

**FOREST LAKES METROPOLITAN
DISTRICT**

FINANCIAL STATEMENTS
With Independent Auditors' Report

Years Ended December 31, 2020 and 2019

**FOREST LAKES METROPOLITAN DISTRICT
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DECEMBER 31, 2020 AND 2019**

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Hoelting & Company, Inc.
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Forest Lakes Metropolitan District

We have audited the accompanying financial statements of Forest Lakes Metropolitan District which comprise the statements of net position as of December 31, 2020 and 2019, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

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.

Auditors' Responsibility

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Forest Lakes Metropolitan District, as of December 31, 2020 and 2019, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Economic Dependency

The District has not yet established a revenue base sufficient to meet its debt service and operational expenses. As discussed in Note 9, the District is dependent upon future growth in the District and restructuring and refinancing of the District's long-term obligations to provide funds for such expenses. Our opinion is not modified with respect to this matter.

Other-Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as listed in the Table of Contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. 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.

Supplementary Information

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

Hoelting & Company Inc.

Colorado Springs, Colorado
June 23, 2021

FOREST LAKES METROPOLITAN DISTRICT Management's Discussion and Analysis

This discussion and analysis (MD&A) of the Forest Lakes Metropolitan District's (District) financial performance provides an overview of the District's financial activities for the years ended December 31, 2020 and 2019. The MD&A should be read in conjunction with the District's financial statements.

FINANCIAL HIGHLIGHTS

- By year-end 2019, the development entity for Forest Lakes (Forest Lakes Residential Development LLC) had completed all lot sales in Forest Lakes Filing #4 and completed the entitlement process for the amended Preliminary Plan for the Phase 2 development in the western portion of the Forest Lakes property. As required by the Facilities Financing and Acquisition Agreement between Forest Lakes Metropolitan District (FLMD) and the Developer, an independent engineer will evaluate the costs incurred by the Developer for the various components of the Filings #2 and #4 public infrastructure to determine that those costs were reasonable. The Developer will then convey all such developer constructed public infrastructure to FLMD in return for the District's agreement to reimburse the Developer for those reasonable costs, when funds become available to do so. For a variety of reasons that process has been somewhat delayed and it is currently expected to have those steps completed before year-end 2021.
- Lot sales, principally in Filings #2 and #4 during 2019 resulted in the collection of water and wastewater development fees on 58 lots by year-end. At year-end 2019, there were 9 lots in Filings #1, #2, and #4 that have not yet applied for building permits and thus not paid development fees. During 2020, the owner of one of those vacant lots began construction of a house and paid development fees to the District.
- Forest Lakes Filing #5 in the Phase 2 development initiated lot sales in October 2020 and Pinon Pines Metropolitan District #2, which covers the Phase 2 development, began receiving facilities development fee payments. House construction activity began at the very end of 2020 and by June 2021, water and wastewater development fee payments for 25 of the 33 lots in Filing #5 had been made to the District.
- Falcon Commerce Center is the commercial area to be served by the District. One parcel within that commercial development was sold and a commercial truck stop operation constructed in 2018. An additional parcel was sold in 2020 to UPS for a distribution center. Initial site work for this parcel was started by the Developer in late 2020. No development fees for that site were paid during 2020. Completion of the UPS distribution center is scheduled for early 2022.
- District operation of the water and wastewater systems is being provided by Donala Water and Sanitation District under contract. Donala personnel assumed control of the Surface Water Treatment Plant in June, 2019.
- The District continues to operate both the Surface-Water Treatment Plant and the Well-head Treatment Plant to provide water service to the residents and commercial customers. The District decided in 2020 to begin assessment of the cost and timing for equipping the A1 well which had been drilled in 2008. Work began in late 2020 on cleaning the well casing and taking water tests from the well. The District Engineer began developing a Basis of Design report for submittal to the Colorado Department of Public Health and Environment to obtain approval for introducing groundwater from both the existing Dillon Well and the soon to be completed A1 well for treatment in the Surface-Water Treatment Plant. The completion of the A1 well should occur in late 2021. The District has also begun the

process for obtaining a well permit for a Denver aquifer well adjacent to the Dillon Well. Once the permit is obtained, the District will bid out drilling and completion of the Denver aquifer well. That project is expected to take until summer 2022 to complete. The addition of two more groundwater sources to the District's water portfolio will enhance the long term water supply reliability.

- During 2020, the District provided delivery of augmentation water to twelve customers on the Rampart Range, Hay Creek and Monument Creek from April through November.
- As a "community water system" FLMD must meet Colorado Department of Public Health and Environment standards for drinking water – including a mandated schedule for water testing and other water system activities and including an annual report to its customers on drinking water quality outcomes. The first such Water Quality Report was completed in June 2018, the second in May 2019, the third in May 2020 and the fourth in April 2021 and all are posted to the District website – forestlakesmetrodistrict.com.
- During 2019, the District and five other water and wastewater providers in northern El Paso County conducted discussions with Colorado Springs Utilities on the possibility of jointly funding a major wastewater interceptor into northern El Paso County that would convey wastewater now treated in three northern El Paso County wastewater treatment plants to Colorado Springs Utilities for treatment in its JD Phillips Water Resource Recovery Facility. The Northern Monument Creek Interceptor(NMCI) is currently in the National Environmental Policy Act (NEPA) permitting phase and all parties have executed a NEPA Participation Agreement describing the responsibilities of each party during this NEPA permitting phase. The northern El Paso County entities have not assumed any financial responsibility for this phase of the Project and have preserved their rights to proceed no further than the NEPA phase if they so choose. The NEPA permitting phase could take up to 3 years to complete. The northern entities believe there could be significant financial benefits to partnering with Colorado Springs Utilities in this NMCI project but will continue to assess the benefits of the Project as the permitting phase continues. In 2020, as an adjunct to the NMCI project, the Pikes Peak Regional Water Authority approved a project to evaluate the opportunities and costs of recapturing the reusable effluent from the NMCI project and other reusable waters of the northern entities and returning those reusable waters to the northern entities for use in their water systems. The District is one of 8 entities who are participating in this project which is slated for completion at the end of 2021.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. Required statements for proprietary funds are: 1) Statement of Net Position, 2) Statement of Revenues, Expenses and Changes in Net Position, and 3) Statement of Cash Flows. The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position are prepared using the economic resource measurement focus and the accrual basis of accounting.

