

**FOREST LAKES METROPOLITAN  
DISTRICT**

FINANCIAL STATEMENTS  
With Independent Auditors' Report

Years Ended December 31, 2021 and 2020

**FOREST LAKES METROPOLITAN DISTRICT  
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DECEMBER 31, 2021 AND 2020**

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## **INDEPENDENT AUDITORS' REPORT**

To Board of Directors  
Forest Lakes Metropolitan District

### **Report on the Audit of the Financial Statements**

#### ***Opinion***

We have audited the accompanying financial statements of Forest Lakes Metropolitan District, as of and for the years ended December 31, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the Forest Lakes Metropolitan District's basic financial statements, as listed in the table of contents

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Forest Lakes Metropolitan District, as of December 31, 2021 and 2020, and the changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### ***Basis for Opinion***

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

#### ***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.

#### ***Responsibilities of Management for the Financial Statements***

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Forest Lakes Metropolitan District's ability to

continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

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

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

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

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

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as listed in the table of contents be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any

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

***Supplementary Information***

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

*Hoelting & Company Inc.*

Colorado Springs, Colorado  
June 23, 2022

## **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, 2021 and 2020. 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 2022.
- At the beginning of 2020, 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. During 2021, the owner of another of the vacant lots 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 year-end 2021, water and wastewater development fee payments for all of the 33 lots in Filing #5 had been made to the District.
- Forest Lakes Filing #6 in the Phase 2 development initiated lot sales in January 2022 and by June 2022, 36 of the 68 lots had been sold and water and wastewater development fees paid on 31 lots.
- 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. Development fees for that site were paid during 2021. Completion of the UPS distribution center is scheduled for July 2022. A QuikTrip travel center and a distribution center for a national liquor distributor are both in the final stages of entitlement through the Town of Monument. Initial work on both sites will begin in the summer of 2022.
- The Developer for the Falcon Commerce Center - Forest Lakes LLC – has installed all public infrastructure for the first phase of this development at their expense and recently completed an independent engineers report on the cost of that public infrastructure. An entry will be made for the first quarter of 2022 to put that infrastructure into service and to recognize a liability to Forest Lakes LLC for eventual repayment of those expenses.
- District operation of the water and wastewater systems is now being provided by contract by Triview Metropolitan District. Donala Water and Sanitation District exercised its right to terminate its contract operations agreement effective December 31, 2021.

- 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 submitted a Basis of Design report to the Colorado Department of Public Health and Environment (CDPHE) and obtained 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 occurred in May 2022. The District obtained a well permit for a Denver aquifer well adjacent to the Dillon Well and bid out drilling and completion of the Denver aquifer well. The Denver Well drilling was completed in the spring of 2022 and is currently awaiting formal approval from CDPHE before proceeding with equipping the well. Due to supply chain challenges, the Denver Well is not expected to be in service for the summer 2022 irrigation season. The addition of two more groundwater sources to the District's water portfolio will enhance the long term water supply reliability.
- During 2021, 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](http://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 two 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 is now expected to be completed by summer 2022. The northern entities believe there could be significant financial benefits to partnering with Colorado Springs Utilities in this NMCI project and will be considering execution of a Design Agreement in August 2022 which will commit them to participation in the cost for the design of the NMCI. 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. This Regional Return Flow Project was completed in April 2022 and has identified a preferred option that will be subject to further refinement in a study to be conducted by Colorado Springs Utilities. The District was one of 8 entities who participated in this project.

## **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 increased by approximately \$674,000 during 2021 while District liabilities increased by approximately \$ 3.05 million. Thus, the total net position deficit increased by approximately \$ 2.38 million.

	<u>2021</u>	<u>2020</u>
<b>ASSETS</b>		
Current and other Assets	\$ 504,969	\$ 503,989
Capital Assets	<u>33,876,541</u>	<u>33,203,388</u>
Total Assets	<u>34,381,510</u>	<u>33,707,377</u>
<b>LIABILITIES</b>		
Long Term Liabilities outstanding	49,179,599	46,229,309
Other liabilities	<u>428,096</u>	<u>325,139</u>
Total Liabilities	<u>49,607,695</u>	<u>46,554,448</u>
<b>NET POSITION</b>		
Net investment in capital assets	9,242,843	9,254,690
Unrestricted	<u>(24,469,028)</u>	<u>(22,101,761)</u>
Total net position	<u>\$ (15,226,185)</u>	<u>\$ (12,847,071)</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 increase in total assets is attributable to the net effect of modest additions in construction work in progress (mainly the A1 and Dillon Wells), the acquisition of groundwater rights for the Denver Well and annual depreciation expense of over \$800,000. The District's long-term liabilities showed a moderate increase in 2021 due to the addition of \$685,000

