



Cornerstone Metropolitan District No. 2

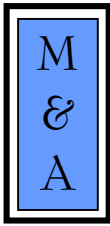
Financial Statements

December 31, 2023

**Cornerstone Metropolitan District No. 2
Financial Statements
December 31, 2023**

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INDEPENDENT AUDITOR'S REPORT

**To the Board of Directors
Cornerstone Metropolitan District No. 2**

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities and the debt service fund of Cornerstone Metropolitan District No. 2 (the "District"), as of and for the year ended December 31, 2023, 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 the debt service fund of the District, as of December 31, 2023 and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

Basis for Opinions

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

Responsibilities of Management for the Financial Statements

The District's management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for one year after the date that the financial statements are issued.

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INDEPENDENT AUDITORS REPORT
To the Board of Directors
Cornerstone Metropolitan District No. 2

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 U.S. 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 U.S. GAAS, we:

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis in Section B 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. 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.

**INDEPENDENT AUDITORS REPORT
To the Board of Directors
Cornerstone Metropolitan District No. 2**

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The individual fund budgetary comparison in Section E is presented for purposes of additional analysis and are not a required part of the basic financial statements.

The budgetary comparison found in Section E is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

McMahan and Associates, L.L.C.

**McMahan and Associates, L.L.C.
Avon, Colorado
June 29, 2024**

MANAGEMENT'S DISCUSSION AND ANALYSIS

Cornerstone Metropolitan District No. 2 Management's Discussion and Analysis December 31, 2023

As management of Cornerstone Metropolitan District No. 2 (the "District"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended December 31, 2023.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to the financial statements. This report also contains additional supplementary information in addition to the basic financial statements and notes.

Government-wide financial statements

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The Statement of Net Position presents information on all the District's assets, deferred outflows, liabilities, and deferred inflows with the difference reported as net position.

The Statement of Activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The governmental activities of the District relate to satisfying an intergovernmental agreement with Cornerstone Metropolitan District No. 1 and to service the District's long-term debt requirements. The government-wide financial statements can be found on pages C1-C2 of this report.

Fund financial statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The District currently has one fund, the Debt Service Fund.

Governmental funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. The governmental funds provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. The governmental funds financial statements are located on pages C3-C6 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The Notes to the Financial Statements can be found starting on pages D1-D13 of this report.

Government-wide Financial Analysis

The following table shows a condensed statement of net position as of December 31, 2023, derived from the government-wide financial statements.

Cornerstone Metropolitan District No. 2 Net Position

	Governmental Activities 2023	Governmental Activities 2022
Assets:		
Current assets	\$ 1,154,858	\$ 643,619
Other assets	-	-
Total Assets	<u>1,154,858</u>	<u>643,619</u>
Liabilities & Deferred Inflows:		
Current liabilities & deferred inflows	1,148,062	633,036
Long-term and other liabilities	49,841,985	47,051,184
Total Liabilities & Deferred Inflows	<u>50,990,047</u>	<u>47,684,220</u>
Net Position:		
Restricted	6,796	10,583
Unrestricted	(49,841,985)	(47,051,184)
Total Net Position	<u>\$ (49,835,189)</u>	<u>\$ (47,040,601)</u>

The District is in a dual district structure whereby the District has and will continue to finance the construction and operation of the infrastructure for Cornerstone subdivision. The District has entered into a District Facilities Construction and Service Agreement with Cornerstone Metropolitan District No. 1. Under the agreement, District No. 1 is responsible for managing the construction of all facilities and improvements and for the operation and maintenance of all improvements not conveyed to another public entity. The District is responsible for providing the funding for all infrastructure improvements and the revenue needed to support the ongoing operation and maintenance of the improvements and public facilities. The District reports a liability for the “capital obligation” for construction costs as well as the “service obligation” for the excess costs of operating and maintaining the facilities. Even though it is doubtful that the District will ever be able to fund such obligations based on the current revenue levels, the liabilities are required to be reported in the Statement of Net Position.

At the end of the current fiscal year, the District has a negative unrestricted net position which is primarily a result of the issuance of the Series 2010 A and B Bonds and reporting of the capital and service obligation owed to District No. 1, combined with the infrastructure assets being owned and recorded on the books of District No. 1 and other governmental entities.

The following table shows a condensed statement of activities, derived from the government-wide financial statements.