The *Statements of Net Position* present information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in the net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *Statements of Revenues, Expenses and Changes in Net Position* present information which reflects how the District's net position changed during the past year. All changes in the net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in the statement for some items that will only result in cash flows in future fiscal periods.

The *Statements of Cash Flows* report the District's cash flows from operating, noncapital financing, and capital and related financing activities.

FINANCIAL SUMMARY AND ANALYSIS

NET POSITION

District assets decreased by approximately \$ 729,000 during 2020 while District liabilities decreased by approximately \$ 3.46 million. Thus, the total net position deficit decreased by approximately \$ 2.73 million.

	<u>2020</u>	<u>2019</u>
ASSETS		
Current and other Assets	\$ 503,989	\$ 644,098
Capital Assets	<u>33,203,388</u>	<u>33,792,311</u>
Total Assets	<u>33,707,377</u>	<u>34,436,409</u>
LIABILITIES		
Long Term Liabilities outstanding	46,229,309	49,957,930
Other liabilities	<u>325,139</u>	<u>54,243</u>
Total Liabilities	<u>46,554,448</u>	<u>50,012,173</u>
NET POSITION		
Net investment in capital assets	9,254,690	9,843,613
Unrestricted	<u>(22,101,761)</u>	<u>(25,419,377)</u>
Total net position	<u>\$ (12,847,071)</u>	<u>\$ (15,575,764)</u>

The District's assets consist largely of capital assets, which include the dams and reservoir sites acquired during 2004, utility tracts in Forest Lakes Filing #1, significant water rights, the District's ownership interest in a jointly owned wastewater treatment plant and the 2010 expansion of that plant, public roads, Dillon well, stormwater drainage systems, water transmission, distribution and treatment systems, wastewater collection systems and a newly constructed Surface Water Treatment Plant (SWTP). The small decrease in total assets is attributable to the net effect of modest additions to capital plant and annual depreciation expense of over \$800,000. The District's long-term liabilities showed a marked decline in 2020 due to the net effect of (1) repayment of over \$6 million in accrued interest on past Developer advances made possible by the Pinon Pines Metropolitan District #2 issuance of limited tax general obligation bonds in September 2020 and (2) the growing accrued interest on the Water Acquisition Agreement and on developer advances to the District.

The District's net position is comprised of a significant positive level of capital assets, less related debt used to acquire those assets. The modest decrease in Net Investment in Capital Assets mainly reflects the impact of annual depreciation. Unrestricted net position has shown a large negative balance due to the significant amount of accumulated interest on the outstanding 1987B BANs and on the various obligations to the developer that were incurred in the early years of the District before the initial developer went into bankruptcy and the lending financial institutions failed. The \$2.73 million decrease in the negative net position is principally a result of the net effect of repayment of over \$6 million in accrued interest and the continuing annual increase in accrued interest on outstanding Developer obligations.

CHANGES IN NET POSITION

	<u>2020</u>	<u>2019</u>
OPERATING REVENUE		
Water services	\$ 288,672	\$ 168,208
Wastewater services	131,818	96,473
Augmentation services	17,168	19,393
Landscape Maint. services	39,195	26,470
Other Contract services	269,310	184,080
Miscellaneous Income	-	35
Total Operating Revenue	<u>746,163</u>	<u>494,659</u>
OPERATING EXPENSES		
Facility Maintenance & Operations	713,560	551,873
General and Administrative	216,496	186,777
Depreciation	834,631	493,411
Total Operating Expenses	<u>1,764,687</u>	<u>1,232,061</u>
Operating Income(Loss)	(1,018,524)	(737,402)
NONOPERATING REVENUE (EXPENSES)		
Interest expense	<u>(2,420,262)</u>	<u>(2,393,705)</u>
(LOSS) BEFORE CONTRIBUTIONS	(3,438,786)	(3,131,107)
Capital Contributions		
Contributions from other Gov	6,148,884	-
Development Fees	<u>18,595</u>	<u>1,078,510</u>
Total Capital Contributions	<u>6,167,479</u>	<u>1,078,510</u>
CHANGE IN NET POSITION	2,728,693	(2,052,597)
NET POSITION (DEFICIT) - BEGINNING OF YEAR	<u>(15,575,764)</u>	<u>(13,523,167)</u>
NET POSITION (DEFICIT) - END OF YEAR	<u>\$ (12,847,071)</u>	<u>\$ (15,575,764)</u>

2019

With the continuing lot sales and housing construction throughout 2019 – houses being served increased from 178 at year-end 2018 to 242 at year-end 2019 - operating revenue activity for the District has continued to increase (by \$147,617 for the year). The dollar amounts Forest Lakes Metropolitan District continues to collect for water augmentation services it provides to twelve lake owners on the Rampart Range increased very modestly during 2019. The main sources of operating revenue for 2019 include monthly billing to connected homes for water, wastewater and landscaping services (which increased over \$71,000 during 2019); the category “other contract services” includes revenues collected at the time development fees are paid for the “new tap kit/inspections” fee and administrative charges to the three Pinon Districts for a portion of the costs of the administrative and management services furnished by FLMD to those three taxing Districts. Fees from the “new tap kit/inspections” for 2019 actually declined by about \$5,000 from 2018. As the property tax revenue generated by the Pinon Pines Districts increases, the level of administrative charge to the three Pinon Districts will increase until it is fully compensating Forest Lakes Metropolitan District for the services provided on behalf of the Pinon Districts. For 2019, this administrative charge revenue increased by over \$77,000.