in the liability for Water Acquisition (acquisition of water rights for the Denver Well) and 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. There was little change in Net Investment in Capital Assets. 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 \$2.37 million increase in the negative net position is principally a result of the increase in water acquisition liability and the continuing annual increase in accrued interest on outstanding Developer obligations.

## CHANGES IN NET POSITION

	<u>2021</u>	<u>2020</u>
<b>OPERATING REVENUE</b>		
Water services	\$ 199,282	\$ 288,672
Wastewater services	136,351	131,818
Augmentation services	17,539	17,168
Landscape Maint. services	37,375	39,195
Other Contract services	626,840	269,310
Miscellaneous Income	<u>184</u>	<u>-</u>
Total Operating Revenue	<u>1,017,571</u>	<u>746,163</u>
<b>OPERATING EXPENSES</b>		
Facility Maintenance & Operations	786,671	713,560
General and Administrative	186,351	216,496
Depreciation	838,462	834,631
Total Operating Expenses	<u>1,811,484</u>	<u>1,764,687</u>
Operating Income(Loss)	(793,913)	(1,018,524)
<b>NONOPERATING REVENUE (EXPENSES)</b>		
Interest expense	<u>(2,451,240)</u>	<u>(2,420,262)</u>
<b>(LOSS) BEFORE CONTRIBUTIONS</b>	(3,245,153)	(3,438,786)
<b>Capital Contributions</b>		
Contributions from other Gov	-	6,148,884
Development Fees	<u>866,039</u>	<u>18,595</u>
Total Capital Contributions	<u>866,039</u>	<u>6,167,479</u>
<b>CHANGE IN NET POSITION</b>	(2,379,114)	2,728,693
<b>NET POSITION (DEFICIT) - BEGINNING OF YEAR</b>	<u>(12,847,071)</u>	<u>(15,575,764)</u>
<b>NET POSITION (DEFICIT) - END OF YEAR</b>	<u>\$ (15,226,185)</u>	<u>\$ (12,847,071)</u>

## 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.

## 2021

With work completed by late 2020 on lot preparation and public infrastructure construction for Filing #5 in the Phase 2 development, lots sales were completed and home construction begun on the 33 lots in Filing #5 during 2021. Served residences increased from at 262 in May 2021 to 281 homes at year-end. The main sources of operating revenue for 2021 include monthly billing to connected homes for water, wastewater and landscaping services. Operating revenue for wastewater and landscaping services were generally similar to 2020 revenues for these services. 2021 water operating revenues decreased by almost \$90,000 from 2020 levels due to the much lower level of construction water usage in 2021. 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 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 2021 increased significantly over 2020 due to the significant construction activity in Filing #5. For 2021, administrative charges for Pinon Pines Metropolitan District #3 were increased significantly to help provide funding for the A1 and Denver Well projects under way in 2021. Overall, administrative charge revenue for the three Pinon Districts increased by over \$300,000 from 2020 levels.

Facilities Maintenance and Operations expenses during 2021 were just slightly higher than 2020 levels as FLMD provided water, wastewater and landscaping services to a slightly higher number of households.. Administrative and General Expenses decreased modestly from 2020 levels. Depreciation expense increased slightly over 2020. Interest expense on the developer advances increased modestly during 2021 as a small amount of new debt was added for water acquisitions. The loss before capital contributions decreased modestly for 2021.

During 2021, the District recorded cash contributions from development fee payments of \$866,039 from the construction of Filing #5 houses. Due to the combined effect of the annual operating and non-operating losses and the absence of any 2021 bond issuance and the subsequent transfer of proceeds to the District, the deficit in net position has increased from a deficit of \$12.847 million at the end of 2020 to a deficit of \$15.226 million by year end 2021.

