan Districts Nos. 1, 2, 3 and 4 (the “Districts”). The Districts entered into a Memorandum of Understanding that defines the various responsibilities of the Districts (see Note 6). As of December 31, 2021, the Districts have the same membership of their respective Boards of Directors.

Pursuant to the Service Plan, the District has the power to provide for the design, acquisition, construction, installation, relocating, redeveloping and financing of certain water, sanitation, storm water, street, traffic and safety protection, transportation, mosquito control, park and recreation, television relay and translator, and fire protection improvements and services.

On December 10, 2021, the District issued \$8,195,000 Limited Tax General Obligation Refunding and Improvement Bonds, Series 2021A and \$13,645,000 Subordinate Limited Tax General Obligation Bonds, Series 2021B₍₃₎ (See Note 5). Concurrent with the issuance of the bonds, and upon PrairieStar Metropolitan District No. 1 (“District No. 1”) termination of various agreements with the District (see Note 6), it is the intention that District No. 1 would cease functioning as the operating district.

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

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

PRAIRIESTAR METROPOLITAN DISTRICT NO. 2

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2021

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. For the most part, the effect of interfund activity has been removed from these statements.

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenue. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenue* 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 revenue are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported in 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*. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial statements are reported using the current *financial resources measurement focus* and the *modified accrual basis of accounting*. 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 revenue to be available if they are collected within 60 days of the end of the current fiscal period. The major source of revenue susceptible to accrual are developer advances. All other revenue items are considered to be measurable and available only when cash is received by the District.

PRAIRIESTAR METROPOLITAN DISTRICT NO. 2

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2021

Expenditures are recorded when the related fund liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

The District reports the following major governmental funds:

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

Debt Service Fund – This fund is used to account for the acquisition and construction of the District's major capital facilities.

Capital Projects Fund – This fund is used to account for the acquisition and construction of the District's major capital facilities.

Budgets

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

The District has amended its annual budget for the year ended December 31, 2021.

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 and investments.

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

PRAIRIESTAR METROPOLITAN DISTRICT NO. 2

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2021

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.

Capital Assets

Capital assets are reported 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. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset 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.

Depreciation expense has been computed using the straight-line method over the following estimated economic useful lives:

Parks and Recreation facilities	20 years
Storm Drainage	25 years
Sanitary Sewer- Pump Station	15 years
Off-Street Sidewalks/Trail Improvements	30 years

Deferred Inflows of Resources

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(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has only one type of

PRAIRIESTAR METROPOLITAN DISTRICT NO. 2

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2021

item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, deferred property tax revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Long-term Obligations

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

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

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.

In the government-wide financial statements, fund equity is classified as net position. Net position may be classified into three components: net investment in capital assets, restricted and unrestricted. These classifications are defined as follows:

Net investment in capital assets – this component of net position consists of capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any debt that is attributable to the acquisition, construction or improvement of those assets. If there are significant unspent debt proceeds at year end, the portion of the debt attributable to the unspent proceeds is not included in this component.

Restricted – this component of net position consists of assets that are restricted for use as imposed by external parties such as creditors, grantors or contributors, or as imposed by laws or regulations of other governments, or as imposed through constitutional provisions or enabling legislation.

PRAIRIESTAR METROPOLITAN DISTRICT NO. 2

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2021

Unrestricted – the component of net position that does not meet the definitions above.

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 legally or contractually required to be maintained intact.

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

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

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

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

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

The General Fund reported a deficit in the fund financial statements as of December 31, 2021. This deficit was eliminated with the receipt of property taxes in 2022.

PRAIRIESTAR METROPOLITAN DISTRICT NO. 2

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2021

Note 3 – Cash Deposits and Investments

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

Cash and Investments - Restricted	<u>\$ 3,766,856</u>
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Cash and investments as of December 31, 2021 consist of the following:

Cash Deposits	\$ 44,802
Investments	<u>3,722,054</u>
Total	<u>\$ 3,766,856</u>

Cash Deposits

Custodial credit risk

Custodial risk for deposits is the risk that, in the event of a failure of a depository financial institution, the District will not be able to recover its deposits or will not be able to recover collateral securities that are in possession of an outside party. The Colorado Public Deposit Protection Act (PDPA) governs the investment of public funds. 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 (\$250,000) 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 equal to 102% of the aggregate uninsured deposits. The institution's internal records identify the collateral by depositor and as such, these deposits are considered to be uninsured but collateralized. The State Regulatory Commissions for banks and financial services are required by statute to monitor the naming of eligible depositories and reporting of the uninsured deposits and assets maintained in the collateral pools.

At December 31, 2021, the District's cash deposits had a bank and carrying balance of \$44,802.

PRAIRIESTAR METROPOLITAN DISTRICT NO. 2

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2021

Investments

The District has adopted an investment policy by which it follows state statutes regarding investments.

