

SILVERSTONE METROPOLITAN DISTRICT NO. 2

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED DECEMBER 31, 2022



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INDEPENDENT AUDITORS' REPORT

Board of Directors
Silverstone Metropolitan District No. 2
Frederick, Colorado

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities and the major fund of Silverstone Metropolitan District No. 2, as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise Silverstone Metropolitan District No. 2'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 the major fund of Silverstone Metropolitan District No. 2, as of December 31, 2022, and the respective changes in financial position 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 Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Silverstone Metropolitan District No. 2 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 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 Silverstone Metropolitan District No. 2'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.

Auditors' 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 auditors' 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 Silverstone Metropolitan District No. 2'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 Silverstone Metropolitan District No. 2'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

Accounting principles generally accepted in the United States of America require that the budgetary comparison information be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements.

Board of Directors
Silverstone Metropolitan District No. 2

We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Broomfield, Colorado
April 22, 2023

SILVERSTONE METROPOLITAN DISTRICT NO. 2
STATEMENT OF NET POSITION
DECEMBER 31, 2022

	Governmental Activities
ASSETS	
Unrestricted Cash and Investments	\$ 6,891
Due from County Treasurer	839
Prepaid Items	2,389
Property Taxes Receivable	386,912
Construction in Progress	300,000
Total Assets	697,031
LIABILITIES	
Accrued Interest Payable	1,931,297
Noncurrent Liabilities:	
Due in More Than One Year:	
Series 2018A Bonds	5,500,000
Series 2018B Notes	7,465,251
Total Liabilities	14,896,548
DEFERRED INFLOWS OF RESOURCES	
Property Tax Revenue	386,912
Total Deferred Inflows of Resources	386,912
NET POSITION	
Restricted for TABOR	4,784
Unrestricted	(14,591,213)
Total Net Position	\$ (14,586,429)

See accompanying Notes to Financial Statements.

**SILVERSTONE METROPOLITAN DISTRICT NO. 2
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2022**

Functions/Programs	Expenses	Capital Contributions	Net (Expense) Revenue and Changes in Net Position Governmental Activities
GOVERNMENTAL ACTIVITIES			
General Government	\$ 324,210	\$ -	\$ (324,210)
Interest and Related Costs on Long-Term Debt	886,484	-	(886,484)
Total Governmental Activities	\$ 1,210,694	\$ -	(1,210,694)
GENERAL REVENUES			
Property Taxes			149,879
Specific Ownership Taxes			8,870
Transfers from District No. 1			62,738
Net Investment Income			719
Total General Revenues			222,206
CHANGE IN NET POSITION			(988,488)
Net Position - Beginning of Year			(13,597,941)
NET POSITION - END OF YEAR			\$ (14,586,429)

See accompanying Notes to Financial Statements.

**SILVERSTONE METROPOLITAN DISTRICT NO. 2
BALANCE SHEET
DECEMBER 31, 2022**

	General Fund
ASSETS	
Unrestricted Cash and Investments	\$ 6,891
Due from County Treasurer	839
Prepaid Items	2,389
Property Taxes Receivable	386,912
Total Assets	\$ 397,031
DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	
DEFERRED INFLOWS OF RESOURCES	
Property Tax Revenue	\$ 386,912
Total Deferred Inflows of Resources	386,912
FUND BALANCE	
Nonspendable	2,389
Restricted for TABOR	4,784
Unassigned	2,946
Total Fund Balance	10,119
Total Deferred Inflows of Resources and Fund Balance	\$ 397,031

See accompanying Notes to Financial Statements.

**SILVERSTONE METROPOLITAN DISTRICT NO. 2
RECONCILIATION OF THE BALANCE SHEET OF
GOVERNMENTAL FUND TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2022**

Total Fund Balance - Total Governmental Fund	\$	10,119
<p>Amounts reported for governmental activities in the statement of net position are different because:</p>		
<p>Accrued interest payable is recognized for governmental activities, but is not due and payable in the current period and, therefore, is not reported as a liability in the government funds.</p>		(1,931,297)
<p>Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund balance sheet.</p>		
Capital Assets, Not Being Depreciated		300,000
<p>Some liabilities are not due in the current period and, therefore, are not reported in the fund balance sheet.</p>		
Series 2018A Limited Tax Bonds		(5,500,000)
Series 2018B Limited Tax Notes		(7,465,251)
		(12,965,251)
Net Position of Governmental Activities		\$ (14,586,429)

See accompanying Notes to Financial Statements.