Facilities Maintenance and Operations expenses during 2019 increased moderately over 2018 levels – by almost \$82,000 - as FLMD provided water, wastewater and landscaping services to a growing number of households and the SWTP was started up and placed into preliminary operation. Administrative and General Expenses increased by about \$41,000. Depreciation expense was little changed from 2018. Interest expense on the developer advances increased by over \$660,000 partially because of the additional Developer liability booked during 2018 and 2019 for the infrastructure conveyance from the Developer to the District and because of the significant cash advances the Developer has provided for funding of the SWTP construction and because of the fact that no interest was capitalized for capital projects due to a change in GASB accounting guidance. A significant amount of the accrued interest on Developer advances has been capitalized in prior years into the various Capital accounts. The level of capitalized interest for 2019 was \$0 compared to \$280,283 in 2018. The loss before capital contributions increased almost \$640,000 for 2019 largely because of the large increase in interest expense.

During 2019, the District recorded cash contributions from development fee payments of \$1,078,510. That level of development fees is very similar to that booked for 2018. Since Phase 1 of the Forest Lakes Development is essentially built out, until lot sales begin in Phase 2, development fee payments will be non-existent. Some minimal Phase 2 lot sales and building activity may begin toward the end of 2020. Due to the combined effect of the annual operating and non-operating losses and the \$1.144 million in capital contributions, the deficit in net position has increased from a deficit of \$13.523 million at the end of 2018 to a deficit of \$15.576 million by year end 2019.

2020

With the continuing housing construction in 2019 and the early months of 2020, houses being served increased from 242 at year-end 2019 to 262 in May 2020. Served residences have remained at 262 through May 2021. As a result of the increase in homes being served, operating revenue activity for the District has continued to increase (by \$251,504 for the year). The dollar amounts Forest Lakes Metropolitan District continues to collect for water augmentation services it provides to twelve lake owners on the Rampart Range are relatively stable year to year. The main sources of operating revenue for 2020 include monthly billing to connected homes for water, wastewater and landscaping services (which increased over \$168,000 during 2020);

the category “other contract services” includes revenues collected at the time development fees are paid for the “new tap kit/inspections” fee and administrative charges to the three Pinon Districts for a portion of the costs of the administrative and management services furnished by FLMD to those three taxing Districts. Fees from the “new tap kit/inspections” for 2020 declined significantly for 2020 due to the lack of significant construction activity. As the property tax revenue generated by the Pinon Pines Districts increases, the level of administrative charge to the three Pinon Districts will increase until it is fully compensating Forest Lakes Metropolitan District for the services provided on behalf of the Pinon Districts. For 2020, this administrative charge revenue increased by \$165,600.

Facilities Maintenance and Operations expenses during 2020 increased moderately over 2019 levels – by almost \$162,000 - as FLMD provided water, wastewater and landscaping services to a growing number of households.. Administrative and General Expenses increased by almost \$30,000. Depreciation expense increased by over \$341,000 due to the start of depreciation on the SWTP for 2020. Interest expense on the developer advances increased modestly during 2020 as no new Developer advances were made to the District. The loss before capital contributions increased very modestly for 2020.

During 2020, the District recorded cash contributions from development fee payments of \$18,595 from the construction of one house – a large decrease from that recorded for 2019. As lot sales began in Phase 2 in late 2020, development fee payments will again be significant for 2021. As a result of the Pinon Pines Metropolitan District #2 bond issuance in September 2020, \$6,148,884 was received by the District for repayment to the Developer of a portion of the accrued interest expense on past Developer Advances. This receipt is recorded as a “contribution from other Government”. Due to the combined effect of the annual operating and non-operating losses and the almost \$6.2 million in capital contributions, the deficit in net position has decreased from a deficit of \$15.576 million at the end of 2019 to a deficit of \$12.847 million by year end 2020.

BUDGETARY HIGHLIGHTS

The District did amend the original 2020 Budget to reflect the receipt of funds from PPMD #2 as a result of their 2020 bond issue and the subsequent payment of a portion of the accrued interest on past Developer Advances and to make other adjustments to reflect actual development activity in 2020. Appropriated expenditures in that amended 2020 Budget are shown as \$10,713,098. Most budget line items show that actual activity for the year was in line with the budget amounts. Actual capital expenditures were significantly below estimates due to the delay in completion of the A1 well and the absence of transfer of any developer constructed public infrastructure to the District.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The District's investment in capital assets at December 31, 2020 and 2019 amounted to \$33,203,388 and \$33,792,311 (net of accumulated depreciation), respectively. This investment in capital assets includes both the original and expanded wastewater plant, dams, the water flow measuring device, water rights, land, stormwater drainage systems, Dillon and Arapahoe wells, water transmission, distribution and treatment systems, wastewater collection systems, parks & trails, roadway landscaping, water meters and the Well-Head and Surface water treatment plants.. Analysis of changes in capital assets is as follows:

	<u>2020</u>	<u>2019</u>
Wastewater Plant	\$ 4,554,395	\$ 4,554,395
Parks & Trails	1,950,402	1,950,402
Landscaping	593,230	593,230
Water Meters	138,952	138,244
Wastewater collection system	2,726,864	2,726,864
Dams	3,024,560	3,024,560
Stormwater drainage systems	2,161,322	2,161,322
Wells	888,344	888,344
Water Flow Measuring Device	9,037	9,037
Water tank	898,287	898,287
Well-head treatment plant	841,430	841,430
Water transmission & distribution lines	3,573,447	3,328,447
Irrigation System	57,559	57,559
Water rights	7,422,598	7,422,598
Land	383,280	383,280
Surface Water Treatment Plant	9,783,029	9,783,029
Accumulated Depreciation	<u>(5,803,348)</u>	<u>(4,968,717)</u>
Total Capital assets	<u>\$ 33,203,388</u>	<u>\$ 33,792,311</u>

Additional information on the District's capital assets can be found in the notes to financial statements on pages 9 and 10.