## **BUDGETARY HIGHLIGHTS**

The 2021 District budget appropriated just under \$5.0 million in expenditures which included over \$2.4 million in interest expense on developer advances that is typically not a current year expense. Most budget line items show that actual activity for the year was in line with the budget amounts, including capital expenditures.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

The District's investment in capital assets at December 31, 2021 and 2020 amounted to \$33,876,541 and \$33,203,388 (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 and construction in progress. Analysis of changes in capital assets is as follows:

	<u>2021</u>	<u>2020</u>
Wastewater Plant	\$ 4,554,395	\$ 4,554,395
Parks & Trails	1,950,402	1,950,402
Landscaping	593,230	593,230
Water Meters	173,964	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	3,573,447
Irrigation System	57,559	57,559
Water rights	8,107,598	7,422,598
Land	383,280	383,280
Surface Water Treatment Plant	9,783,029	9,783,029
Construction in Progress	791,603	-
Accumulated Depreciation	<u>(6,641,810)</u>	<u>(5,803,348)</u>
Total Capital assets	<u>\$ 33,876,541</u>	<u>\$ 33,203,388</u>

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

During 2021, there was just under \$800,000 spent on ongoing capital projects for the A1 and Denver Wells.

**Outstanding Long Term Liabilities**

At December 31, 2021 and 2020, the District had \$49,179,598 and \$46,229,309 in long term liabilities outstanding. The detail of outstanding long term liabilities is as follows:

	<u>2021</u>	<u>2020</u>
Funding Agreements	\$ 25,080,032	\$ 25,080,032
Water rights liability	5,840,250	5,155,250
Pre-paid tap fee liability	1,154,345	1,340,295
Accrued Interest	<u>17,104,971</u>	<u>14,653,737</u>
Total Outstanding Liabilities	<u>\$ 49,179,598</u>	<u>\$ 46,229,309</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. In 2021, the Second Amendment to the Water Acquisition Agreement of 2006 increased the District’s obligation under that Agreement by \$685,000 as a result of the transfer of 274 acre feet of water rights from the developer to the District. Through 2021, 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. In 2021, a payment of \$185,950 to the developer reduced the prepaid tap liability to \$1,154,345.

**ECONOMIC FACTORS AND NEXT YEAR’S BUDGETS**

For 2022, the District has budgeted for the completion of both the Arapahoe and Denver Wells.. If conveyance to FLMD of the public infrastructure constructed by the developer for Filings #2, #4, #5 and #6 and for the first phase of the Falcon Commerce Center were to occur, the 2022 Budget will be appropriately amended. The 2022 Budget assumes that 302 houses, on average, will be taking water/wastewater and landscaping services during 2022.

**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, 2021 AND 2020**

	<u>2021</u>	<u>2020</u>
<b>ASSETS</b>		
Current assets		
Cash and investments	\$ 340,055	\$ 178,937
Receivables	42,104	203,349
Inventory	95,172	121,703
Prepaid items	27,638	-
	<u>504,969</u>	<u>503,989</u>
Capital assets		
Capital assets not being depreciated	9,282,481	7,805,878
Capital assets being depreciated, net	24,594,060	25,397,510
	<u>33,876,541</u>	<u>33,203,388</u>
Total capital assets		
	<u>33,876,541</u>	<u>33,203,388</u>
Total assets	<u>\$ 34,381,510</u>	<u>\$ 33,707,377</u>
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable	\$ 428,096	\$ 325,139
Long-term liabilities		
Accrued interest	17,104,972	14,653,732
Funding agreements	25,080,032	25,080,032
Water rights liability	5,840,250	5,155,250
Prepaid tap fee liability	1,154,345	1,340,295
	<u>49,179,599</u>	<u>46,229,309</u>
Total long-term liabilities		
	<u>49,179,599</u>	<u>46,229,309</u>
Total liabilities	<u>49,607,695</u>	<u>46,554,448</u>
<b>NET POSITION</b>		
Net investment in capital assets	9,242,843	9,254,690
Unrestricted	<u>(24,469,028)</u>	<u>(22,101,761)</u>
Total net position	<u>\$ (15,226,185)</u>	<u>\$ (12,847,071)</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, 2021 AND 2020**