**SILVERSTONE METROPOLITAN DISTRICT NO. 2
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE – GOVERNMENTAL FUND
YEAR ENDED DECEMBER 31, 2022**

	<u>General Fund</u>
REVENUES	
Property Taxes	\$ 149,879
Specific Ownership Taxes	8,870
Intergovernmental - Silverstone Metropolitan District No. 1	62,738
Net Investment Income	719
Total Revenues	<u>222,206</u>
EXPENDITURES	
Current:	
Intergovernmental - Silverstone Metropolitan District No. 3	309,250
County Treasurer's Fees	2,250
Audit	1,916
Accounting	7,900
Insurance	1,906
Miscellaneous	988
Debt Service:	
Closing Costs	3,750
Interest	302,500
Total Expenditures	<u>630,460</u>
OTHER FINANCING SOURCES	
Proceeds from Developer Advances	<u>365,000</u>
Total Other Financing Sources	<u>365,000</u>
NET CHANGE IN FUND BALANCE	(43,254)
Fund Balance - Beginning of Year	<u>53,373</u>
FUND BALANCE - END OF YEAR	<u><u>\$ 10,119</u></u>

See accompanying Notes to Financial Statements.

**SILVERSTONE METROPOLITAN DISTRICT NO. 2
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE OF THE GOVERNMENTAL FUND TO
THE STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2022**

Net Change in Fund Balance - Total Governmental Fund	\$	(43,254)
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>An increase in accrued interest does not have any impact on governmental fund expenditures. This transaction, however, does increase the amount of interest expense on the statement of activities.</p>		(580,234)
<p>Debt proceeds provide current financial resources to the governmental fund; however issuing debt increases long-term liabilities in the statement of net position and does not effect the statement of activities.</p>		
Proceeds from Developer Advances		<u>(365,000)</u>
Change in Net Position of Governmental Activities	<u>\$</u>	<u>(988,488)</u>

See accompanying Notes to Financial Statements.

SILVERSTONE METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 1 DEFINITION OF REPORTING ENTITY

Silverstone Metropolitan District No. 2 (District) is a quasi-municipal corporation and political subdivision of the state of Colorado that was organized by order and decree of the District Court in Weld County on June 4, 2008. The District operates under a Consolidated Service Plan with Silverstone Metropolitan District No. 1 (District No. 1) and Silverstone Metropolitan District No. 3 (District No. 3) approved by the Town of Frederick (Town) on February 5, 2008. Pursuant to the Service Plan, the District and District No. 3, the financing districts, are intended to provide funding to District No. 1. District No. 1, the operating district, is intended to manage the financial, construction and operation and maintenance of such improvements as well as the day-to-day operations and administrative management of all three of the Districts. The operating district will be economically dependent upon intergovernmental revenue received from the financing districts in future years.

District No. 1 has the power to provide water, sanitation, storm drainage, streets, traffic and safety controls, park and recreation improvements and other related improvements for the benefit of taxpayers and service users within the Districts' boundaries. The Service Plan requires the District to convey the constructed improvements to the Town or homeowners association (HOA) for ownership and maintenance.

The District has no employees and all services 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 for any other organization, nor is the District a component unit of any other primary governmental entity, including District No. 1, District No. 3, and the Town.

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. Governmental activities are normally supported by taxes and intergovernmental revenues.

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

SILVERSTONE METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government-Wide and Fund Financial Statements

The statement of activities demonstrates the degree to which the direct and indirect expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met. Construction in progress is shown as an increase in assets.

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 intergovernmental revenue and property taxes. Expenditures generally are recorded when a liability is incurred as under accrual accounting. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

The District reports the following major governmental fund:

The General Fund is the District's primary operating fund. It accounts for all financial resources of the general government.

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's Board of Directors can modify the budget by line item within the total appropriation without notification. The appropriation can only be modified upon completion of notification and publication requirements. The budget includes each fund on its basis of accounting unless otherwise indicated. The adopted budgets for the General Fund and Debt Service fund have been consolidated and reflected as the General Fund Budget for financial reporting purposes.

