

**FLYING HORSE METROPOLITAN DISTRICT #1**

**FINANCIAL STATEMENTS**

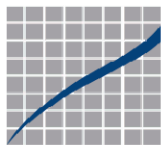
**DECEMBER 31, 2019**



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**BiggsKofford**  
CERTIFIED PUBLIC ACCOUNTANTS

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## INDEPENDENT AUDITOR'S REPORT

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Board of Directors

**Flying Horse Metropolitan District #1**

Colorado Springs, Colorado

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and each major fund of Flying Horse Metropolitan District #1 ("District") as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of December 31, 2019, the respective changes in financial position and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which 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.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

*BiggsKofford, P.C.*

Colorado Springs, Colorado  
July 31, 2020

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## **BASIC FINANCIAL STATEMENTS**

**FLYING HORSE METROPOLITAN DISTRICT #1**  
**STATEMENT OF NET POSITION**  
**DECEMBER 31, 2019**

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	<u>Governmental Activities</u>
<b><u>ASSETS</u></b>	
Cash and investments-restricted	\$ 11,388
Prepaid expense	395
Capital assets, net	<u>1,189,533</u>
 Total assets	 <u>1,201,316</u>
<b><u>LIABILITIES</u></b>	
Accounts payable	38,178
Accrued interest payable	3,284,669
Noncurrent liabilities:	
Due in more than one year	<u>22,273,144</u>
 Total liabilities	 <u>25,595,991</u>
<b><u>NET POSITION</u></b>	
Net investment in capital assets	(2,177,497)
Restricted for:	
Emergency reserve	25,313
Unrestricted	<u>(22,242,491)</u>
 Total net position	 <u><u>\$ (24,394,675)</u></u>

The accompanying notes and independent auditor's report  
should be read with this financial statement.

**FLYING HORSE METROPOLITAN DISTRICT #1**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED DECEMBER 31, 2019**

	<u>Expenses</u>	<u>Program Revenues</u>		<u>Governmental Activities</u>	<u>Net (Expenses) Revenue and Changes in Net Position</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>		
<b>FUNCTIONS/PROGRAMS</b>					
<b>PRIMARY GOVERNMENT:</b>					
General government	\$ 993,025	\$ -	\$ -	\$ -	\$ (993,025)
Intergovernmental	19,061	-	11,979,044	-	11,959,983
Interest and related costs on long-term debt	1,793,649	-	-	-	(1,793,649)
<b>Total primary government</b>	<b>\$ 2,805,735</b>	<b>\$ -</b>	<b>\$ 11,979,044</b>	<b>\$ -</b>	<b>9,173,309</b>
<b>Changes in net position</b>					<b>9,173,309</b>
<b>Net position, beginning of year</b>					<b>(33,567,984)</b>
<b>Net position, end of year</b>					<b>\$ (24,394,675)</b>

The accompanying notes and independent auditor's report should be read with this financial statement.

**FLYING HORSE METROPOLITAN DISTRICT #1**  
**BALANCE SHEETS**  
**GOVERNMENTAL FUNDS**  
**DECEMBER 31, 2019**

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
<b><u>ASSETS</u></b>			
Cash and investments-restricted	\$ 11,388	\$ -	\$ 11,388
Prepaid expenses	395	-	395
<b>Total assets</b>	<b>\$ 11,783</b>	<b>\$ -</b>	<b>11,783</b>
<b><u>LIABILITIES</u></b>			
Accounts payable	\$ 38,178	\$ -	38,178
<b>Total liabilities</b>	<b>38,178</b>	<b>-</b>	<b>38,178</b>
<b><u>FUND BALANCE</u></b>			
Nonspendable:			
Prepaid expenses	395	-	395
Restricted for:			
Emergency reserve	25,313	-	25,313
Unassigned:			
General government	(52,103)	-	(52,103)
<b>Total fund balances</b>	<b>(26,395)</b>	<b>-</b>	<b>(26,395)</b>
<b>Total liabilities and fund balances</b>	<b>\$ 11,783</b>	<b>\$ -</b>	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the funds:

<u>Capital assets, net</u>	1,189,533
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Long-term liabilities, including bonds payable and developer advances are not due and payable in the current period and, therefore, are not reported in the funds:

<u>Bonds payable</u>	(17,346,014)
<u>Developer advances</u>	(4,927,130)
<u>Accrued interest payable</u>	(3,284,669)

<u>Net position of governmental activities</u>	<b>\$ (24,394,675)</b>
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The accompanying notes and independent auditor's report should be read with this financial statement.