The District generally limits its concentration of investments to obligations of the United States, certain U.S. government agency securities and Local Government Investment Pools, which are believed to have minimal credit risk; minimal interest rate risk and no foreign currency risk. Additionally, the District is not subject to concentration risk disclosure requirements or subject to investment custodial credit risk for investments that are in the possession of another party.

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

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

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

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

<u>Investment</u>	<u>Maturity</u>	<u>Amount</u>
Colorado Government Liquid Asset Trust (COLOTRUST)	Weighted Average under 60 Days	\$ 39,233
Morgan Stanley Liquidity Funds Treasury Portfolio	Weighted Average under 60 Days	3,682,821
		<u>\$ 3,722,054</u>

PRAIRIESTAR METROPOLITAN DISTRICT NO. 2

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2021

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.

The District holds all its investments in the COLOTRUST PLUS+ portfolio.

Morgan Stanley Institutional Liquidity Funds Treasury Portfolio (MSILF)

The MSILF invests exclusively in U.S. Treasury Obligations and repurchase agreements fully collateralized by U.S. Treasury Obligations. The MSILF records its investments at amortized cost and the District records its investments in the MSILF at net asset value as determined by amortized cost. There are no unfunded commitments, the redemption frequency is daily, and there is no redemption notice period. There are no unfunded commitments, the redemption frequency is daily and there is no redemption notice period. The fund is rated AAAM by Standard and Poor's and AAA by Moody's.

PRAIRIESTAR METROPOLITAN DISTRICT NO. 2

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2021

Note 4 – Capital Assets

An analysis of the changes in capital assets for the year ended December 31, 2021 follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital Assets Not Being Depreciated				
Construction in Process:				
Parks and Recreation	\$ -	\$ 1,047,639	\$ -	\$ 1,047,639
Storm Drainage	-	359,773	-	359,773
Sanitary Sewer- Pump Station	-	40,221	-	40,221
Off-Street Sidewalks/Trail Improvements	-	6,538	-	6,538
Total Capital Assets Not Being Depreciated	<u>\$ -</u>	<u>\$ 1,454,171</u>	<u>\$ -</u>	<u>\$ 1,454,171</u>

Note 5 – Long-Term Obligations

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<u>Governmental Activities:</u>					
Limited Tax General Obligation Bonds, Series 2016	\$ 6,195,000	\$ -	\$ 6,195,000	\$ -	\$ -
Limited Tax General Obligation Bonds, Series 2021A	-	8,195,000	-	8,195,000	90,000
Bond Premium - Series 2021A	-	1,932,391	-	1,932,391	-
Subordinate Limited Tax General Obligation Bonds, Series 2021B(3)	-	13,645,000	-	13,645,000	-
	<u>\$ 6,195,000</u>	<u>\$ 23,772,391</u>	<u>\$ 6,195,000</u>	<u>\$ 23,772,391</u>	<u>\$ 90,000</u>

PRAIRIESTAR METROPOLITAN DISTRICT NO. 2

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2021

General Obligation Bonds

Limited Tax General Obligation Bonds, Series 2016

The District issued \$6,195,000 in Limited Tax General Obligation Bonds, Series 2016, dated August 17, 2016, (the "Series 2016 Bonds") with interest at 5.75%, payable semi-annually on June 1 and December 1, beginning on December 1, 2016. Annual mandatory sinking fund principal payments are due on December 1, beginning on December 1, 2021. The Bonds mature on December 1, 2046, and are subject to redemption prior to maturity, at the option of the District, on December 1, 2021, and on any date thereafter, upon payment of par, accrued interest, and a redemption premium of a percentage of the principal amount so redeemed, as follows:

Date of Redemption	Redemption Premium
December 1, 2021, to November 30, 2022	3.00%
December 1, 2022, to November 30, 2023	2.00%
December 1, 2023, to November 30, 2024	1.00%
December 1, 2024, and thereafter	0.00%

The proceeds from the sale of the Bonds were used for the purposes of: (i) paying or reimbursing the costs of capital infrastructure improvements; (ii) providing capitalized interest for the Bonds; (iii) funding a Reserve Fund securing the Bonds; and, (iv) paying costs of issuance of the Bonds.

The 2016 Bonds were paid in their entirety from the issuance of the Limited Tax General Obligation Refunding and Improvement Bonds, Series 2021A.

Limited Tax General Obligation Refunding and Improvement Bonds, Series 2021A

Series 2021A Bond Details

The District issued \$8,195,000 in Limited Tax General Obligation Refunding and Improvement Bonds, Series 2021A, dated December 10, 2021, (the "Series 2021A Bonds") with interest at 5.00%, payable semi-annually on June 1 and December 1, beginning on June 1, 2022.

Proceeds from the sale of the Series 2021A Bonds will be used to (a) refund all of the outstanding Series 2016 Bonds, (b) finance or reimburse a portion of the costs of acquiring, constructing, and/or installing certain Public Improvements to serve the development within the District, (c) purchase the Reserve Policy and fund a portion of the Reserve Fund, (d) purchase a municipal bond insurance policy for the Bonds, and (e) fund the costs of issuing the Bonds and the Series 2021B₍₃₎ Subordinate Bonds.