**Cornerstone Metropolitan District No. 2
Change in Net Position**

	Governmental Activities 2023	Governmental Activities 2022
	<u>2023</u>	<u>2022</u>
Revenues:		
Charges for services	\$ -	\$ -
Property taxes	704,954	666,064
Interest and other income	5,263	16,343
Operating grants and contributions	-	-
Capital grants and contributions	-	-
Total Revenues	<u>710,217</u>	<u>682,407</u>
Expenses:		
General government	448,055	17,051
Intergovernmental agreement	910,190	737,139
Interest expense	2,146,560	2,039,339
Total Expenses	<u>3,504,805</u>	<u>2,793,529</u>
Change in Net Position	(2,794,588)	(2,111,122)
Net Position- Beginning	<u>(47,040,601)</u>	<u>(44,929,479)</u>
Net Position- Ending	<u>\$ (49,835,189)</u>	<u>\$ (47,040,601)</u>

The primary reasons for the decrease in net position during both 2022 and 2023 are 1) the excess in debt service expenses on the 2010 A and 2010 B Bonds over revenues available for such debt service; and 2) additions to obligations owed to District No. 1 for unfunded accrued interest on developer notes.

Financial Analysis of the District's Funds

As mentioned earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds

The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements.

Debt Service Fund revenues were \$710,217 in 2023 and consisted primarily of property and specific ownership taxes.

Debt Service Fund expenditures totaled \$714,005 in 2023 and were primarily related to partial interest payments on the 2010A Bonds and funding provided to District No. 1 used towards community operations.

As of the end of 2023, the District's governmental fund reported an ending fund balance of \$6,796. This balance is restricted for future debt service.

Budget variances

The District collected the budgeted property taxes during 2023. Interest earnings were less than budget as tax payers who were delinquent in prior years paid their taxes on time during 2023. The Debt Service Fund budget to actual report can be found in the Supplementary Information section of this report, on page E1.

Long-term debt

As of December 31, 2023 the Series 2010 A and B Bonds principal balances totaled \$21,483,001. The District did not have sufficient revenue to allow payment of all of its debt service on the 2010A Bonds. Additionally, since the District does not have sufficient revenues to allow payment of interest or principal on the 2010B Bonds, such amounts have been accrued to future years. Details regarding the District's long-term debt are located in Note III. B. starting on page D9 of this report.

Economic Conditions and Outlook:

Beginning in 2012, the District saw a large-scale reduction in the District's assessed value reflecting an overall decrease of approximately 80% since 2010, which can be attributed to the overall downturn in the real estate market, the pull out of the original developer from the Cornerstone community, and litigation with the subsequent purchasers which was settled during 2015. The significant decrease in assessed valuation has caused funding shortfalls for both the 2010A and 2010B Bonds as well as to District No. 1 for operations. Beginning in the 2014 tax collection year the District increased the debt service mill levy rate from 32 to the maximum of 40 mills to partially offset the reduction in assessed values. However, even with the increased mill levy, the District does not generate sufficient property tax revenues to cover debt expenses and has exhausted accumulated reserves to cover the shortfall. The Reserve fund balance was fully depleted in 2017. The District will not have sufficient funds available from the reserve fund or property tax revenue to meet its debt service obligations of the 2010A or 2010B Bonds. Such shortfalls shall accrue to future years but since the District is levying the maximum mill levy, the Bonds are not in a default status. Shortfalls of revenue available for debt service are expected to continue. See Note III. B. starting on page D9 for additional information.

Request for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Cornerstone Metropolitan District No. 2, c/o Marchetti & Weaver, LLC, 28 2nd Street, Unit 213, Edwards, CO 81632, (970) 926-6060.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

Cornerstone Metropolitan District No. 2
Statement of Net Position
December 31, 2023

Assets:	
Cash and cash equivalents	4,542
Amounts due from treasurer	6,027
Property taxes receivable	1,144,289
Total Assets	1,154,858
 Liabilities:	
Due to Cornerstone Metropolitan District No. 1	3,773
Accrued interest payable	13,570,022
Current liabilities due in less than one year:	
Bonds payable	735,000
Non-current liabilities due in excess of one year:	
Bonds payable	20,748,001
Capital and service obligations due to Cornerstone Metropolitan District No. 1	14,788,962
Total Liabilities	49,845,758
 Deferred Inflow of Resources:	
Property tax revenue	1,144,289
Total Deferred Inflow of Resources	1,144,289
 Net Position:	
Restricted for debt service	6,796
Unrestricted	(49,841,985)
Total Net Position	(49,835,189)

The accompanying notes are an integral part of these financial statements.