**FLYING HORSE METROPOLITAN DISTRICT #1**  
**STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN**  
**FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**YEAR ENDED DECEMBER 31, 2019**

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
<b><u>REVENUES</u></b>			
Intergovernmental revenues	\$ 781,000	\$ 11,198,044	\$ 11,979,044
Total revenues	781,000	11,198,044	11,979,044
<b><u>EXPENDITURES</u></b>			
Current:			
Utilities	349,051	-	349,051
Repairs and maintenance	290,657	-	290,657
Landscaping	72,786	-	72,786
Legal	45,334	-	45,334
Snow removal/winter watering	31,085	-	31,085
Intergovernmental expenses	19,061	-	19,061
Insurance	10,004	-	10,004
Contingency	7,800	-	7,800
Management	5,925	-	5,925
Accounting	5,597	-	5,597
Lighting	5,200	-	5,200
Dues	1,082	-	1,082
Other expense	87	-	87
Bank charges	66	-	66
Debt service:			
Interest payments	-	10,944,058	10,944,058
Bond principal payments	-	253,986	253,986
Total expenditures	843,735	11,198,044	12,041,779
Net change in fund balances	(62,735)	-	(62,735)
Fund balances, beginning of year	36,340	-	36,340
Fund balances, end of year	<u>\$ (26,395)</u>	<u>\$ -</u>	<u>\$ (26,395)</u>

The accompanying notes and independent auditor's report  
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**FLYING HORSE METROPOLITAN DISTRICT #1**  
**RECONCILIATION OF THE STATEMENTS OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED DECEMBER 31, 2019**

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Net change in fund balances - total governmental funds	\$	(62,735)
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. In the statements of activities, capital outlay is not reported as an expenditure. However, the statement of activities will report as depreciation expense the allocations of the cost of any depreciable assets over the estimated useful lives of the assets. Capital outlay, the conveyance of capital assets to other governments and depreciation expense in the current period are as follows:

Depreciation expense		(168,352)
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The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums and discounts when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The net effect of these differences is the treatment of long-term debt and related items as follows:

Bond principal payments		253,986
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:

Accrued interest on bonds payable - change in liability		9,544,581
Accrued interest on developer advances - change in liability		(394,171)

Changes in net position of governmental activities	\$	9,173,309
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The accompanying notes and independent auditor's report  
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**FLYING HORSE METROPOLITAN DISTRICT #1**  
**GENERAL FUND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**YEAR ENDED DECEMBER 31, 2019**

	<b>Budget Original and Final</b>	<b>Actual Amounts</b>	<b>Variance with Final Budget Positive (Negative)</b>
<b><u>REVENUES</u></b>			
Intergovernmental revenues	\$ 794,300	\$ 781,000	\$ (13,300)
Total revenues	794,300	781,000	(13,300)
<b><u>EXPENDITURES</u></b>			
Utilities	372,400	349,051	23,349
Repairs and maintenance	289,525	290,657	(1,132)
Landscaping	89,000	72,786	16,214
Legal	25,000	45,334	(20,334)
Snow removal/winter watering	19,500	31,085	(11,585)
Intergovernmental expenses	21,550	19,061	2,489
Insurance	11,000	10,004	996
Contingency	8,000	7,800	200
Management	5,100	5,925	(825)
Accounting	5,425	5,597	(172)
Lighting	7,500	5,200	2,300
Dues	1,000	1,082	(82)
Other expense	-	87	(87)
Bank charges	240	66	174
Total expenditures	855,240	843,735	11,505
Net change in fund balance	<u>\$ (60,940)</u>	(62,735)	<u>\$ (1,795)</u>
Fund balance, beginning of year		36,340	
Fund balance, end of year		<u>\$ (26,395)</u>	

The accompanying notes and independent auditor's report  
should be read with this financial statement.

**FLYING HORSE METROPOLITAN DISTRICT #1**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**

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**1. DEFINITION OF REPORTING ENTITY**

Flying Horse Metropolitan District #1 ("District #1"), a quasi-municipal corporation and a political subdivision of the State of Colorado created pursuant to the Colorado Special District Act, was formed in 2004 to manage the construction of all facilities and improvements and for the operation and maintenance of all improvements not dedicated to the City of Colorado Springs, to include providing infrastructure of water, wastewater, streets, landscaping and other improvements for residents and businesses within the Flying Horse subdivision located in the City of Colorado Springs.