PRAIRIESTAR METROPOLITAN DISTRICT NO. 2

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2021

The District refunded the Series 2016 Bonds to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$898,454. The Series 2016 Bonds were both fully redeemed on December 10, 2021.

The Series 2021A Bonds consist of \$2,090,000 of serial bonds maturing in various amounts from December 1, 2022 through December 31, 2031 and \$6,105,000 of term bonds maturing in various amounts from December 1, 2032 through December 31, 2046.

The Series 2021A Bonds maturing on or after December 1, 2036, are subject to redemption prior to maturity, at the option of the District, in whole or in part, and if in part in any order of maturity, on December 1, 2031, and on any date thereafter, at a redemption price equal to the principal amount thereof without premium. The Term Bonds maturing on December 1, 2036, December 1, 2041, and December 1, 2046, are subject to mandatory sinking fund redemption at a price equal to the principal amount thereof, plus accrued interest to the redemption date.

Repayment of both principal and interest on the Bonds are insured by Build America Mutual Assurance Company.

Series 2021A Bonds Pledged Revenue

The Bonds are secured by and payable solely from Senior Pledged Revenue, which includes Senior Property Tax Revenue derived from the Senior Required Mill Levy, net of the cost of collection, Specific Ownership Taxes attributable to the Senior Required Mill Levy, and any other legally available moneys which the District determines to transfer to the Trustee for application as Senior Pledged Revenue.

Series 2021A Bonds Required Mill Levy

Pursuant to the Senior Indenture, the District has covenanted to levy each year upon all taxable property of the District the Senior Required Mill Levy, meaning, an ad valorem mill levy imposed upon all taxable property of the District each year in an amount necessary to generate Senior Property Tax Revenues sufficient to pay the principal of, premium if any, and interest on the Bonds as the same become due and payable (less any amount thereof for which amounts are then on deposit in the Senior Bond Fund and, solely to the extent provided in the Indenture, the Reserve Fund) and replenishing the Reserve Fund to the Reserve Requirement or repaying the Bond Insurer for draws on the Reserve Policy, as applicable, but not in excess of 50 mills, provided, however, that in the event that the method of calculating assessed valuation is changed after January 1, 2010, the maximum mill levy of 50 mills provided herein will be increased or decreased to reflect such changes.

PRAIRIESTAR METROPOLITAN DISTRICT NO. 2

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2021

Series 2021A Bonds Reserve Fund

The Series 2021A Bonds are also secured by amounts on deposit in the Reserve Fund which will initially be funded through the issuance of the Reserve Policy and proceeds of the Series 2021A Bonds in an aggregate amount equal to \$590,250 (the "Reserve Requirement"). The Reserve Policy and proceeds of the Bonds will each be in the amount of 50% of the Reserve Requirement.

Events of Default

Events of Default as defined in the Series 2021A Bond Indenture are 1) the failure of the District to impose the Senior Required Mill levy, or to apply the Senior Pledged Revenue as required by the Senior Indenture, 2) the default by the District in the performance or observance of any other of the covenants, agreements, or conditions of the Senior Indenture or the Bond Resolution, and failure to remedy the same after notice thereof pursuant to the Senior Indenture, and 3) the filing of a petition under the federal bankruptcy laws or other applicable laws seeking to adjust the obligations represented by the Bonds. Failure to pay the principal of or interest on the Series 2021A Bonds when due shall not, of itself, constitute an Event of Default under the Indenture. Remedies available in the Event of Default include 1) receivership, 2) suit for judgment, and 3) mandamus or other suits. Acceleration of the Series 2021A Bonds is not an available remedy for an Event of Default.

Series 2021A Bonds Debt Service

The outstanding principal and interest of the Series 2021A Bonds are due as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 90,000	\$ 399,506	\$ 489,506
2023	180,000	405,250	585,250
2024	190,000	396,250	586,250
2025	200,000	386,750	586,750
2026	210,000	376,750	586,750
2027-2031	1,220,000	1,715,500	2,935,500
2032-2037	1,560,000	1,377,750	2,937,750
2038-2041	1,995,000	946,500	2,941,500
2042-2046	2,550,000	395,000	2,945,000
	<u>\$ 8,195,000</u>	<u>\$ 6,399,256</u>	<u>\$ 14,594,256</u>

PRAIRIESTAR METROPOLITAN DISTRICT NO. 2

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2021

Subordinate Limited Tax General Obligation Bonds, Series 2021B₍₃₎

Series 2021B₍₃₎ Bond Details

The District issued \$13,645,000 in Subordinate Limited Tax General Obligation Bonds, Series 2021B₍₃₎, dated December 10, 2021, (the “Series 2021B₍₃₎ Bonds”, together with the Series 2021A Bonds, the “2021 Bonds”) with interest at 1.73%. Interest is payable to the extent of Subordinate Pledged Revenue available therefor annually on each December 15, commencing on December 15, 2022.