	<u>2021</u>	<u>2020</u>
Operating revenues:		
Charges for services:		
Water service	\$ 199,282	\$ 288,672
Wastewater service	136,351	131,818
Augmentation service	17,539	17,168
Landscaping maintenance service	37,375	39,195
Other contract services	626,840	269,310
Miscellaneous	<u>184</u>	<u>-</u>
Total operating revenues	<u>1,017,571</u>	<u>746,163</u>
Operating expenses:		
Facility maintenance and operations	786,671	713,560
Administration	186,351	216,496
Depreciation	<u>838,462</u>	<u>834,631</u>
Total operating expenses	<u>1,811,484</u>	<u>1,764,687</u>
Operating income (loss)	(793,913)	(1,018,524)
Nonoperating revenues (expenses):		
Interest expense	<u>(2,451,240)</u>	<u>(2,420,262)</u>
Income before capital contributions	<u>(3,245,153)</u>	<u>(3,438,786)</u>
Capital contributions		
Contributions from other government	-	6,148,884
Development fees	<u>866,039</u>	<u>18,595</u>
Total capital contributions	<u>866,039</u>	<u>6,167,479</u>
Change in net position	(2,379,114)	2,728,693
Net position (deficit) - beginning	<u>(12,847,071)</u>	<u>(15,575,764)</u>
Net position (deficit) - ending	<u><u>\$ (15,226,185)</u></u>	<u><u>\$ (12,847,071)</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, 2021 AND 2020**

	2021	2020
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Receipts from customers	\$ 1,178,632	\$ 566,276
Other receipts	184	-
Payments to suppliers and service providers	(685,816)	(903,451)
Net cash used by operating activities	493,000	(337,175)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Proceeds from development fees	680,089	18,595
Proceeds from intergovernmental agreement	-	6,148,884
Payment of accrued interest	-	(6,148,884)
Acquisition and construction of capital assets	(1,011,971)	(708)
Net cash provided (used) by capital and related financing activities	(331,882)	17,887
Increase (decrease) in cash and cash equivalents	161,118	(319,288)
Cash and cash equivalents, beginning of year	178,937	498,225
Cash and cash equivalents, end of year	\$ 340,055	\$ 178,937

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, 2021 AND 2020**

	<u>2021</u>	<u>2020</u>
<b>Reconciliation of operating income (loss) to net cash used by operating activities:</b>		
Operating loss	\$ (793,913)	\$ (1,018,524)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation	838,462	834,631
Change in assets and liabilities:		
(Increase) decrease in assets:		
Receivables	161,245	(179,887)
Inventory	26,531	708
Prepaid expense	(27,638)	-
Increase (decrease) in liabilities:		
Accounts payable related to operations	288,313	25,897
Total adjustments	<u>1,286,913</u>	<u>681,349</u>
Net cash used by operating activities	<u>\$ 493,000</u>	<u>\$ (337,175)</u>

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, 2021 AND 2020**

**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, 2021 AND 2020**

**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, 2021 AND 2020**

**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, 2021 AND 2020**

**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, 2021 and 2020, the carrying amounts of the District’s deposits were \$340,055 and \$178,937, respectively, and the bank balances were \$437,640 and \$202,050, respectively. \$250,000 and \$202,050 of bank balances were covered by FDIC insurance at December 31, 2021 and 2020, respectively.

*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, 2021 AND 2020**

**NOTE 4 - CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2021 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	\$ 685,000	\$ -	\$ 8,107,598
Land	383,280	-	-	383,280
Construction in progress	<u>-</u>	<u>791,603</u>	<u>-</u>	<u>791,603</u>
Total capital assets, not being depreciated	<u>7,805,878</u>	<u>1,476,603</u>	<u>-</u>	<u>9,282,481</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	138,952	35,012	-	173,964
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	3,573,447	-	-	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	31,200,858	35,012	-	31,235,870
Less accumulated depreciation	<u>(5,803,348)</u>	<u>(838,462)</u>	<u>-</u>	<u>(6,641,810)</u>
Total capital assets, being depreciated, net	<u>25,397,510</u>	<u>(803,450)</u>	<u>-</u>	<u>24,594,060</u>
Total capital assets, net	<u>\$ 33,203,388</u>	<u>\$ 673,153</u>	<u>\$ -</u>	<u>\$ 33,876,541</u>

**FOREST LAKES METROPOLITAN DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021 AND 2020**

**NOTE 4 - CAPITAL ASSETS (CONTINUED)**

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, 2021 AND 2020**

**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 2021, building activity allowed for the liquidation of \$185,950 in tap fee liability. No taps were liquidated leaving a remaining balance of 141 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.