Cornerstone Metropolitan District No. 2
Statement of Activities
For the Year Ended December 31, 2023

	Program Revenues			Net (Expense) Revenue and Changes in Net Position
Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue
Functions/Programs:				
Governmental activities:				
General government	448,055	-	-	(448,055)
Intergovernmental agreement	910,190	-	-	(910,190)
Interest	2,146,560	-	-	(2,146,560)
Total primary government	3,504,805	-	-	(3,504,805)
General revenues:				
Taxes:				
Property tax				629,930
Specific ownership tax				75,024
Interest income				5,263
Total General Revenues				710,217
Change in Net Position				(2,794,588)
Net Position (Deficit) - Beginning				(47,040,601)
Net Position (Deficit) - Ending				(49,835,189)

The accompanying notes are an integral part of these financial statements.

FUND FINANCIAL STATEMENTS

Cornerstone Metropolitan District No. 2
Balance Sheet
Governmental Funds
December 31, 2023

	Debt Service
Assets:	
Equity in pooled cash and investments	4,542
Amounts due from treasurer	6,027
Property taxes receivable	1,144,289
Total Assets	1,154,858
 Liabilities, Deferred Inflow of Resources, and Fund	
Liabilities:	
Due to Cornerstone Metropolitan District No. 1	3,773
Total Liabilities	3,773
 Deferred Inflow of Resources:	
Unavailable property tax revenue	1,144,289
Total Deferred Inflow of Resources	1,144,289
 Fund Balances:	
Restricted for debt service	6,796
Total Fund Balances	6,796
Total Liabilities, Deferred Inflow of Resources, and Fund Balances	1,154,858

The accompanying notes are an integral part of these financial statements.

Cornerstone Metropolitan District No. 2
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Position
December 31, 2023

Governmental Funds Total Fund Balance 6,796

Long-term liabilities, including bonds payable and leases payable, are not due and payable in the current period and, therefore, are not reported in the funds. This is the amount of District long-term liabilities. Details of these amounts are as follows:

Bonds payable	(21,483,001)	
Accrued interest payable	<u>(13,570,022)</u>	
		(35,053,023)

Amounts due to other Districts for capital and service obligations are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(14,788,962)</u>
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Net Position of Governmental Activities (49,835,189)

Cornerstone Metropolitan District No. 2
Statement of Revenues, Expenditures
and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2023

	Debt Service
Revenues:	
Property and specific ownership taxes	704,954
Interest	5,263
Total Revenues	710,217
 Expenditures:	
General government	17,395
Debt service	
Interest and fiscal charges	265,949
Intergovernmental agreement	430,660
Total Expenditures	714,004
Net Change in Fund Balances	(3,787)
Fund Balances - Beginning	10,583
Fund Balances - Ending	6,796

The accompanying notes are an integral part of these financial statements.

Cornerstone 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, 2023

Net change in fund balances for total governmental funds	(3,787)
The change in capital and service obligations reported in the Statement of of Activities does not require the use of current financial resources and, therefore, is not reported as an expenditure in governmental funds.	(910,190)
The change in accrued interest reported in the Statement of Activities does not require the use of current financial resources and, therefore, is not reported as an expenditure in governmental funds.	<u>(1,880,611)</u>
Change in Net Position of Governmental Activities	<u><u>(2,794,588)</u></u>

The accompanying notes are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

Cornerstone Metropolitan District No. 2
Notes to the Financial Statements
December 31, 2023

I. Summary of Significant Accounting Policies

Cornerstone Metropolitan District No. 2 (the "District"), a quasi-municipal corporation and political subdivision of the State of Colorado, was organized concurrently with Cornerstone Metropolitan District No. 1 ("District No. 1" and collectively the "Districts") by District Court Order on November 15, 2004, as amended December 22, 2004, and is governed pursuant to provisions of the Colorado Special District Act (Title 32). The Districts' service area is located in both Montrose County and Ouray County. The Districts operate under a Consolidated Service Plan, as amended, to provide financing for the design, acquisition, construction and installation of essential public purpose facilities including streets, water, storm drainage, sanitary sewer, parks and recreation, transportation, television relay, mosquito control and fire protection, and the operation and maintenance of the Districts.

The District's financial statements are prepared in accordance with generally accepted accounting principles ("GAAP"). The Governmental Accounting Standards Board ("GASB") is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The more significant accounting policies established by GAAP used by the District are discussed below.

A. Reporting Entity

The reporting entity consists of (a) the primary government; i.e., the District, and (b) organizations for which the District is financially accountable. The District is considered financially accountable for legally separate organizations if it is able to appoint a voting majority of an organization's governing body and is either able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits, to, or to impose specific financial burdens on, the District. Consideration is also given to other organizations which are fiscally dependent; i.e., unable to adopt a budget, levy taxes, or issue debt without approval by the District. Organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete are also included in the reporting entity.