To the extent interest on any Bond is not paid when due, such interest shall compound annually on each Interest Payment Date, at the rate then borne by the 2021B₍₃₎ Bond.

Proceeds from the sale of the Series 2021B₍₃₎ Bonds were used to pay amounts due from District No. 1 to the PrairieStar, Inc. (the “Developer”) pursuant to the Facilities Funding and Acquisition Agreement (the “FFAA”) entered into on December 14, 2010 and effective as of December 8, 2010, between District No. 1 and the Developer, as amended by a First Amendment thereto entered into on August 3, 2016.

District No. 1 and the Developer entered into a First Amendment to the FFAA on August 3, 2016, in order to acknowledge that the District will issue bonds on behalf of the Districts. The Amendment to the FFAA evidences an intent to reimburse the Developer, but shall not constitute a debt or indebtedness, nor a multiple fiscal year financial obligation.

On December 10, 2021, District No. 1 and the Developer entered into a Termination of Facilities Funding and Acquisition Agreement (the “FFAA Termination Agreement”). The terms of the FFAA Termination Agreement state the proceeds of the 2021 Bonds are to be used to repay in full all amounts due from District No. 1 to the Developer under the FFAA and to pay for accrued capital improvements, which the District has agreed to finance in the Facilities, Funding, Construction and Operations Agreement (the “FFCOA”) (see Note 6). Pursuant to the Acknowledgement of Stipulated Amount of Payment Due and Waiver and Release, dated December 10, 2021, the Developer has stipulated and agreed to accept payment for the remaining costs due to the Developer for Verified Costs incurred under the FFAA amounting to \$16,458,021 for Verified Costs and \$4,825,461 in interest, for a total amount of \$21,283,482. The District has available to exchange \$13,645,000 from the Series 2021B Bonds and \$4,152,522 in cash from the Series 2021A Bonds Project Fund (“2021A Bonds Project Fund”), for a total of \$17,797,522. The Developer has agreed to accept this amount, as payment in full for amounts due from the District and District No. 1 under the FFAA. On December 10, 2021, District No. 1 exchanged \$13,645,000 in Series 2021B Bonds and paid \$780,000 in cash to the Developer as partial payment for the Verified Costs and interest, respectively. The remaining

PRAIRIESTAR METROPOLITAN DISTRICT NO. 2

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2021

cash available from the Series 2021A Bonds Project Fund of \$3,372,522 was paid to the Developer on January 5, 2022.

On December 10, 2021, the FFAA was terminated and outstanding amount of \$3,485,960 was removed from District No. 1's liabilities.

The Series 2021B₍₃₎ Bonds are subject to redemption prior to maturity, at the option of the District, as a whole or in integral multiples of \$1,000, in any order of maturity, and in whole or partial maturities (and if in part in such order of maturities as the District shall determine and by lot within maturities), on December 1, 2026, and on any date thereafter, upon payment of par, accrued interest, and a redemption premium equal to a percentage of the principal amount so redeemed, as follows:

<u>Date of Redemption</u>	<u>Redemption Premium</u>
December 1, 2026, to November 30, 2027	3.00%
December 1, 2027, to November 30, 2028	2.00
December 1, 2028 to November 30, 2029	1.00
December 1, 2029, and thereafter	0.00

In the event that any amount of principal of or interest on the Series 2021B₍₃₎ Bonds remains unpaid after the application of all Subordinate Pledged Revenue available therefor on December 15, 2061, the Series 2021B₍₃₎ Bonds shall be deemed discharged. Upon such discharge, the registered owners of the Series 2021B₍₃₎ Bonds will have no recourse to the District or any property of the District for the payment of any amount of principal of or interest on the Bonds remaining unpaid.

Series 2021B₍₃₎ Bonds Pledged Revenue

The Series 2021B₍₃₎ Bonds are secured by and payable solely from Subordinate Pledged Revenue, which includes subordinate property taxes derived from the Subordinate Required Mill Levy, net of the cost of collection, subordinate Specific Ownership Taxes attributable to the Subordinate Required Mill Levy, and any other legally available moneys which the District determines to transfer to the Trustee for application as Subordinate Pledged Revenue.

Series 2021B₍₃₎ Subordinate Bonds Required Mill Levy

The Subordinate Required Mill Levy means an ad valorem mill levy equal to 35 mills less the Senior Obligation Mill Levy, or such lesser amount that will generate Subordinate Property Tax Revenues which, when combined with moneys then on deposit in the Subordinate Bond Fund, will pay the Series 2021B₍₃₎ Bonds in full in the year such levy is collected; provided however, that in the event that the method of calculating assessed valuation is changed after January 1,

PRAIRIESTAR METROPOLITAN DISTRICT NO. 2

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2021

2010, the mill levy of 35 mills provided herein shall be increased or decreased to reflect such changes, such increases or decreases to be determined by the Board in good faith so that to the extent possible, the actual tax revenues generated by the mill levy, as adjusted, are neither diminished nor enhanced as a result of such changes, but in no event shall the mill levy of 35 mills provided for herein be adjusted to exceed 50 mills.