SILVERSTONE METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 are recorded initially as deferred inflows 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.

Fund Balance and Net Position

Net position is reported in the governmental activities and is classified as restricted, unrestricted, or net investment in capital assets. Restrictions of net position represent amounts that are not available for appropriation or are legally restricted. Net investment in capital assets includes the values of capital assets. As of December 31, 2022, fund balances of governmental funds are classified as follows:

Nonspendable – amounts that cannot be spent either because they are not spendable in form or because they are legally or contractually required to be maintained intact. This includes amounts that are not expected to be converted to cash, for example, prepaid amounts.

Restricted – amounts that are subject to externally enforceable legal purpose restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments; or through constitutional provisions or enabling legislation.

Committed – amounts that are subject to a purpose constraint imposed by a formal action of the Board of Directors. The Board is the highest level of decision-making authority for the District. Commitments may be established, modified or rescinded only through resolutions approved by the Board.

Assigned – amounts that are subject to a purpose constraint that represents an intended use established by the District in its budget process. The purpose of the assignment must be narrower than the purpose of the General Fund.

Unassigned – represents the residual classification for the District's General Fund and could report a surplus or deficit. In 2022, the General Fund reported an unassigned fund balance of \$2,946.

SILVERSTONE METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Restricted Fund Balance

Emergency Reserves have been provided for as required by Article X, Section 20 of the Constitution of the state of Colorado (see Note 9). In compliance with this requirement, \$4,784 of the General Fund balance has been restricted.

The District's order of fund balance spending policy is to apply expenditures against restricted fund balance, committed fund balance, assigned fund balance, and unassigned fund balance. The District reserves the right to selectively spend unassigned fund balance.

NOTE 3 CASH AND INVESTMENTS

Cash and investments reflected on the statement of net position as of December 31, 2022 consist of the following:

Cash Deposits	\$ 2,168
Unrestricted Investments	<u>4,723</u>
Total Cash and Investments	<u><u>\$ 6,891</u></u>

Cash Deposits

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 equal to the aggregate uninsured deposits.

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

The District's cash deposits were covered under PDPA and not subject to custodial credit risk. At December 31, 2022, the District's cash deposits had a carrying balance of \$2,168.

Investments

The District has not adopted a formal investment policy; however, it follows state statutes regarding investments. The District also follows investment policies in bond or note agreements when those agreements are more restrictive than state statutes. 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 disclosure requirements or subject to investment custodial credit risk for investments that are in the possession of another party.

**SILVERSTONE METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE 3 CASH AND INVESTMENTS (CONTINUED)

Investments (Continued)

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

As of December 31, 2022, the District had the following investments:

Investment	Maturity	Amortized Cost
Colorado Surplus Asset Fund Trust	Less than One Year	\$ 4,723

Colorado Surplus Asset Trust Fund *

As of December 31, 2022, the District had invested \$4,723 in the Colorado Surplus Asset Fund 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 operates similarly to a money market fund and each share is equal in value to \$1.00. The Trust is rated AAmmf by Fitch Ratings and is valued at amortized cost. Based on the valuation method, additional disclosures are not required under GASB Statement No. 72.

NOTE 4 RELATED PARTY

Two of the four members of the Board of Directors are employees and are associated with Bellock Construction Company, construction manager and accountants for the District. During 2022, Districts No. 1, No. 2, and No. 3 had the same Board of Directors (see Note 7).

Accounting Services Agreement

An accounting services contract was entered into with Bellock Construction Company on July 24, 2008. Under this agreement, accounting services are provided to both District No. 1 and District No. 2 at the hourly rates of Bellock Construction Company employees. During 2022, the District incurred accounting services fees in the amount of \$7,900.

SILVERSTONE METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 4 RELATED PARTY (CONTINUED)

Private Placement Long Term Obligations

In 2019, the District issued Series 2018B Limited Tax Revenue Notes to Silverstone Development Company, Inc. (the Developer), a related party, in a total principal amount not to exceed \$11,000,000 at an interest rate of 8% (see Note 5). As of December 31, 2022 the outstanding principal balance on the 2018B Notes is \$7,465,251.