Based on the criteria discussed above, the District is not financially accountable for any other entity, nor is the District a component unit of any other government.

B. Government-wide and Fund Financial Statements

The District's basic financial statements include both government-wide (reporting the District as a whole) and fund financial statements (reporting the District's major funds). Both the government-wide and fund financial statements categorize primary activities as governmental type.

1. Government-wide Financial Statements

In the government-wide Statement of Net Position, all balances are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations.

The government-wide focus is on the sustainability of the District as an entity and the change in the District's net position resulting from the current year's activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Cornerstone Metropolitan District No. 2
Notes to the Financial Statements
December 31, 2023
(continued)

I. Summary of Significant Accounting Policies (continued)

B. Government-wide and Fund Financial Statements (continued)

2. Fund Financial Statements

The financial transactions of the District are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues and expenditures/expenses. The fund focus is on current available resources and budget compliance.

The District reports the following governmental funds:

The *Debt Service Fund* accounts for the resources accumulated and payments made for principal and interest on long-term debt and contractual obligation debt.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Measurement focus refers to whether financial statements measure changes in current resources only (current financial focus) or changes in both current and long-term resources (long-term economic focus). Basis of accounting refers to the point at which revenues, expenditures, or expenses are recognized in the accounts and reported in the financial statements. Financial statement presentation refers to classification of revenues by source and expenses by function.

1. Long-term Economic Focus and Accrual Basis

Governmental activities in the government-wide financial statements use the long-term economic focus and are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of the related cash flows.

2. Current Financial Focus and Modified Accrual Basis

The governmental fund financial statements use the current financial focus and are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or soon enough thereafter (60 days) to be used to pay liabilities of the current period. Expenditures are generally recognized when the related liability is incurred. The exception to this general rule is that principal and interest on general long-term debt, if any, is recognized when due.

3. Financial Statement Presentation

Amounts reported as program revenues include capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes and interest income.

Cornerstone Metropolitan District No. 2
Notes to the Financial Statements
December 31, 2023
(continued)

I. Summary of Significant Accounting Policies (continued)

D. Financial Statement Accounts

1. Cash, Cash Equivalents and Investments

Cash and cash equivalents include amounts in demand deposits as well as short-term investments with a maturity date within 3 months of the date acquired by the District.

Investments are stated at net asset value. The change in fair value of investments is recognized as an increase or decrease to investment assets and investment income. The District's investment policy is detailed in note III.A.

2. Receivables

Receivables are reported net of an allowance for uncollectible accounts. There was no allowance as of December 31, 2023.

3. Property Taxes

Property taxes are assessed in one year as a lien on the property, but not collected by governmental units until the subsequent year. In accordance with GAAP, the assessed but uncollected property taxes have been recorded as a receivable and as deferred inflow of resources.

4. Deferred Outflows and Inflows of Resources

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

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net assets that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Unavailable property tax revenue is deferred and recognized as an inflow of resources in the period that the amounts become available and earned.

5. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligation of the funds. Long-term obligations are recognized as a liability on the governmental fund financial statements when due.

Cornerstone Metropolitan District No. 2
Notes to the Financial Statements
December 31, 2023
(continued)

I. Summary of Significant Accounting Policies (continued)

D. Financial Statement Accounts (continued)

6. Fund Balance

The District classifies governmental fund balances as follows:

Nonspendable - includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual requirements.

Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.

Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority which is the Board of Directors.

Assigned – includes spendable fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund balance may be assigned by the Board of Directors or its management designee.

Unassigned - includes residual positive fund balance which has not been classified within the other above mentioned categories. Unassigned fund balance may also include negative balances for any governmental fund if expenditures exceed amounts restricted, committed, or assigned for those specific purposes.

The District uses restricted amounts first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as in grant agreements requiring dollar for dollar spending. Additionally, the District first uses committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

E. Use of Estimates

The preparation of financial statements in conformity with GAAP requires the District's management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amount of revenues and expenditures or expenses during the reporting period. Actual results could differ from those estimates.

F. Subsequent Events

Management has evaluated subsequent events through the date these financial statements were available to be issued.

Cornerstone Metropolitan District No. 2
Notes to the Financial Statements
December 31, 2023
(continued)

II. Stewardship, Compliance, and Accountability

A. Budgetary Information

In the fall of each year, the District's Board of Directors formally adopts a budget with appropriations by fund for the ensuing year pursuant to the Local Government Budget Law of Colorado. The budgets for the funds are adopted on a basis consistent with generally accepted accounting principles ("GAAP").