During 2020, there were no major capital outlays by the District..

Outstanding Long Term Liabilities

At December 31, 2020 and 2019, the District had \$46,229,309 and \$49,957,930 respectively, in long term liabilities outstanding. The detail of outstanding long term liabilities is as follows:

	<u>2020</u>	<u>2019</u>
Funding Agreements	\$ 25,080,032	\$ 25,080,032
Water rights liability	5,155,250	5,155,250
Pre-paid tap fee liability	1,340,295	1,340,295
Accrued Interest	<u>14,653,732</u>	<u>18,382,353</u>
Total Outstanding Liabilities	<u>\$ 46,229,309</u>	<u>\$ 49,957,930</u>

Additional information on the District's long-term liabilities can be found in the notes to financial statements on pages 11 through 12.

In 2008, the First Amendment to the Water Acquisition Agreement of 2006 reduced the District's obligation under that agreement by \$1.785 million as a result of the transfer of 713.9 acre feet of District owned groundwater rights to the developer. Through 2020, the District continued to accrue interest annually on the outstanding Developer Advance obligation. In 2017, 2018 and 2019, the level of the prepaid tap fee liability was reduced based on a payment to Forest Lakes LLC pursuant to its Reconciliation Agreement with Forest Lakes LLC. Due to the very minimal home building in 2020, no payment was triggered to the Developer to further reduce that liability.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

For 2021, the District has budgeted for the completion of the Arapahoe Well which will be funded from District cash. Expenditures on the drilling of a Denver aquifer well were not budgeted for 2021 and will require a supplemental appropriation. If conveyance to FLMD of the public infrastructure constructed by the developer for Filings #2 and #4 were to occur, the 2021 Budget will be appropriately amended. The 2021 Budget assumes that 308 houses, on average, will be taking water/wastewater and landscaping services during 2021.

REQUESTS FOR INFORMATION

This financial report is designed to give its readers a general overview of the District's finances. Questions regarding any information contained in this report or request for additional financial information should be addressed to: Ann Nichols, District Manager, 2 North Cascade Avenue, Suite 1280, Colorado Springs, CO 80903.

BASIC FINANCIAL STATEMENTS

**FOREST LAKES METROPOLITAN DISTRICT
STATEMENTS OF NET POSITION
DECEMBER 31, 2020 AND 2019**

	<u>2020</u>	<u>2019</u>
ASSETS		
Current assets		
Cash and investments	\$ 178,937	\$ 498,225
Receivables	203,349	23,462
Inventory	<u>121,703</u>	<u>122,411</u>
Total current assets	<u>503,989</u>	<u>644,098</u>
Capital assets		
Capital assets not being depreciated	7,805,878	7,805,878
Capital assets being depreciated, net	<u>25,397,510</u>	<u>25,986,433</u>
Total capital assets	<u>33,203,388</u>	<u>33,792,311</u>
Total assets	<u>\$ 33,707,377</u>	<u>\$ 34,436,409</u>
LIABILITIES		
Current liabilities		
Accounts payable	<u>\$ 325,139</u>	<u>\$ 54,243</u>
Long-term liabilities		
Accrued interest	14,653,732	18,382,353
Funding agreements	25,080,032	25,080,032
Water rights liability	5,155,250	5,155,250
Prepaid tap fee liability	<u>1,340,295</u>	<u>1,340,295</u>
Total long-term liabilities	<u>46,229,309</u>	<u>49,957,930</u>
Total liabilities	<u>46,554,448</u>	<u>50,012,173</u>
NET POSITION		
Net investment in capital assets	9,254,690	9,843,613
Unrestricted	<u>(22,101,761)</u>	<u>(25,419,377)</u>
Total net position	<u>\$ (12,847,071)</u>	<u>\$ (15,575,764)</u>

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

FOREST LAKES METROPOLITAN DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
Operating revenues:		
Charges for services:		
Water service	\$ 288,672	\$ 168,208
Wastewater service	131,818	96,473
Augmentation service	17,168	19,393
Landscaping maintenance service	39,195	26,470
Other contract services	269,310	184,080
Miscellaneous	-	35
	<u>746,163</u>	<u>494,659</u>
Operating expenses:		
Facility maintenance and operations	713,560	551,873
Administration	216,496	186,777
Depreciation	834,631	493,411
	<u>1,764,687</u>	<u>1,232,061</u>
Operating income (loss)	(1,018,524)	(737,402)
Nonoperating revenues (expenses):		
Interest expense	<u>(2,420,262)</u>	<u>(2,393,705)</u>
Income before capital contributions	(3,438,786)	(3,131,107)
Capital contributions		
Contributions from other government	6,148,884	-
Development fees	18,595	1,078,510
	<u>6,167,479</u>	<u>1,078,510</u>
Change in net position	2,728,693	(2,052,597)
Net position (deficit) - beginning	<u>(15,575,764)</u>	<u>(13,523,167)</u>
Net position (deficit) - ending	<u><u>\$ (12,847,071)</u></u>	<u><u>\$ (15,575,764)</u></u>

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

**FOREST LAKES METROPOLITAN DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

	2020	2019
CASH FLOW FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 566,276	\$ 512,757
Other receipts	-	35
Payments to suppliers and service providers	(903,451)	(938,596)
Net cash used by operating activities	(337,175)	(425,804)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from development fees	18,595	1,078,510
Proceeds from funding agreement	-	861,430
Proceeds from intergovernmental agreement	6,148,884	-
Payment of accrued interest	(6,148,884)	-
Payment of prepaid tap liability	-	(223,140)
Acquisition and construction of capital assets	(708)	(1,161,434)
Net cash provided (used) by capital and related financing activities	17,887	555,366
Increase (decrease) in cash and cash equivalents	(319,288)	129,562
Cash and cash equivalents, beginning of year	498,225	368,663
Cash and cash equivalents, end of year	\$ 178,937	\$ 498,225