Events of Default

Events of Default as defined in the Series 2021B₍₃₎ Bond Indenture are 1) the failure of the District to impose the Subordinate Required Mill levy, or to apply the Subordinate Pledged Revenue as required by the Subordinate Indenture, 2) the default by the District in the performance or observance of any other of the covenants, agreements, or conditions of the Indenture or the Bond Resolution, and failure to remedy the same after notice thereof pursuant to the Indenture, and 3) the filing of a petition under the federal bankruptcy laws or other applicable laws seeking to adjust the obligations represented by the Bonds. Failure to pay the principal of or interest on the Series 2021B₍₃₎ Bonds. It is acknowledged that due to the limited nature of the Subordinate Pledged Revenue, the failure to pay the principal of or interest on the Bonds when due shall not, of itself, constitute an event of default. Acceleration of the Series 2021B₍₃₎ Bonds is not an available remedy for an Event of Default.

The Series 2021B₍₃₎ Bonds do not have scheduled amortization but, rather, are subject to mandatory redemption to the extent of Subordinate Pledged Revenues available.

Authorized Debt

On November 2, 2010 and on May 6, 2014, a majority of the qualified electors of the District authorized the issuance of indebtedness in an amount not to exceed \$915,600,000 at an interest rate not to exceed 18% per annum. At December 31, 2021, the District had authorized but unissued indebtedness in the following amounts allocated for the following purposes:

	Amount Authorized on November 2, 2010	Amount Authorized on May 6, 2014	Series 2016 Limited Tax General Obligation Bonds	Series 2021A Limited Tax General Obligation Bonds	Series 2021B₍₃₎ Limited Tax General Obligation Bonds	Remaining Authorization
Public Improvements	\$ 343,350,000	\$ 343,350,000	\$ 6,195,000	\$ 3,237,735	\$ 13,645,000	\$ 663,622,265
Operations and Maintenance	38,150,000	38,150,000	-	-	-	76,300,000
Debt Refundings	38,150,000	38,150,000	-	-	-	76,300,000
Intergovernmental Agreements	38,150,000	38,150,000	-	-	-	76,300,000
	<u>\$ 457,800,000</u>	<u>\$ 457,800,000</u>	<u>\$ 6,195,000</u>	<u>\$ 3,237,735</u>	<u>\$ 13,645,000</u>	<u>\$ 892,522,265</u>

Per the Service Plan, the total debt issuance limitation for the Districts is \$38,150,000.

PRAIRIESTAR METROPOLITAN DISTRICT NO. 2

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2021

Developer Advances

Multiple-Year Operation Funding Agreement (MYOFA)

On December 10, 2021, the District entered into a MYOFA with the Developer. The District anticipates that it will not have sufficient revenues to make payment of its Operations Expenses for fiscal years 2022 through 2023. The District anticipates a shortfall in revenues available for Operations Expenses to be incurred for fiscal years 2022 through 2023 in an aggregate amount of \$39,039.99 (the "Shortfall Amount").

During the year ended December 31, 2021, the Developer advanced \$39,039.99 to the District.

The Developer has waived the right to repayment by the District for the Developer Advance and further acknowledges the District shall have no obligations to make reimbursements under this Agreement. Therefore, the amount is shown as a Developer Contribution in the financial statements.

Note 6 – Intergovernmental Agreements

Intergovernmental Agreement with the Town

On December 14, 2010, the District entered into an Intergovernmental Agreement ("Agreement") with the Town whereby the District agreed to various restrictions and notification requirements related to areas such as District dissolution, tax or fee impositions, bond issuances, boundary expansions and service expansions.

Memorandum of Understanding

A Memorandum of Understanding was entered into on December 14, 2010 by and among the District, District No. 1, District No. 3 and District No. 4 ("MOU"). Under the Service Plan, the Districts are required to work together and coordinate their efforts with respect to all activities contemplated in the Service Plan including but not limited to the management and administration of the Districts, the provision of essential services by the Districts, and the financing, construction, operation and maintenance of public improvements.

The MOU acknowledges that District No. 1 shall provide for the financing, construction, design, operation and maintenance of the public improvements, as well as the overall administration of the Districts and further acknowledges that District No. 1 has the authority to enter into agreement(s) and other obligations with the Developer of the property to provide for the financing of such services. The MOU acknowledges that the Districts will enter into a Facilities,

PRAIRIESTAR METROPOLITAN DISTRICT NO. 2

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2021

Funding, Construction and Operations Agreement detailing such services (“FFCOA”). The MOU also provides that the FFCOA shall provide for the District, District No. 3 and District No. 4 to remit revenues to District No. 1 for all costs incurred by District No. 1 pursuant to the MOU based on an allocable basis to be set forth in the FFCOA.