As required by Colorado statutes, the District followed the following timetable in approving and enacting a budget for 2023:

- (1) For the 2023 budget year, prior to August 25, 2022, the County Assessor sent to the District the certified assessed valuation of all taxable property within the District's boundaries and prior to December 10, 2022, the County Assessor sent the final recertified assessed valuation to the District.
- (2) On or before October 15, 2022, the District's accountant submitted to the District's Board of Directors a recommended budget which detailed the necessary property taxes needed along with other available revenues to meet the District's operating requirements.
- (3) A public hearing on the proposed budget and capital program was held by the Board no later than 45 days prior to the close of the fiscal year.
- (4) For the 2023 budget, prior to December 15, 2022, the District computed and certified to the County Commissioners a rate of levy that derived the necessary property taxes as computed in the proposed budget.
- (5) For the 2023 budget, the final budget and appropriating resolution was adopted prior to December 31, 2022.

After adoption of the budget resolution, the District may make the following changes: a) it may transfer appropriated monies between funds or between spending agencies within a fund, as determined by the original appropriation level; b) it may approve supplemental appropriations to the extent of revenues in excess of the estimated in the budget; c) it may approve emergency appropriations; and d) it may reduce appropriations for which originally estimated revenues are insufficient.

Typically, taxes levied in one year are collected in the succeeding year. Thus, taxes certified in 2022 were collected in 2023 and taxes certified in 2023 will be collected in 2024. Taxes are due on January 1st in the year of collection; however, they may be paid in either one installment (no later than April 30th) or two equal installments (not later than February 28th and June 15th) without interest or penalty. Taxes which are not paid within the prescribed time bear interest at the rate of one percent (1%) per month until paid. Unpaid amounts and the accrued interest thereon become delinquent on June 15th.

The level of control in the budget at which expenditures exceed appropriations is at the fund level. All appropriations lapse at year end.

B. TABOR Amendment

In November 1992, Colorado voters amended Article X of the Colorado Constitution by adding Section 20, commonly known as the Taxpayer's Bill of Rights ("TABOR"). TABOR contains revenue, spending, tax and debt limitations that apply to the State of Colorado and local governments. TABOR requires, with certain exceptions, advance voter approval for any new tax, tax rate increase, mill levy above that for the prior year, extension of any expiring tax, or tax policy change directly causing a net tax revenue gain to any local government.

Cornerstone Metropolitan District No. 2
Notes to the Financial Statements
December 31, 2023
(continued)

II. Stewardship, Compliance, and Accountability (continued)

B. TABOR Amendment

Any revenues earned in excess of the fiscal year spending limit must be refunded in the next fiscal year, unless voters approve retention of such excess revenue.

Except for refinancing bonded debt at a lower interest rate or adding new employees to existing pension plans, TABOR requires advance voter approval for the creation of any multiple-fiscal year debt or other financial obligation unless adequate present cash reserves are pledged irrevocably and held for payments in all future fiscal years.

TABOR requires local governments to establish Emergency Reserves. These reserves must be at least 3% of Fiscal Year Spending (excluding bonded debt service). At December 31, 2023, the District was not required to have an emergency reserve as all operations are performed by District No. 1.

On November 2, 2004, the District's voters authorized the District to increase property taxes up to \$60,000,000 annually, without limitation to rate, to pay the District's operations, maintenance and other expenses. The election also allows the District to collect, spend and retain all revenues without regard to the limitations contained within Article X, Section 20 of the Colorado constitution.

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.

C. Authorized But Unissued Debt

	Authorized November 2, 2004	Authorization Used, Series 2010	Remaining at December, 31 2023
Streets	60,000,000	-	60,000,000
Traffic & safety	60,000,000	-	60,000,000
Water	60,000,000	-	60,000,000
Sanitary sewer and storm drainage	60,000,000	-	60,000,000
Parks and recreation	60,000,000	-	60,000,000
Transportation	60,000,000	-	60,000,000
Television relay	60,000,000	-	60,000,000
Mosquito control	60,000,000	-	60,000,000
Fire and ambulance	60,000,000	-	60,000,000
Operations and maint.	60,000,000	-	60,000,000
Intergovernmental contracts	60,000,000	-	60,000,000
Reimbursement agreements	60,000,000	-	60,000,000
Management services	7,500,000	-	7,500,000
Refunding of debt	60,000,000	22,200,000	37,800,000
	<u>787,500,000</u>	<u>22,200,000</u>	<u>765,300,000</u>

Cornerstone Metropolitan District No. 2
Notes to the Financial Statements
December 31, 2023
(continued)

III. Detailed Notes on all Funds

A. Deposits and Investments

The District's deposits are entirely covered by federal depository insurance ("FDIC") or by collateral held under Colorado's Public Deposit Protection Act ("PDPA"). The FDIC insures the first \$250,000 of the District's deposits at each financial institution. Deposit balances over \$250,000 are collateralized as required by PDPA. The carrying amount of the District's demand deposits was \$45 at year end.