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

**FOREST LAKES METROPOLITAN DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

	2020	2019
Reconciliation of operating income (loss) to net cash used by operating activities:		
Operating loss	\$ (1,018,524)	\$ (737,402)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation	834,631	493,411
Change in assets and liabilities:		
(Increase) decrease in assets:		
Receivables	(179,887)	18,132
Inventory	708	(9,101)
Prepaid expense	-	12,886
Increase (decrease) in liabilities:		
Accounts payable related to operations	25,897	(203,730)
Total adjustments	681,349	311,598
Net cash used by operating activities	\$ (337,175)	\$ (425,804)

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

NOTES TO FINANCIAL STATEMENTS

**FOREST LAKES METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements have been prepared in accordance with U.S. generally accepted accounting principles as applied to local governments and promulgated by the Governmental Accounting Standards Board (GASB). A summary of the significant accounting policies used in the preparation of these financial statements follows.

A. REPORTING ENTITY

Forest Lakes Metropolitan District (the District) is a quasi-municipal corporation, governed pursuant to the provisions of the Colorado Special District Act. The District's service area is located in El Paso County, Colorado. A portion of the District has been annexed into the Town of Monument. The District was established to provide water and sanitary sewer service, park and recreational facilities, safety protection, street improvements, transportation, and mosquito control services to the properties within the District boundaries.

The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government.

The District has no component units for which either discrete or blended presentation is required.

B. BASIS OF PRESENTATION—FINANCIAL STATEMENTS

The basic financial statements (i.e., the statement of net position and the statement of revenues, expenses and changes in net position) report information on all of the non-fiduciary activities of the District.

The accounts of the District are organized and operated on the basis of funds. A fund is an independent fiscal accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds maintained is consistent with legal and managerial requirements.

The District accounts for all of its activities in a single proprietary – enterprise fund for its activities which are similar to those found in the private sector, where the determination of changes in net position is necessary or useful to sound financial administration. The business type activities of the District rely significantly upon service charges.

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The District's 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.

**FOREST LAKES METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. ASSETS, LIABILITIES, AND NET POSITION

Cash and cash equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Inventories

Inventories are valued at cost, which approximates market, using the first-in/first-out (FIFO) method.

Capital assets

All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable.

Depreciation of the wastewater plant, dams, equipment, and wells is computed using the straight-line method over the estimated useful lives as follows:

Wastewater plant	40 years
Dams	30 - 100 years
Water flow measuring device and water tank	33 1/3 years
Storm-water drainage system and wells	50 years
Wastewater collection system	25 – 100 years
Water distribution system	100 years
Well-head treatment plant	25 years
Surface-water treatment plant	20-40 years

When depreciable property is acquired, depreciation is included in expense for the year of acquisition for the number of months during the year the asset was in service. When depreciable property is retired or otherwise disposed of, depreciation is included in expense for the number of months in service during the year of retirement and the related costs and accumulated depreciation are removed from the accounts with any gain or loss reflected in the statement of revenue, expenses and changes in fund net position.

The cost of water rights includes acquisition, legal and engineering costs related to the development and augmentation of these rights. Since the rights have a perpetual life, they are not amortized. All other costs, including costs incurred for the protection of these rights, are expensed.

**FOREST LAKES METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. ASSETS, LIABILITIES, AND NET POSITION (CONTINUED)

Deferred outflows/inflows of resources

In addition to assets, the statement of financial 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 position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then.

In addition to liabilities, the statement of financial 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 position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Net position flow assumption

The District may fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted—net position and unrestricted—net position in the financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted—net position to have been depleted before unrestricted—net position is applied.

E. REVENUES AND EXPENSES

Operating and non-operating revenues and expenses

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the fund's principal ongoing operations. The principal operating revenues of the fund are water and other contract services. Operating expenses include all expenses incurred to provide contract services. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

F. ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**FOREST LAKES METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

BUDGETARY INFORMATION

In accordance with the State Budget Law, the District’s Board of Directors holds public hearings in the fall each year to approve the budget and appropriate the funds for the ensuing year. The appropriation is at the total fund expenditures level and lapses at year end. The District’s Board of Directors can modify the budget by line item within the total appropriation with notification. The appropriation can only be modified upon completion of notification and publication requirements.

NOTE 3 - DEPOSITS AND INVESTMENTS

DEPOSITS

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

As of December 31, 2020 and 2019, the carrying amounts of the District’s deposits were \$178,937 and \$498,225, respectively and the bank balances were \$202,050 and \$536,000, respectively. In 2020, \$202,050 of bank balances was covered by FDIC insurance. In 2019, \$250,000 of bank balances was covered by FDIC insurance and the remaining balance of \$286,000 fell under the provisions of the Colorado Public Deposit Protection Acts.

INVESTMENTS

The District is authorized by Colorado Statutes to invest in the following:

- Bonds and other interest-bearing obligations of the United States government.
- Bonds and other interest-bearing obligations which are guaranteed by the United States government.
- Bonds which are a direct obligation of the State of Colorado, or of any city, county or school district therein.
- Notes or bonds issued to the “National Housing Act”.
- Repurchase agreements.
- Local government investment pools.