On December 10, 2021, the MOU was terminated.

Facilities, Funding, Construction and Operations Agreement (“FFCOA”)

On December 9, 2014, with an effective date of December 5, 2013, the District entered into a FFCOA with District No. 1. Pursuant to the FFCOA, District No. 1 serves as the Operating District which will operate, maintain, finance and construct (including funding thereof) certain of the Public Improvements and the Taxing District will contribute to the costs of construction, operation, management and maintenance of such Public Improvements. The District serves as the Taxing District. As of the Effective Date of this Agreement, District No. 3 and District No. 4 continue to be inactive. Consistent with the terms of the MOU, the Districts intend for District No. 3 and District No. 4 to also be parties to this Agreement and therefore, at such time as District No. 3 and District No. 4 each become active, this Agreement will be presented to District No. 3 and District No. 4 for consideration and they will each be given the opportunity to become a party to this Agreement, and until such time, the MOU shall continue to govern the rights and obligations with respect to District No. 3 and District No. 4.

On August 3, 2016, the FFCOA was amended and restated (“Amended FFCOA”) to recognize the Taxing District’s issuance of Bonds and to reflect the changed debt structure of the Districts. Pursuant to the Amended FFCOA, either of the Districts may issue bonds for the construction, acquisition, or reimbursement of costs. Each District that determines to issue Bonds hereunder the proceeds of which will be utilized for Public Improvements shall be an "Issuing District". Each Taxing District anticipates receiving revenue from the imposition of a mill levy against all property within its respective boundaries and specific ownership taxes, and, if imposed or assessed at the direction of the Operating District, the collection of fees, charges, rates and tolls. All revenue received by the Taxing District will be transferred to the Operating District. However, If the Taxing District is the Issuing District and if the Taxing District pledges its debt service mill levy, specific ownership taxes attributable to such mill levy and other revenue of the Taxing District to the repayment of the Bond Requirements related to its Bonds, the Taxing District shall not be required to transfer the Taxing District Pledged Revenue to the Operating District.

Upon District No. 3’s return to active status on March 28, 2018, District No. 1, District No. 2 and District No. 3 entered into a Second Amended and Restated FFCOA, effective March 28, 2018 in order to add District No. 3 as a party.

PRAIRIESTAR METROPOLITAN DISTRICT NO. 2

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2021

During the year ending December 31, 2021, \$190,803 was transferred to District No. 1, representing funds received from the imposition of the District's operating mill levy and other unrestricted funds.

On December 10, 2021, the Districts entered into a Termination of Facilities Funding, Construction and Operations Agreement (the "FFCOA Termination Agreement"). Therefore, the FFCOA is terminated as of the date of this Termination Agreement and is of no further force or effect as of the date of this Termination Agreement, and that that the Districts have no further obligations to each other under the FFCOA.

PrairieStar Metropolitan District No. 2 Inclusion Agreement ("Inclusion Agreement")

On March 27, 2019, the District entered into an Inclusion Agreement with District No. 1 and PrairieStar, Inc. ("Owner"). The Owner owns property within the service area and intends to include approximately 32.0 acres into the District ("Inclusion Parcels"). The Inclusion Agreement was amended on February 18, 2021, with an effective date of November 19, 2020, to include an additional 1.145 acres into the District. Pursuant to the Inclusion Agreement, the Owner agrees to proceed with the inclusion of the Inclusion Parcels within the boundaries of the District and to proceed with the design and construction of certain public improvements on the Inclusion Parcels, in reliance on the agreement of District No. 1 and the District that the costs incurred by the Owner will be reimbursed by District No. 1 under the terms of the Facilities Funding and Acquisition Agreement, as amended, from the proceeds of Bonds to be issued by the District pursuant to the FFCOA. The Owner acknowledges that upon inclusion of the Inclusion Parcels into the District, such Inclusion Parcels shall be liable for payment of taxes imposed by the District to pay the obligations of the District, including, but not limited to, the 2016 Bonds and all Bonds issued by the District in the future.

On April 26, 2019, the Inclusion Parcels were included within the boundaries of the District pursuant to a recorded order for inclusion. The Included Parcels and are now subject to all of the taxes and charges imposed by the District and shall be liable for its proportionate share of existing and future bonded indebtedness of the District. In addition, pursuant to the Inclusion Agreement, District No. 1 will reimburse the Owner for costs incurred by the design and construction of certain public improvements.

The District's obligations under the Inclusion Agreement were fulfilled coincident with the issuance of the 2021 Bonds on December 10, 2021, and upon distribution of reimbursement to the Developer.

PRAIRIESTAR METROPOLITAN DISTRICT NO. 2

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2021

Note 7 – Net Position

The District has a 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 creditors, grantors, contributors, or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The District had restricted net position as of December 31, 2021, amounting to \$118,447.

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

The District has a deficit in unrestricted net position. The deficit is a result of the District being responsible for the repayment of bonds issued for public improvements which were constructed by other governmental entities.