NOTE 5 LONG TERM OBLIGATIONS

PRIVATE PLACEMENT LONG TERM OBLIGATIONS

The District's long-term obligations consist of the following for the year ended December 31, 2022:

	Balance at January 1, 2022	Additions	Reductions	Balance at December 31, 2022	Due Within One Year
Private Placement:					
Series 2018A Limited Tax Bonds	\$ 5,500,000	\$ -	\$ -	\$ 5,500,000	\$ -
Series 2018B Limited Tax Notes	7,100,251	365,000	-	7,465,251	-
Total	<u>\$ 12,600,251</u>	<u>\$ 365,000</u>	<u>\$ -</u>	<u>\$ 12,965,251</u>	<u>\$ -</u>

Series 2018A Limited Tax Revenue Bonds

On January 7, 2019, the District issued \$5,500,000 of Limited Tax Revenue Bonds. On April 28, 2022, the District issued the First Amendment to the Series 2018A Resolution for the purpose of extending the maturity date from December 1, 2024 to December 1, 2027, and to terminate the Pledge Agreement. The termination of the Pledge Agreement, which was entered into on January 1, 2019 between the District, District No. 1, and District No. 3, eliminates amounts received from District No. 1 and District No. 3 which was a component of the Pledged Revenues securing the bonds. The Pledge Agreement was terminated on July 25, 2022.

The bonds bear interest at a rate of 5.50% payable on June 1 and December 1 to the registered owners of the Bonds from their date of delivery to maturity on each interest payment. The Series 2018A Bonds did not involve a public offering, and the bonds were issued for the purpose of funding the projects under the Service Plan, funding capitalized interest on the Bonds for a period of three years, and paying the costs of issuance of the Bonds. The Bonds constitute limited tax revenue bond obligations of the District as provided herein. The Bonds, together with the interest, shall be payable solely from and to the extent of the Pledged Revenues, which was redefined with the First Amendment to the Series 2018A Resolution on April 28, 2022. Pledge Revenues consist of (i) amounts collected by the District from the imposition of the Required Mill Levy, (ii) revenues derived from specific ownership taxes imposed by the District, and (iii) any other legally available amounts designated by the District at its discretion, as may be permitted under the Service Plan. The Bonds shall constitute an irrevocable lien upon the Pledged Revenues. Additionally, a guaranty agreement dated January 1, 2019 was made by Silverstone Development Company, Inc. in favor of the bond holders.

SILVERSTONE METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 5 LONG-TERM OBLIGATIONS (CONTINUED)

Series 2018A Limited Tax Revenue Bonds (Continued)

The agreement states that in the case of the failure or inability of the District to pay any guaranteed obligation when due, the Guarantor irrevocably and unconditionally agrees to pay the amounts due. The District paid \$302,500 of interest and incurred \$302,500 of interest expense for the year ended December 31, 2022.

The 2018A Limited Tax Revenue Bonds will mature as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ -	\$ 302,500	\$ 302,500
2024	-	302,500	302,500
2025	-	302,500	302,500
2026	-	302,500	302,500
2027	5,500,000	277,292	5,777,292
Total	<u>\$ 5,500,000</u>	<u>\$ 1,487,292</u>	<u>\$ 6,987,292</u>

Series 2018B Limited Tax Revenue Notes

On January 7, 2019, the District issued Limited Tax Revenue Notes aggregating a maximum of \$11,000,000 par value, and the Notes will mature on December 1, 2048. The Series 2018B Notes were issued to Silverstone Development Company, Inc. On April 28, 2022, the District issued the First Amendment to the Series 2018B Resolution for the purpose of terminating the Pledge Agreement between the Districts.

The Notes are issued as draw-down Notes. The Notes are issued in Authorized Denominations equal to the principal amount of the Notes as of any given date which shall be equal to (i) the total amount of principal advanced, less (ii) any payment of principal on the Notes received by the registered owner thereof. The Limited Tax Revenue Notes bear an interest rate of 8% payable on each December 1, commencing on December 1, 2019 to the extent of the ability of subordinate revenues. The Notes are subordinate, limited revenue obligations of the District payable solely from the Subordinate Pledged Revenue, after payment of any outstanding Series 2018A Bonds, and the District's current and annual reasonable operation, maintenance and administrative obligations and reasonable budgetary reserves. The bonds constitute an irrevocable lien upon the Subordinate Pledged Revenue, and due to the limited nature of the Subordinate Pledged Revenue, failure to pay principal or interest on the bonds when due shall not constitute an event of default.