**FOREST LAKES METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2020 was as follows:

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Water rights	\$ 7,422,598	\$ -	\$ -	\$ 7,422,598
Land	<u>383,280</u>	<u>-</u>	<u>-</u>	<u>383,280</u>
Total capital assets, not being depreciated	<u>7,805,878</u>	<u>-</u>	<u>-</u>	<u>7,805,878</u>
Capital assets, being depreciated:				
Wastewater plant	4,554,395	-	-	4,554,395
Parks & Trails	1,950,402	-	-	1,950,402
Landscaping	593,230	-	-	593,230
Service water meters	138,244	708	-	138,952
Dams	3,024,560	-	-	3,024,560
Stormwater drainage system	2,161,322	-	-	2,161,322
Wells	888,344	-	-	888,344
Water flow measuring device	9,037	-	-	9,037
Wastewater collection system	2,726,864	-	-	2,726,864
Water distribution system	3,328,447	245,000	-	3,573,447
Water tank	898,287	-	-	898,287
Well-head treatment plant	841,430	-	-	841,430
Irrigation System	57,559	-	-	57,559
Surface water treatment plant	<u>9,783,029</u>	<u>-</u>	<u>-</u>	<u>9,783,029</u>
Total capital assets, being depreciated	30,955,150	245,708	-	31,200,858
Less accumulated depreciation	<u>(4,968,717)</u>	<u>(834,631)</u>	<u>-</u>	<u>(5,803,348)</u>
Total capital assets, being depreciated, net	<u>25,986,433</u>	<u>(588,923)</u>	<u>-</u>	<u>25,397,510</u>
Total capital assets, net	<u>\$ 33,792,311</u>	<u>\$ (588,923)</u>	<u>\$ -</u>	<u>\$ 33,203,388</u>

**FOREST LAKES METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 4 - CAPITAL ASSETS (CONTINUED)

Capital asset activity for the year ended December 31, 2019 was as follows:

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Water rights	\$ 7,422,598	\$ -	\$ -	\$ 7,422,598
Land	383,280	-	-	383,280
Construction in progress	<u>9,402,097</u>	<u>380,932</u>	<u>(9,783,029)</u>	<u>-</u>
Total capital assets, not being depreciated	<u>17,207,975</u>	<u>380,932</u>	<u>(9,783,029)</u>	<u>7,805,878</u>
Capital assets, being depreciated:				
Wastewater plant	4,554,395	-	-	4,554,395
Parks & Trails	1,931,019	19,383	-	1,950,402
Landscaping	565,230	28,000	-	593,230
Service water meters	112,929	25,315	-	138,244
Dams	3,024,560	-	-	3,024,560
Stormwater drainage system	2,161,322	-	-	2,161,322
Wells	888,344	-	-	888,344
Water flow measuring device	9,037	-	-	9,037
Wastewater collection system	2,726,864	-	-	2,726,864
Water distribution system	3,328,447	-	-	3,328,447
Water tank	898,287	-	-	898,287
Well-head treatment plant	841,430	-	-	841,430
Irrigation System	57,559	-	-	57,559
Surface water treatment plant	<u>-</u>	<u>9,783,029</u>	<u>-</u>	<u>9,783,029</u>
Total capital assets, being depreciated	21,099,423	9,855,727	-	30,955,150
Less accumulated depreciation	<u>(4,475,306)</u>	<u>(493,411)</u>	<u>-</u>	<u>(4,968,717)</u>
Total capital assets, being depreciated, net	<u>16,624,117</u>	<u>9,362,316</u>	<u>-</u>	<u>25,986,433</u>
Total capital assets, net	<u>\$ 33,832,092</u>	<u>\$ 9,743,248</u>	<u>\$ (9,783,029)</u>	<u>\$ 33,792,311</u>

**FOREST LAKES METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 5 – LONG TERM OBLIGATIONS

Funding agreements

The District has entered into Funding Agreements with the Developer (see Note 8) to advance funds to the District for capital and operations and maintenance expenses to enable the District to provide services. The District will repay the Developer to the extent that the funds are available or, at the discretion of the District, from available bond proceeds. Simple interest accrues from the date each developer advance is received at 8% per annum.

Prepaid taps

In the Funding Reconciliation Agreement dated September 4, 2003 and effective December 31, 2002, the District confirmed an obligation to entitle the Developer (see Note 8) to ownership of 216 combined water and sewer taps worth \$2,816,640 based on the District's then current rate of \$13,040 per combined water and sewer tap fee. By acceptance of the tap fee obligation, the Developer has agreed that the prepaid taps will be the only obligations carried over from the previous funding agreements (as more fully described in the Fund Reconciliation Agreement dated September 4, 2003) and that the Developer shall not seek any reimbursement or credit from the District with respect to the funding agreements other than for prepaid tap fees. The prepaid tap fee liability represents the accumulated developer advances and the acquisition of water rights at the actual or estimated values as of the date of the transactions. During 2020, building activity allowed for the liquidation of \$0 in tap fee liability. No taps were liquidated leaving a remaining balance of 161 taps.

Water rights

Under an Assignment and Assumption Agreement dated October 28, 2003, the Developer assigned certain water rights to the District. Subsequently, it was determined that it was in the best interest of the District to reimburse the Developer for that portion of the water rights already assigned to the District by the Developer. Accordingly, on August 1, 2006, the District entered into a Water Acquisition Agreement with the Developer totaling \$6,940,000 for reimbursement of these water rights and for the transfer of water rights not previously assigned to the District. Simple interest accrues from the date of the agreement at 8% per annum

Under the First Amendment to Water Acquisition Agreement dated December 31, 2008, the District transferred certain water rights originally acquired by the District in the 1980's, back to the Developer. The water rights transferred reduced the amount owed for the reimbursement of the original agreement by \$1,784,750, based on the appraised value of the water rights at the time of transfer. Simple interest will continue to accrue on the new principal balance of \$5,155,250 at 8% per annum.