Note 8 – Related Party

All of the members of the Board of Directors are employees, officers, owners or are otherwise associated with the Developer of the District and may have conflicts of interest in dealing with the District. Management believes that all potential conflicts, if any, have been disclosed.

Note 9 – Risk Management

The District is exposed to various risks of loss related to torts, thefts of, damage to, or destruction of assets, errors or omissions, injuries to employees, or natural disasters.

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

The District pays annual premiums to the Pool for general and public officials’ liability coverage. In the event aggregate 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.

PRAIRIESTAR METROPOLITAN DISTRICT NO. 2

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2021

Note 10 – Tax, Spending and Debt Limitations

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

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

TABOR requires local governments to establish Emergency Reserves. These reserves must be at least 3% of Fiscal Year Spending (excluding bonded debt service). Local governments are not allowed to use the emergency reserves to compensate for economic conditions, revenue shortfalls, or salary or benefit increases. The District transfers its net operating revenue to District No. 1 pursuant to the Amended FFCOA. Therefore, the Emergency Reserves related to the District's revenues are captured in District No. 1.

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 and qualification as an Enterprise will require judicial interpretation.

On May 6, 2014, the District's electors approved the following ballot issues:

Shall PrairieStar Metropolitan District No. 2 taxes be increased \$38,150,000 annually or such lesser amount as necessary to pay the District's administration, operations, maintenance, and capital expenses, by the imposition of ad valorem property taxes levied in any year, without limitation as to rate or amount or any other condition to pay such expenses and shall the proceeds of such taxes and any investment income thereon be collected, retained and spent by the District in fiscal year 2014 and in each fiscal year thereafter as a voter-approved revenue change without regard to any spending, revenue-raising, or other limitation contained within Article X, Section 20 of the Colorado Constitution, the limits imposed on increases in property taxation by Section 29-1-301, C.R.S. in any year, or any other law which purports to limit the District's revenues or expenditures as it currently exists or as it may be amended in the future, all without limiting in any year the amount of other revenues that may be collected, retained and spent by the District?

PRAIRIESTAR METROPOLITAN DISTRICT NO. 2

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2021

Shall PrairieStar Metropolitan District No. 2 taxes be increased \$38,150,000 annually or such lesser amount as necessary to pay the District's administration, operations, maintenance, and capital expenses, by the imposition of a fee or fees imposed, without limitation as to rate or amount or any other condition to pay such expenses and shall the proceeds of such fees and any investment income thereon be collected, retained and spent by the District in fiscal year 2014 and in each fiscal year thereafter as a voter-approved revenue change without regard to any spending, revenue-raising, or other limitation contained within Article X, Section 20 of the Colorado Constitution, the limits imposed on increases in property taxation by Section 29-1-301, C.R.S. in any year, or any other law which purports to limit the District's revenues or expenditures as it currently exists or as it may be amended in the future, all without limiting in any year the amount of other revenues that may be collected, retained and spent by the District?

Shall PrairieStar Metropolitan District No. 2 be authorized to collect, receive, retain, and spend the full amount of all taxes, tax increment revenues, tap fees, park fees, facility fees, public improvement fees, service charges, inspection charges, administrative charges, grants or any other fee, rate, toll, penalty, or charge authorized by law, covenants or contract to be imposed, collected or received by the District during 2014 and each fiscal year thereafter, such amounts to constitute a voter-approved revenue change and be collected, retained and spent by the District without regard to any spending, revenue-raising, or other limitation contained within Article X, Section 20 of the Colorado Constitution, the limits imposed on increases in property taxation by Section 29-1-301, C.R.S. in any subsequent year, or any other law which purports to limit the District's revenues or expenditures as it currently exists or as it may be amended in the future, and without limiting in any year the amount of other revenues that may be collected, received, retained and spent by the District?

SUPPLEMENTARY INFORMATION

PRAIRIESTAR METROPOLITAN DISTRICT NO. 2

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

DEBT SERVICE FUND

For the Year Ended December 31, 2021

(With Comparative Totals for the Year Ended December 31, 2020)