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- Obligations of the United States and certain U.S. government agency securities
- Certain international agency 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 mutual funds
- Guaranteed investment contract
- Local government investment pools

Interest Rate Risk. As a means of limiting its exposure to interest rate risk, the District diversifies its investments by security type and institution, and limits holdings in any one type of investment with any one issuer and type of issuer. The District coordinates its investment maturities to closely match cash flow needs and restricts the maximum investment term to less than five years (less in some cases) from the purchase date. As a result of the limited length of maturities the District has limited its interest rate risk.

Credit Risk. District investment policy limits investments to those authorized by State statutes. The District's general investment policy is to apply the prudent-person rule: investments are made as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital, and, in general, avoid speculative investments.

Concentration of Credit Risk. The District diversifies its investments by security type and institution. Financial institutions holding District funds must provide the District a copy of the certificate from the Banking Authority that states that the institution is an eligible public depository.

Cornerstone Metropolitan District No. 2
Notes to the Financial Statements
December 31, 2023
(continued)

III. Detailed Notes on all Funds (continued)

A. Deposits and Investments (continued)

At year end, the District had the following deposits and investments with the following maturities:

	<u>Standard & Poors Rating</u>	<u>Carrying Amounts</u>	<u>Term to Maturity</u>	
			<u>Less than one year</u>	<u>More than one year</u>
<i>Deposits:</i>				
Checking and savings	Not rated	45	45	-
<i>Investments:</i>				
Investment pool	AAAm	4,497	4,497	-
		<u>4,542</u>	<u>4,542</u>	<u>-</u>

At December 31, 2023, the District had the following recurring fair value measurements.

<u>Investments Measured at Net Asset Value</u>	<u>Total</u>
Colotrust	4,497
	<u>4,497</u>

Fair Value of Investments. The District measures and records its investments using fair value measurement guidelines established by generally accepted accounting principles. These guidelines recognize a three-tiered fair value hierarchy, as follows:

- *Level 1:* Quoted prices for identical investments in active markets;
- *Level 2:* Observable inputs other than quoted market prices; and,
- *Level 3:* Unobservable inputs.

Investments classified in Level 1 are valued using prices quoted in active markets for those securities. Investments classified in Level 2 are valued using the following approaches:

- U.S. Treasuries, U.S. Agencies, and Commercial Paper: quoted prices for identical securities in markets that are not active;
- Repurchase Agreements, Negotiable Certificates of Deposit, and Collateralized Debt Obligations: matrix pricing based on the securities' relationship to benchmark quoted prices;
- Money Market, Bond, and Equity Mutual Funds: published fair value per share (unit) for each fund.

The Investment Pool represents investments in COLOTTRUST. The net asset value of the pool is determined by the pool's share price. The District has no regulatory oversight for the pool.

Cornerstone Metropolitan District No. 2
Notes to the Financial Statements
December 31, 2023
(continued)

III. Detailed Notes on all Funds (continued)

A. Deposits and Investments (continued)

The District had invested \$4,497 in the Colorado Local Government Liquid Asset Trust (the "Trust"). The Trust is 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, measured at net asset value, and each share is equal in value to \$1.00. Investments consist of U.S. Treasury bills, notes and note strips and repurchase agreements collateralized by U.S. Treasury securities. A designated custodial bank provides safekeeping and depository services in connection with the direct investment and withdrawal functions. Substantially all securities owned are held by the Federal Reserve Bank in the account maintained for the custodial bank.

B. Long-term Debt

The District had the following long-term debt outstanding during the fiscal year:

1. Non-Current Capital and Service Obligation

The District is obligated under the Master Intergovernmental Agreement between the Districts to provide funding for all public infrastructure improvements ("capital obligation") and to provide the revenue needed to support the ongoing operation and maintenance of the improvements and public facilities ("service obligation"). In 2010 the District issued Bonds to repay a portion of the balances owed to District No. 1. The non-current capital and service obligations due to District No. 1 reported in the Statement of Net Position are the remaining amounts not yet reimbursed to District No. 1 as of December 31, 2023. The District does not have the financial ability to issue additional debt due to declines in assessed property values in the District and the cap of 40 mills to be levied for repayment of debt, which is required to be used for repayment of the Bonds of the District before being used to pay the obligations owed to District No. 1. Even though it is not anticipated that the District will be able to repay this balance, accounting rules require that the liability should still be reported in the Statement of Net Position.