Unissued debt

On November 4, 2003, a majority of the qualified electors of the District authorized the issuance of indebtedness in an amount not to exceed \$51,000,000 at an interest rate not to exceed 18% per annum. The full \$51,000,000 remains unauthorized and unissued as of December 31, 2020.

**FOREST LAKES METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 5 – LONG TERM OBLIGATIONS (CONTINUED)

Changes in Long-term Obligations

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Funding agreements	\$ 25,080,032	\$ -	\$ -	\$ 25,080,032	\$ -
Prepaid tap fee liability	1,340,295	-	-	1,340,295	-
Water rights liability	5,155,250	-	-	5,155,250	-
Accrued interest	<u>18,382,353</u>	<u>2,420,262</u>	<u>(6,148,883)</u>	<u>14,653,732</u>	<u>-</u>
Total loans and accrued interest payable	<u>\$ 49,957,930</u>	<u>\$ 2,420,262</u>	<u>\$ (6,148,883)</u>	<u>\$ 46,229,309</u>	<u>\$ -</u>

NOTE 6 – NET POSITION

Net position is reported in three separate categories—net investment in capital assets, net position-restricted, and net position-unrestricted.

Net investment in capital assets consists of capital assets net of accumulated depreciation and capital-related deferred outflows of resources; reduced by borrowings and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets. As of December 31, 2020 and 2019, net investment in capital assets was as follows:

	<u>2020</u>	<u>2019</u>
Net Investment in Capital Assets:		
Capital assets, net of accumulated depreciation	\$ 33,203,388	\$ 33,792,311
Estimated principal portion of long-term obligations	<u>(23,948,698)</u>	<u>(23,948,698)</u>
Total Net Investment in Capital Assets	<u>\$ 9,254,690</u>	<u>\$ 9,843,613</u>

Net position-restricted is the difference between non-capital assets whose use is restricted for use either externally imposed by creditors, grantors, contributors, or laws and regulations of other governments; or imposed by law through constitutional provisions or enabling legislation, and related liabilities and deferred inflows of resources (excluding capital-related borrowings).

Any portion of net position not already classified as either net investment in capital assets or net position-restricted, is automatically classified as net position-unrestricted.

NOTE 7 – RISK MANAGEMENT

The District is exposed to various risks of losses related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The District is a member of the Colorado Special Districts Property and Liability Pool (Pool) as of December 31, 2020. The Pool is an organization created by intergovernmental agreement to provide property, liability, public officials' liability, boiler and machinery and worker's compensation coverage to its members. Settled claims have not exceeded this coverage in any of the past three fiscal years.

**FOREST LAKES METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 7 – RISK MANAGEMENT (CONTINUED)

The District 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.

NOTE 8 - RELATED PARTIES

In 2015, the developer entities (Developers) associated with the District were modified to add an additional entity called Forest Lakes Residential Development LLC. All current board members are employees of one of the partners of that LLC.

Under Funding Agreements the District had received advances from the Developers as of December 31, 2020 and 2019 totaling \$25,080,032 and \$25,080,032, respectively. Accrued interest on the Funding Agreements as of December 31, 2020 and 2019 totaled \$8,377,092 and \$12,518,133, respectively (see Note 5).

In the Funding Reconciliation Agreement dated September 4, 2003 and effective December 31, 2002, the District confirmed an obligation to entitle the Developers to ownership of 216 combined water and sewer taps (see Note 5).

Under the August 1, 2006 Water Acquisition Agreement, the District agreed to reimburse the Developers for water rights valued at \$6,940,000. The reimbursement was reduced by \$1,784,750 under an amendment to the original agreement. Accrued interest on this obligation as of December 31, 2020 and 2019 totaled \$6,276,640 and \$5,864,220, respectively (See Note 5).

NOTE 9 – COMMITMENTS AND CONTINGENCIES

Economic Dependency

The District has not yet established a revenue base sufficient to meet its operational expenses and is dependent upon future growth in the District and advances from the Developer.

Active development of the various properties within the District began in 2015 and continued throughout 2020. The District's ability to generate cash from tap fees and service fees improved in 2020.

Management is developing plans to increase revenues and lower debt service requirements. The District continues to be dependent on the Developer for funding operational and capital expenses.

**FOREST LAKES METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 10 – INTERGOVERNMENTAL AGREEMENTS

Intergovernmental agreement with Triview Metropolitan District

On March 28, 2002, the District entered into an agreement with Triview Metropolitan District (Triview) to jointly design, construct, operate and own the Monument Creek Interceptor (Interceptor). The costs of design and construction of the project are paid equally by Triview and the District. In accordance with the agreements, the District has 37% ownership and Triview has 63% ownership in the Interceptor. Initially, Triview will operate and manage the Interceptor via a management contract with Donala Water & Sanitation District (Donala). The costs of such management and operation of the interceptor will be paid on a quarterly basis in direct proportion to the use of the wastewater or re-use lines, based on actual flows.

Intergovernmental agreement with Triview Metropolitan District and Donala Water and Sanitation District

The District entered into an agreement dated November 11, 1999, subsequently amended on October 25, 2001, with Triview and Donala to define ownership rights in the wastewater treatment plant. Prior to these agreements, the District owned approximately 60% and Triview owned approximately 40% of the treatment facility under an agreement dated August 19, 1986. Under the amended agreement the District and Triview transferred part ownership to Donala.

In 2009 the Districts completed an expansion of the plant to 1.75 MGD. Under the terms of the above agreements, the three Districts reallocated ownership. The current ownership is 44.0% owned by Triview, 17.1% by Forest Lakes, and 38.9% by Donala. The plant is currently being operated by Donala and all parties are responsible for their respective share of operations and maintenance costs, based on the relative share of actual flows.

In addition, in accordance with the November 11, 1999 agreement, an ownership interest in a 24” interceptor was transferred to the District. As a result of the transfer, the interceptor is owned 25% by the District, 50% by Triview, and 25% by Donala.