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)	2020 Actual
Revenues					
Property Taxes	\$ 493,496	\$ 493,496	\$ 493,147	\$ (349)	\$ 382,118
Specific Ownership Tax	32,077	32,077	37,516	5,439	27,465
Net Investment income	2,000	2,000	618	(1,382)	4,364
Total Revenues	<u>527,573</u>	<u>527,573</u>	<u>531,281</u>	<u>3,708</u>	<u>413,947</u>
Expenditures					
Debt Service					
Payment to District No. 1	-	13,645,000	13,645,000	-	-
Bond Issue Costs	-	722,550	721,965	585	-
Bond Principal	25,000	534,000	534,000	-	-
Bond Interest	356,212	356,212	341,579	14,633	356,213
Paying Agent Fees	-	-	6,000	(6,000)	-
Treasurer's Fees	9,870	9,870	9,868	2	7,645
Total Expenditures	<u>391,082</u>	<u>15,267,632</u>	<u>15,258,412</u>	<u>9,220</u>	<u>363,858</u>
Excess Revenues Over (Under)					
Expenditures	<u>136,491</u>	<u>(14,740,059)</u>	<u>(14,727,131)</u>	<u>12,928</u>	<u>50,089</u>
Other Financing Sources (Uses)					
Bond Proceeds - Series 2021A	-	10,855,000	8,195,000	(2,660,000)	-
Bond Proceeds - Series 2021B	-	13,645,000	13,645,000	-	-
Bond Premium - Series 2021A	-	-	1,932,391	1,932,391	-
Payment to Refunded Escrow Agent	-	(6,106,219)	(5,838,968)	267,251	-
Transfers Out	-	(4,152,522)	(4,152,522)	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>14,241,259</u>	<u>13,780,901</u>	<u>(460,358)</u>	<u>-</u>
Net Change in Fund Balance	<u>136,491</u>	<u>(498,800)</u>	<u>(946,230)</u>	<u>(447,430)</u>	<u>50,089</u>
Fund Balance - Beginning	<u>1,387,200</u>	<u>1,402,154</u>	<u>1,402,154</u>	<u>-</u>	<u>1,352,065</u>
Fund Balance - Ending	<u>\$ 1,523,691</u>	<u>\$ 903,354</u>	<u>\$ 455,924</u>	<u>\$ (447,430)</u>	<u>\$ 1,402,154</u>

See the Accompanying Independent Auditor's Report

PRAIRIESTAR METROPOLITAN DISTRICT NO. 2

CAPITAL PROJECTS FUND

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

**For the Year Ended December 31, 2021
(With Comparative Totals for the Year Ended December 31, 2020)**

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)	2020 Actual
Revenues					
Miscellaneous Income	\$ -	\$ -	\$ -	\$ -	\$ -
Total Revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Expenditures					
Payment to District No. 1	-	4,152,522	4,152,522	-	-
Total Expenditures	<u>-</u>	<u>4,152,522</u>	<u>4,152,522</u>	<u>-</u>	<u>-</u>
Other Financing Sources					
Transfers In	-	4,152,522	4,152,522	-	-
Net Change in Fund Balance	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance - Beginning	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance - Ending	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

See the Accompanying Independent Auditor's Report

OTHER INFORMATION

PRAIRIESTAR METROPOLITAN DISTRICT NO. 2

**SCHEDULE OF DEBT SERVICE REQUIREMENTS TO MATURITY
December 31, 2021**

**\$8,195,000 Limited Tax General Obligation Refunding and
Improvement Bonds, Series 2021A
Dated December 10, 2021
Interest Rate: 5.00%
Interest Payable June 1, December 1
Principal Due December 1**

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 90,000	\$ 399,506	\$ 489,506
2023	180,000	405,250	585,250
2024	190,000	396,250	586,250
2025	200,000	386,750	586,750
2026	210,000	376,750	586,750
2027	220,000	366,250	586,250
2028	230,000	355,250	585,250
2029	245,000	343,750	588,750
2030	255,000	331,500	586,500
2031	270,000	318,750	588,750
2032	285,000	305,250	590,250
2033	295,000	291,000	586,000
2034	310,000	276,250	586,250
2035	325,000	260,750	585,750
2036	345,000	244,500	589,500
2037	360,000	227,250	587,250
2038	380,000	209,250	589,250
2039	400,000	190,250	590,250
2040	415,000	170,250	585,250
2041	440,000	149,500	589,500
2042	460,000	127,500	587,500
2043	485,000	104,500	589,500
2044	510,000	80,250	590,250
2045	535,000	54,750	589,750
2046	560,000	28,000	588,000
	<u>\$ 8,195,000</u>	<u>\$ 6,399,256</u>	<u>\$ 14,594,256</u>

PRAIRIESTAR METROPOLITAN DISTRICT NO. 2

**SCHEDULE OF ASSESSED VALUATION, MILL LEVY AND
PROPERTY TAXES COLLECTED**

Levy Year	Collection Year	Assessed Valuation	Mill Levy			Total Levy	Current Collection	Collection Rate
			General	Debt	Total			
2015	2016	\$ 780,226	10.000	35.000	45.000	\$ 35,110	\$ 35,110	100.00%
2016	2017	1,279,993	10.000	35.000	45.000	57,600	57,600	100.00%
2017	2018	2,965,759	11.055	38.694	49.749	147,544	147,544	100.00%
2018	2019	4,868,126	11.055	38.694	49.749	242,184	241,113	99.56%
2019	2020	9,834,341	11.132	38.964	50.096	492,661	491,289	99.72%
2020	2021	12,665,440	11.132	38.964	50.096	634,488	634,037	99.93%
Estimated for the year ending December 31, 2022		\$ 14,817,787	11.132	38.964	50.096	\$ 742,312		

Note:

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

Source: Larimer County Assessor and Treasurer.