2. Series 2010A General Obligation Refunding Bonds

The Series 2010A Bonds bear interest at a fixed rate of 8.0% with interest payments due semi - annually on June 1 and December 1 of each year. Principal payments are due on December 1 of each year beginning in 2015, continuing through final maturity in 2040. The Bonds are subject to redemption prior to maturity at the option of the District on or after December 1, 2021, without premium. The bonds are payable from the net pledged revenues, including ad valorem property taxes, specific ownership taxes, development fees and other legally available revenues. The property tax mill levy used to pay the bonds is required to be no less than 25 mills and not greater than 40 mills unless there is a change in method of calculating assessed value or any constitutionally mandated tax credit, cut or abatement occurs in which case the mills may be adjusted to maintain revenue levels that are neither enhanced or diminished by these changes.

Cornerstone Metropolitan District No. 2
Notes to the Financial Statements
December 31, 2023
(continued)

III. Detailed Notes on all Funds (continued)

B. Long-term Debt (continued)

2. Series 2010A General Obligation Refunding Bonds (continued)

During 2013 the assessed value of property in Montrose and Ouray Counties was re-assessed and decreased. The District adjusted the mill levy to the maximum of 40 mills, however this levy is not adequate to fund current debt service. The Bonds were originally secured by a reserve fund in the amount of \$520,000, which was drawn upon to cover multiple shortfalls. As of December 31, 2023 the balance in the reserve fund was \$0, the accumulated debt service shortfall was \$210,000 in principal and \$1,974,964 in interest. Debt service shortfalls are expected to continue.

3. Series 2010B General Obligation Refunding Bonds

The Series 2010B Bonds bear interest at a rate of 6%. Principal payments are due on December 1 of each year beginning in 2023 and continuing through the final maturity date in 2046. The Bonds are subject to redemption prior to maturity at the option of the District at any time, without premium. The Bonds are subordinate to the Series 2010A Bonds and are payable from the remaining net pledged revenues, including ad valorem property taxes, specific ownership taxes and development fees. In the event that a mill levy of 25 mills (the minimum levy required by the 2010A Bonds), along with other available revenues, after making the required annual payments on the 2010A Bonds, is insufficient to pay the debt service on the Series 2010B Bonds, the total mill levy will be increased up to a maximum of 30 mills unless there is a change in method of calculating assessed value or any constitutionally mandated tax credit, cut or abatement occurs in which case the mills may be adjusted to maintain revenue levels that are neither enhanced nor diminished by these changes.

During 2013 the assessed value of property in Montrose and Ouray Counties was re-assessed and decreased causing the entire mill levy to be pledged to the 2010A Bonds. The Series 2010B Bonds were originally secured by an irrevocable direct pay letter of credit issued by the Bank of America, N.A. During 2014 the District was advised that the letter of credit would not be renewed and consequently terminated. Pursuant to the terms of the indenture, non-renewal of the letter of credit resulted in conversion of the 2010B Bonds into Developer Bonds on November 24, 2014. The Developer Bonds bear a fixed interest rate of 6%. At the time the bonds were converted there were funds available to pay \$701,999 of principal, leaving an outstanding principal balance as of December 31, 2023 of \$16,298,001. As no funds have been available since the conversion, there is a balance of accrued but unpaid interest as of December 31, 2023 of \$11,480,118.

The Subordinate Series 2010B Bonds are also subject to mandatory sinking fund redemption, in part, by lot, on December 1, 2023 and on each December 1 thereafter prior to the maturity date. Future estimated principal and interest payments are as follows, however as the District currently has no funding available to make the required payments, it is anticipated that the unpaid amounts will carry forward to future years and ultimately may never be fully repaid.