District #1 was formed in conjunction with Flying Horse Metropolitan District #2 ("District #2") and Flying Horse Metropolitan District #3 ("District #3") to serve the needs of the Flying Horse development for the purpose of financing, construction and operation of improvements and infrastructure serving the three districts. District #1 is responsible for managing the construction, operation and maintenance of all improvements not transferred to the City of Colorado Springs. District #2 and District #3 are responsible for providing the funding and tax base needed to support the financing plan for capital improvements and to fund ongoing operations. District #2 and District #3 are not component units of District #1.

District #1 follows 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.

District #1 is not financially accountable for any other organization nor is District #1 a component unit of any other primary governmental entity.

District #1 has no employees and all operational and administrative functions are contracted.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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 District #1. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are normally supported by taxes and intergovernmental revenues.

The statement of net position reports all financial and capital resources of District #1. The difference between the assets and deferred outflows of resources, and liabilities and deferred inflows of resources of District #1 is reported as net position.

See independent auditor's report

**FLYING HORSE METROPOLITAN DISTRICT #1**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Government-wide and fund financial statements (continued)

The statement of activities demonstrates the degree to which the direct and indirect expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

Measurement focus, basis of accounting and financial statement position

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.

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 collectable within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, District #1 considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by District #1. District #1 determined that developer advances are not considered as revenue susceptible to accrual. Expenditures, other than interest on long-term obligations are recorded when the liability is incurred or the long-term obligation is due.

District #1 reports the following major governmental funds:

*General fund* - The general fund is used to account for all financial resources of District #1 except those required to be accounted for in another fund.

*Debt service fund* - The debt service fund accounts for the servicing of general long-term debt and revenues generated and received by District #1 that are required to be used in payment of long-term debt.

See independent auditor's report

**FLYING HORSE METROPOLITAN DISTRICT #1**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Budgets

In accordance with state budget law, District #1's board of directors holds public hearings in the fall each year to approve the budget and appropriate the funds for the ensuing year. The appropriation is at the total fund expenditures and other financing uses level and lapses at year-end. District #1'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.

District #1 amended its annual budget for the debt service fund for the year ended December 31, 2019.

Pooled cash and investments

District #1 follows the practice of pooling cash and investments of all funds to maximize investment earnings. Except when required by trust or other agreements, all cash is deposited to and disbursed from a single bank account. Cash in excess of immediate operating requirements is pooled for deposit and investment flexibility. Investment earnings are allocated periodically to the participating funds based upon each fund's average equity balance in the total cash.

Capital assets

Capital assets are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by District #1 as assets with initial individual cost of more than \$5,000 and estimated useful lives in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs for repairs and maintenance are expensed as incurred. At the time of retirement or disposition of depreciable assets, the related cost and accumulated depreciation are removed from the accounts, and the resulting gain or loss is reflected in revenues or expenses.

Depreciation expense has been computed on the landscaping, parks and perimeter fencing using the straight-line method over estimated economic useful lives of 20 years.

See independent auditor's report

**FLYING HORSE METROPOLITAN DISTRICT #1**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Cost recovery

Costs incurred for the construction of Northgate Road within the Flying Horse subdivision have been approved by the City of Colorado Springs to be allocated to property owners with frontage along the road. District #1 is eligible for recovery of costs totaling approximately \$972,344. Based on accounting principles generally accepted in the United States of America, because there is no guarantee that such costs will ultimately be recovered, any amounts received by District #1 will not be recognized until the funds are received.

Equity

*Net position*

For government-wide presentation purposes when both restricted and unrestricted resources are available for use, it is District #1's practice to use restricted resources first, then unrestricted resources as they are needed.

*Fund balances*

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

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

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

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

See independent auditor's report

**FLYING HORSE METROPOLITAN DISTRICT #1**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Equity (continued)

*Fund balances (continued)*

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

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

If more than one classification of fund balance is available for use when an expenditure is incurred, it is District #1's policy to use the most restrictive classification first.