In 2019, the 2018B Note was issued for \$4,047,500, with additional draws of \$246,000 during the year. In 2020, the total additional draws on the 2018B Note were \$2,551,751. In 2021, the total additional draws on the 2018B Note were \$255,000. During 2022, there were additional draws on the 2018B Note throughout the year, totaling \$365,000. The outstanding balance on the 2018B Note at year-end is \$7,465,251. The District incurred \$580,234 of interest expense for the year ended December 31, 2022.

**SILVERSTONE METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE 5 LONG-TERM OBLIGATIONS (CONTINUED)

Debt Authorization

On May 6, 2008, the District voters approved \$120,000,000 of revenue obligation debt at and interest rate not to exceed 18% per annum. At December 31, 2022, the unissued indebtedness of \$107,034,749 for parks and recreation, streets and traffic controls, water, sewer and storm drainage, and safety or refunding the obligations issued for such purposes. In the future, the District may issue a portion or all of the remaining authorized but unissued general obligation debt for purposes of providing public improvements to support development as it occurs within the District's service area.

NOTE 6 CONSTRUCTION IN PROGRESS

An analysis of the changes in construction in progress for the year ended December 31, 2022 follows:

	Balance at January 1, 2022	Additions	Reductions	Balance at December 31, 2022
Construction in Progress	\$ 300,000	\$ -	\$ -	\$ 300,000

On December 20, 2019, Silverstone Metropolitan District No. 2 entered into a Relinquishment of Surface Rights Agreement with K.P. Kauffman Company, Inc. regarding two specific oil and gas sites operated by KPK. The total consideration to be paid to KPK by the District for KPK's relinquishment, extinguishment or restriction of its Surface Rights in "Section 36", Township 2 North, Range 68 West of the PM, county of Weld, state of Colorado) is \$300,000 (\$150,000 per well). At the initial closing on January 29, 2020, the District paid \$150,000 of the consideration as a partial payment. The remaining balance of \$150,000 (\$75,000 per well) was paid on July 1, 2020 for the State #17 well and August 17, 2020 for the State #15 well upon completing the process of plugging the wells. The \$300,000 paid to KPK for surface rights was recorded as an addition to Construction in Progress and will be reclassified to land upon completion of the real property transfer to the District.

Agreement Regarding Relinquishment of Surface Rights

On January 22, 2020, Silverstone Metropolitan District No. 2 entered into an agreement with Richmond American Homes of Colorado, Inc., regarding payment for costs to plug and abandon State #17 well. Richmond American Homes owns the property surrounding State #17 and the Well Property. Upon execution of the Agreement, Richmond American Homes paid the District \$75,000. Upon commencement of the plug and abandon activities, Richmond American Homes paid an additional \$75,000 to the District, a total of \$150,000 to plug and abandon the well. Upon completion of the well activities, the District shall convey title to the Well Property, via special warranty deed, to Richmond American Homes. As of December 31, 2022, the title has not yet been conveyed to Richmond American Homes.

**SILVERSTONE METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE 7 INTERGOVERNMENTAL REVENUES AND EXPENDITURES

The following intergovernmental revenue and expenses occurred during fiscal year ended December 31, 2022:

	Silverstone Metropolitan District No. 1	Silverstone Metropolitan District No. 2	Silverstone Metropolitan District No. 3	Total Revenues
Silverstone Metropolitan:				
District No. 1	\$ -	\$ -	\$ -	\$ -
District No. 2	62,738	-	-	62,738
District No. 3	-	309,250	-	309,250
Total Expenditures	<u>\$ 62,738</u>	<u>\$ 309,250</u>	<u>\$ -</u>	<u>\$ 371,988</u>

NOTE 8 DISTRICT FACILITIES CONSTRUCTION AND SERVICE AGREEMENT (SERVICE CONTRACT) AND OTHER AGREEMENTS

District Facilities Construction and Service Agreement

In order to implement the Service Plan, the District entered into an intergovernmental agreement with Districts No. 1 and No. 3. The agreement shall remain in full force and effect until such time as each of the terms and conditions have been performed in their entirety or until the agreement is terminated by mutual written agreement by the Districts.