Cornerstone Metropolitan District No. 2
Notes to the Financial Statements
December 31, 2023
(continued)

III. Detailed Notes on all Funds (continued)

B. Long-term Debt (continued)

4. Annual Debt Service Requirements

Annual debt service requirements to maturity for the general obligation bonds are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	735,000	14,847,762	15,582,762
2025	325,000	1,356,080	1,681,080
2026	350,000	1,334,880	1,684,880
2027	395,000	1,311,880	1,706,880
2028	425,000	1,285,980	1,710,980
2029 - 2033	2,700,000	5,954,600	8,654,600
2034 - 2038	3,900,000	4,890,100	8,790,100
2039 - 2043	7,580,000	3,071,100	10,651,100
2044 - 2046	5,073,001	624,240	5,697,241
Total	<u>21,483,001</u>	<u>34,676,622</u>	<u>56,159,623</u>

5. Changes in Long-Term Debt

The District had the following changes in long-term obligations for the year ended December 31, 2023:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Capital and service obligation	13,878,772	910,190	-	14,788,962	-
Series 2010A Bonds	5,185,000	-	-	5,185,000	285,000
Series 2010B Bonds, Direct Placement	16,298,001	-	-	16,298,001	450,000
	<u>35,361,773</u>	<u>910,190</u>	<u>-</u>	<u>36,271,963</u>	<u>735,000</u>

Cornerstone Metropolitan District No. 2
Notes to the Financial Statements
December 31, 2023
(continued)

IV. Other Information

A. Risk Management

Colorado Special Districts Property and Liability Pool

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

The District is a member of the Colorado Special Districts Property and Liability Pool (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. The Pool provides coverage for property claims and liability coverage claims and workers' compensation. Settled claims have not exceeded this coverage in the past three years.

The District pays annual premiums to the Pool for liability, property, and public officials' 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 member pursuant to a distribution formula.

A summary of audited statutory basis financial information for the Pool as of and for the year ended December 31, 2023 (the latest audited information available) is as follows:

Assets	<u><u>81,143,798</u></u>
Liabilities	58,670,068
Capital and surplus	<u>22,473,730</u>
Total	<u><u>81,143,798</u></u>
Revenue	29,593,851
Underwriting expenses	<u>31,416,477</u>
Underwriting gain (loss)	(1,822,626)
Other income	<u>1,695,393</u>
Net income (loss)	<u><u>(127,233)</u></u>

B. Related Parties

Some of the members of the Board of Directors for the District are also the members of the Board of Directors for District No. 1. Some of the members on the Board of Directors for the District are also on the Board of Directors for the Cornerstone Owners Association ("COA").

Cornerstone Metropolitan District No. 2
Notes to the Financial Statements
December 31, 2023
(continued)

V. District Facilities and Construction Service Agreement

On December 16, 2004, the Districts entered into a Districts Facilities Construction and Service Agreement (the "Master IGA"). The Master IGA provides that the District is to finance the construction, maintenance and operations of the facilities constructed and operated by District No. 1 as provided by the Consolidated Service Plan. The District is to finance such activities from their annual certification of a mill levy, specific ownership taxes and development fees. The mill levy of the District is limited by the Service Plan as amended in 2013, wherein the maximum operations mill levy was removed, and the maximum debt mill levy is not to exceed 40 mills.

Per the Service Plan if there is a change in method of calculating assessed value or if any constitutionally mandated tax credit, cut or abatement occurs, the mills may be adjusted to maintain revenue levels that are neither enhanced nor diminished by these changes.

During 2013 the assessed value of property in Montrose and Ouray Counties was re-assessed resulting in a decrease of property value. The District adjusted the total mill levy for operations and debt service to 110 mills in order to partially offset revenue levels diminished by the re-assessment. The mill levy was set at 40 mills for debt service, which is adjusted annually, and the remaining amount is for operations.

SUPPLEMENTARY INFORMATION

Cornerstone Metropolitan District No. 2
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
Governmental Funds - Debt Service Fund
For the Year Ended December 31, 2023

	Original & Final Budget	Actual	Final Budget Variance Positive (Negative)
Revenues:			
Property taxes	629,929	629,930	1
Specific ownership taxes	70,570	75,024	4,454
Interest	43,000	5,263	(37,737)
Total Revenues	<u>743,499</u>	<u>710,217</u>	<u>(33,282)</u>
Expenditures:			
General government:			
Treasurer fees	17,382	17,395	(13)
Contingency	20,000	-	20,000
Debt service:			
Bond interest	262,530	265,949	(3,419)
Contingency	15,000	-	15,000
Intergovernmental agreement:			
Operation transfers to Cornerstone No. 1	432,625	430,660	1,965
Total Expenditures	<u>747,537</u>	<u>714,004</u>	<u>33,533</u>
Net Change in Fund Balance	(4,038)	(3,787)	251
Fund Balance - Beginning	4,656	10,583	5,927
Fund Balance - Ending	<u>618</u>	<u>6,796</u>	<u>6,178</u>