**3. CASH AND INVESTMENTS**

Cash and investments as of December 31, 2019 are classified in the accompanying financial statements as follows:

Statement of net position:

Cash and investments-restricted	\$ 11,388
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Cash and investments as of December 31, 2019 consist of the following:

Deposits with financial institutions	\$ 11,388
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Deposits with financial institutions

The Colorado Public Deposit Protection Act ("PDPA") requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulators. Amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is determined by the PDPA. The 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 102% of the aggregate uninsured deposits.

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

See independent auditor's report

**FLYING HORSE METROPOLITAN DISTRICT #1**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**

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**3. CASH AND INVESTMENTS (CONTINUED)**

Deposits with financial institutions (continued)

As of December 31, 2019, District #1's cash deposits had a bank balance of \$125,318 and a book balance of \$11,388.

Investments

District #1 has not adopted a formal investment policy; however, District #1 follows state statutes regarding investments.

District #1 generally limits its concentration of investments to those which are believed to have minimal credit risk, minimal interest rate risk and no foreign currency risk. Additionally, District #1 is not subject to concentration risk disclosure requirements or subject to investment custodial credit risk for investments that are in the possession of another party.

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

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

- Obligations of the United States and certain United States government agency securities
- Certain international agency securities
- General obligation and revenue bonds of United States local government entities
- Bankers' acceptances of certain banks
- Commercial paper
- Written repurchase agreements collateralized by certain authorized securities
- Certificates of deposit in Colorado PDPA approved banks or savings banks
- Certain money market funds
- Guaranteed investment contracts
- Local government investment pools

As of December 31, 2019, District #1 had no investments.

See independent auditor's report

**FLYING HORSE METROPOLITAN DISTRICT #1**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**

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**4. CAPITAL ASSETS**

Capital assets consist of landscaping and perimeter fencing. Capital asset activity for the year ended December 31, 2019 is as follows:

	<u>Balance 1/1/19</u>	<u>Additions/ Reclass- ifications</u>	<u>Dispositions/ Reclass- ifications</u>	<u>Balance 12/31/19</u>
Landscaping and perimeter fencing	\$ 3,367,030	\$ -	\$ -	\$ 3,367,030
Less: accumulated depreciation	<u>(2,009,145)</u>	<u>(168,352)</u>	<u>-</u>	<u>(2,177,497)</u>
Capital assets, net	<u>\$ 1,357,885</u>	<u>\$ (168,352)</u>	<u>\$ -</u>	<u>\$ 1,189,533</u>

Depreciation expense for the year ended December 31, 2019 totaled \$168,352.

**5. DEVELOPER ADVANCE**

District #1 has entered into a reimbursement agreement with Classic Development - Flying Horse, LLC ("FH"), the developer. The proceeds from developer advances have been used primarily to fund the expenditures related to establishing the infrastructure, which has been dedicated to the City of Colorado Springs. The note accrues interest at a rate of 8.00% per annum.

Developer advance activity for the year ended December 31, 2019 is as follows:

	<u>Balance 1/1/19</u>	<u>Additions</u>	<u>Repayments</u>	<u>Balance 12/31/19</u>	<u>Due within one year</u>
Developer Advance	\$ 4,927,130	\$ -	\$ -	\$ 4,927,130	\$ -
	<u>\$ 4,927,130</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,927,130</u>	<u>\$ -</u>

Interest expense related to the developer advance totaled \$394,171 for the year ended December 31, 2019. As of December 31, 2019 accrued interest related to the developer advance totaled \$3,102,614.

See independent auditor's report

**FLYING HORSE METROPOLITAN DISTRICT #1**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**

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**6. LONG-TERM OBLIGATIONS**

In 2005, District #1 issued subordinated general obligation bonds. The bonds bear simple interest at an annual rate of 8.00% per annum to be paid to the bondholders annually on December 15. The bonds mature on December 1, 2035 and are subject to redemption prior to maturity at the discretion of District #1. Repayment of the bond debt will be funded using money derived solely from special funds as defined in the bond documents.