District No. 1 is to construct the facilities benefiting all of the Districts and transfer them to the Town. The District and District No. 3 will, to the extent that they are to benefit, pay the capital costs and the service costs of operation and maintenance of such facilities.

The District and District No. 3 are required to fund, on an annual basis, the amount of actual service costs that it would be capable of funding through property tax revenue plus other fee revenue as determined in the annual budget. If the Districts disagree as to the amount to be paid, then the District and District No. 3 must pay District No. 1 the amount set forth in the annual budget. The Gallagher Amendment, first added to the Colorado Constitution in 1982, required a residential to non-residential property tax ratio of 45% to 55% and required the state legislature to adjust the residential assessment rate to maintain the required ratio. During fiscal year 2017, the Colorado legislature reduced the residential assessment ratio from 7.96% to 7.20% causing the property tax mill rate for general obligation bonds and service costs to increase from 50 mills to 55.275 mills. The residential assessment ratio decreased to 7.15% in 2019 causing the mills to increase to 55.663 for taxes to be collected in 2020. During fiscal year 2020, the Gallagher Amendment was repealed. While the residential assessment rate is set in statute at 7.15%, the Colorado legislature approved a temporary reduction to 6.765% for the 2023 and 2024 tax years.

SILVERSTONE METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022

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 acts of God.

The District is a member of the Colorado Special Districts Property and Liability Pool (Pool) as of December 31, 2022. 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 during the past three years.

The District pays annual premiums to the Pool for liability and public officials liability 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 10 TAX, SPENDING AND DEBT LIMITATIONS

Article X, Section 20 of the Colorado Constitution, referred to 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.

On May 6, 2008, a majority of the District's electors authorized the District to collect and spend or retain in a reserve all annual District revenue without regard to any limitations under TABOR.

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.

SILVERSTONE METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 11 NET POSITION

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

Restricted net position includes net position that is restricted for use either by 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 a deficit net position at December 31, 2022 of (\$14,586,429). This deficit amount is the result of the District being responsible for the repayment of Series 2018A Bonds and Series 2018B Notes issued for public improvements.

REQUIRED SUPPLEMENTARY INFORMATION

SILVERSTONE METROPOLITAN DISTRICT NO. 2
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE – BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED DECEMBER 31, 2022

	Original Budgeted Amounts	Final Budgeted Amounts	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Property Taxes	\$ 149,875	\$ 149,875	\$ 149,879	\$ 4
Specific Ownership Taxes	7,494	7,494	8,870	1,376
Intergovernmental - Silverstone Metropolitan District No. 1	21,750	21,750	62,738	40,988
Net Investment Income	-	-	719	719
Total Revenues	<u>179,119</u>	<u>179,119</u>	<u>222,206</u>	<u>43,087</u>
EXPENDITURES				
Current:				
Intergovernmental - Silverstone Metropolitan District No. 3	10,000	303,964	309,250	(5,286)
County Treasurer's Fees	2,248	2,248	2,250	(2)
Audit	7,500	7,500	1,916	5,584
Accounting	7,000	7,000	7,900	(900)
Insurance	2,250	2,250	1,906	344
Miscellaneous	5,000	5,000	988	4,012
Debt Service:				
Closing Costs	-	-	3,750	(3,750)
Interest	302,500	302,500	302,500	-
Total Expenditures	<u>336,498</u>	<u>630,462</u>	<u>630,460</u>	<u>2</u>
EXCESS REVENUES OVER (UNDER) EXPENDITURES	(157,379)	(451,343)	(408,254)	43,089
OTHER FINANCING SOURCES				
Proceeds from Developer Advances	200,000	200,000	365,000	165,000
Total Other Financing Sources	<u>200,000</u>	<u>200,000</u>	<u>365,000</u>	<u>165,000</u>
Fund Balances - Beginning of Year	<u>31,173</u>	<u>31,173</u>	<u>53,373</u>	<u>22,200</u>
FUND BALANCES - END OF YEAR	<u>\$ 73,794</u>	<u>\$ (220,170)</u>	<u>\$ 10,119</u>	<u>\$ 230,289</u>



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