Under the Second Amendment to the Water Acquisition Agreement dated May 3, 2021, the Developer agreed to transfer an additional 274 acre-feet of water rights to the District.

*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, 2021.

**FOREST LAKES METROPOLITAN DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021 AND 2020**

**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	-	(185,950)	1,154,345	-
Water rights liability	5,155,250	685,000	-	5,840,250	-
Accrued interest	<u>14,653,732</u>	<u>2,451,239</u>	<u>-</u>	<u>17,104,971</u>	<u>-</u>
Total loans and accrued interest payable	<u>\$ 46,229,309</u>	<u>\$ 3,136,239</u>	<u>\$ (185,950)</u>	<u>\$ 49,179,598</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, 2021 and 2020, net investment in capital assets was as follows:

	<u>2021</u>	<u>2020</u>
Net Investment in Capital Assets:		
Capital assets, net of accumulated depreciation	\$ 33,876,541	\$ 33,203,388
Estimated principal portion of long-term obligations	<u>(24,633,698)</u>	<u>(23,948,698)</u>
Total Net Investment in Capital Assets	<u>\$ 9,242,843</u>	<u>\$ 9,254,690</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, 2021. 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, 2021 AND 2020**

**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, 2021 and 2020 totaling \$25,080,032 and \$25,080,032, respectively. Accrued interest on the Funding Agreements as of December 31, 2021 and 2020 totaled \$10,379,428 and \$8,377,092, 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 \$1,099,750 under amendments to the original agreement. Accrued interest on this obligation as of December 31, 2021 and 2020 totaled \$6,725,543 and \$6,276,640, 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 2021. The District's ability to generate cash from tap fees and service fees improved in 2021.

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, 2021 AND 2020**

**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, 2021 AND 2020**

**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 to receive water and wastewater operating services, as well as related administration services. This agreement was terminated at Donala's option effective December 31, 2021.

**FOREST LAKES METROPOLITAN DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021 AND 2020**

**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.

**NOTE 12 – SUBSEQUENT EVENT**

*Intergovernmental Agreement with Triview Metropolitan District*

Effective January 1, 2022, the District entered into an agreement with Triview Metropolitan District to receive water and wastewater operating services, as well as related administration services.

## **SUPPLEMENTARY 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, 2021**

	Actual	Budget	Variance Favorable (Unfavorable)
<b>REVENUES</b>			
Beginning fund balance	\$ 178,850	\$ 16,221	\$ 162,629
Advances from funding agreements	-	700,000	(700,000)
Water service	199,282	242,921	(43,639)
Wastewater service	136,351	158,244	(21,893)
Augmentation service	17,539	13,000	4,539
Landscaping maintenance service	37,375	48,048	(10,673)
Other contract services	626,840	371,300	255,540
Interest advance	-	2,441,415	(2,441,415)
Capital contributions	866,039	1,060,265	(194,226)
Miscellaneous	184	-	184
<b>TOTAL REVENUES</b>	<b>2,062,460</b>	<b>5,051,414</b>	<b>(2,988,954)</b>
<b>EXPENDITURES</b>			
Facility maintenance and operations	786,671	732,056	(54,615)
Administration	186,351	183,014	(3,337)
Capital outlay	1,012,565	1,403,800	391,235
Payment of prepaid tap liability	-	204,545	204,545
Interest expense	-	2,441,415	2,441,415
Reserves	-	579	579
<b>TOTAL EXPENDITURES</b>	<b>1,985,587</b>	<b>4,965,409</b>	<b>2,979,822</b>
<b>EXCESS OF EXPENDITURES OVER REVENUES</b>	<b>76,873</b>	<b>\$ 86,005</b>	<b>\$ (9,132)</b>
Less:			
Depreciation	(838,462)		
Accrued interest	(2,451,240)		
Beginning fund balance	(178,850)		
Add:			
Capital outlay	1,012,565		
<b>CHANGE IN NET POSITION</b>	<b>\$ (2,379,114)</b>		
Ending fund balance is calculated as follows:			
Current assets	\$ 504,969		
Current liabilities	(428,096)		
	<b>\$ 76,873</b>		

See the accompanying independent auditors' report.