Town of Monument Intergovernmental Agreements

On January 9, 1989, the District and the Town of Monument agreed to certain responsibilities regarding the ownership and operations of facilities the District is empowered to construct and operate within the Town of Monument and the allocation of certain sales tax revenues to the District. On July 18, 2005, the District and the Town of Monument amended the original agreement to allow for the formation of a Public Improvement Corporation and the assessment of a Public Improvement Fee, which will replace the sales tax revenues allocated to the District.

On August 15, 2007, the District and the Town entered into an easement agreement, for the construction and use of a water tank storage unit. This agreement allows for the construction of a 1.5MG water tank, with 1MG capacity funded by the District and .5MG capacity funded by the Town. The Town’s share of the construction costs is in exchange for use of the additional capacity, and the District retains ownership of the entire water tank. In accordance with the agreement, the Town shall pay its share of the construction costs to the District periodically as the District receives invoices for costs associated with the water tank.

**FOREST LAKES METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 10 – INTERGOVERNMENTAL AGREEMENTS (CONTINUED)

Intergovernmental Agreement with Pinon Pines Metropolitan District Nos. 1, 2 and 3

In order to fulfill the requirements of the service plan, the District entered into a Facilities Funding, Construction, and Operations Agreements with the Pinon Pines Metropolitan District Nos. 1, 2, and 3 (the Pinon District), effective July 19, 2004. This agreement shall remain in full force and effect until all of the terms and conditions of the agreement have been performed in their entirety and as long as any bonds or other obligations are outstanding. On October 6, 2016, the District entered into an intergovernmental agreement with the Pinon District pertaining to the issuance of Series 2016 Bonds by Pinon Pines Metropolitan District No. 1. On September 30, 2020, the District entered into an intergovernmental agreement with the Pinon District pertaining to the issuance of Series 2020 Bonds by Pinon Pines Metropolitan District No. 2 (Pinon Pines 2). Under the terms of this agreement, the Pinon Pines 2 contributed \$6,148,884 to the District to pay down accrued interest on developer funding agreements.

The District will own, operate, maintain, finance, and construct facilities benefiting all of the districts, and the Pinon Districts will contribute to the costs of construction, operation, and maintenance of such facilities.

The District will have little or no assessed valuation within its boundaries from which general obligations could be paid, and therefore may issue revenue bonds. The Pinon Districts will either issue general obligation bonds at various points in time and use such proceeds to pay their obligations to the District, refinance previously issued revenue bonds of the District, or pledge their ad valorem tax revenues to the repayment of revenue bonds issued by the District.

The service plans approve and voters within the Pinon Districts have authorized \$354,900,000 of debt. \$8,330,000 in General Obligation Limited Tax Bonds were issued in October 2016. The bonds were used to repay 1987B Bond Anticipation Notes. \$7,560,000 in General obligation Limited Tax bonds were issued in September 2020. The bonds were used to pay down the accrued interest on the Funding Agreement between the District and it's developers.

Intergovernmental agreement with Donala Water and Sanitation District

On March 7, 2016, the District entered into an agreement with Donala Water and Sanitation District to receive water and wastewater operating services, as well as related administration services.

**FOREST LAKES METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 11 - AMENDMENT TO COLORADO CONSTITUTION

Colorado voters passed an amendment to the *State Constitution*, Article X, Section 20, which has several limitations, including revenue raising, spending abilities, and other specific requirements of state and local governments.

Fiscal year spending and revenue limits are determined based on the prior year's spending adjusted for inflation and local growth. Revenue in excess of the limit must be refunded unless the voters approve retention of such revenue.

On November 4, 2003, a majority of the District's electors authorized the District to collect, retain, and spend all fees, grants and other revenues, other than ad valorem taxes, without any limitations imposed under TABOR.

The Amendment is complex and subject to judicial interpretation. The entity believes it is in compliance with the requirements of the amendment. However, the entity has made certain interpretations of the amendment's language in order to determine its compliance.

SUPPLEMENTAL INFORMATION

FOREST LAKES METROPOLITAN DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET POSITION
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
FOR THE YEAR ENDED DECEMBER 31, 2020

	Actual	Budget	Variance Favorable (Unfavorable)
REVENUES			
Beginning fund balance	\$ 589,856	\$ 589,856	\$ -
Advances from funding agreements	-	700,000	(700,000)
Water service	288,672	293,542	(4,870)
Wastewater service	131,818	178,244	(46,426)
Augmentation service	17,168	13,000	4,168
Landscaping maintenance service	39,195	44,928	(5,733)
Other contract services	269,310	319,450	(50,140)
Advance interest	-	2,441,415	(2,441,415)
Capital contributions	6,167,479	6,148,884	18,595
TOTAL REVENUES	7,503,498	10,729,319	(3,225,821)
EXPENDITURES			
Facility maintenance and operations	713,560	671,816	(41,744)
Administration	216,496	223,940	7,444
Capital outlay	245,708	1,087,000	841,292
Payment of prepaid tap liability	-	130,165	130,165
Interest expense	-	2,441,415	2,441,415
Reserves	-	9,878	9,878
Payment of accrued interest	6,148,884	6,148,884	-
TOTAL EXPENDITURES	7,324,648	10,713,098	3,388,450
EXCESS OF EXPENDITURES OVER REVENUES	\$ 178,850	\$ 16,221	\$ 162,629
Less:			
Depreciation	(834,631)		
Accrued interest	(2,420,262)		
Beginning fund balance	(589,856)		
Add:			
Capital outlay	245,708		
Payment of accrued interest	6,148,884		
CHANGE IN NET POSITION	\$ 2,728,693		
Ending fund balance is calculated as follows:			
Current assets	\$ 503,989		
Current liabilities	(325,139)		
	\$ 178,850		

See the accompanying independent auditors' report.