The following is a summary of changes in bond obligations of District #1 during the year ended December 31, 2019:

	<u>Balance 1/1/19</u>	<u>Additions</u>	<u>Repayments/ Accretion</u>	<u>Balance 12/31/19</u>	<u>Due within one year</u>
2005 Series Bonds	<u>\$ 17,600,000</u>	<u>\$ -</u>	<u>\$ (253,986)</u>	<u>\$ 17,346,014</u>	<u>\$ -</u>

Annual requirements to amortize long-term obligations are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020 and past due	\$ -	\$ 1,569,736	\$ 1,569,736
2021	-	1,387,681	1,387,681
2022	-	1,387,681	1,387,681
2023	-	1,387,681	1,387,681
2024	-	1,387,681	1,387,681
2025-2029	-	6,938,406	6,938,406
2030-2034	-	6,938,406	6,938,406
2035	<u>17,346,014</u>	<u>1,387,681</u>	<u>18,733,695</u>
Total	<u>\$ 17,346,014</u>	<u>\$ 22,384,953</u>	<u>\$ 39,730,967</u>

Interest expense related to the bond payable totaled \$1,399,477 for the year ended December 31, 2019. As of December 31, 2019, accrued interest related to the bond payable totaled \$182,055.

District #1 is in arrears on interest payments related to bonds. Pursuant to the bond agreement, these amounts remain outstanding but do not compound or bear additional interest.

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**FLYING HORSE METROPOLITAN DISTRICT #1**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**

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**7. NET POSITION**

District #1 has net position consisting of three components - net investment in capital assets, restricted and unrestricted.

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by the outstanding balance of debt that is attributable to the acquisition, construction, or improvement of those assets. As of December 31, 2019, District #1 had balances invested in capital assets, net of related debt as follows:

Invested in capital assets, net of related debt:

Capital assets, net	\$ 1,189,533
Related balance on developer advances and bonds payable	<u>(3,367,030)</u>

Invested in capital assets, net of related debt	<u>\$ (2,177,497)</u>
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Restricted net position includes net positions that are restricted for use either by external restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation. District #1 had restricted net position as of December 31, 2019 as follows:

Restricted net position:

Emergencies (see Note 11)	<u>\$ 25,313</u>
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District #1's unrestricted net position as of December 31, 2019 totaled a deficit of \$22,242,491. This deficit amount was a result of District #1 being responsible for the repayment of general obligation bonds and developer advances while related infrastructure assets have been conveyed to other governments.

**8. RELATED PARTIES**

The developer of the property which constitutes District #1 is FH, which is 100% owned by Elite Properties of America, Inc. ("EPA"). The members of the board of directors are officers, employees or associates of EPA and may have conflicts of interest in dealing with District #1.

**9. ECONOMIC DEPENDENCY**

District #1 has not yet established a revenue base sufficient to pay operational and capital expenditures and meet debt service requirements. Until an independent revenue base is established, continuation of operations in District #1 and construction of public improvements will be dependent upon funding by the developer.

See independent auditor's report

**FLYING HORSE METROPOLITAN DISTRICT #1**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**

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**10. RISK MANAGEMENT**

District #1 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.

District #1 is a member of the Colorado Special Districts Property and Liability Pool ("Pool") as of December 31, 2019. The Pool is an organization created by intergovernmental agreement to provide property, liability, public officials liability, boiler and machinery and workers compensation coverage to its members. Settled claims have not exceeded this coverage in any of the past three fiscal years.

District #1 pays annual premiums to the Pool for liability, property 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.

**11. TAX, SPENDING AND DEBT LIMITATIONS**

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

Spending and revenue limits are determined based on the prior 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. Revenues in excess of the fiscal year spending limit must be refunded unless the voters approve retention of such revenues. District #1's voters approved a ballot issue allowing District #1 to retain all revenues.

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. District #1 did not have sufficient cash on hand as of December 31, 2019 to meet the reserve requirement which may be a violation of local law. Subsequent to year end, the District adopted a policy to annually budget a minimum of 90 days of expenditures in reserves.

District #1'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 likely require judicial interpretation.

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See independent auditor's report

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## **SUPPLEMENTARY INFORMATION**

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**FLYING HORSE METROPOLITAN DISTRICT #1**  
**DEBT SERVICE FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**YEAR ENDED DECEMBER 31, 2019**

	<u>Budget</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b><u>REVENUES</u></b>				
Intergovernmental revenues	\$ -	\$ 11,198,044	\$ 11,198,044	\$ -
Total revenues	-	11,198,044	11,198,044	-
<b><u>EXPENDITURES</u></b>				
Interest payments	-	10,944,058	10,944,058	-
Bond principal payments	-	253,986	253,986	-
Total expenditures	-	11,198,044	11,198,044	-
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	-	<u>\$ -</u>
Fund balance, beginning of year			-	
Fund balance, end of year			<u>\$ -</u>	

The accompanying notes and independent auditor's report  
should be read with this financial statement.