

**PINON PINES METROPOLITAN
DISTRICT NO. 2**

FINANCIAL STATEMENTS
With Independent Auditors' Report

For the Year Ended December 31, 2021

PINON PINES METROPOLITAN DISTRICT NO. 2
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INDEPENDENT AUDITORS' REPORT

To and the Board of Directors
Pinon Pines Metropolitan District No. 2

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities and each major fund of the Pinon Pines Metropolitan District No. 2, as of and for the year ended December 31, 2021 and the related notes to the financial statements, which collectively comprise the Pinon Pines Metropolitan District No. 2's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Pinon Pines Metropolitan District No. 2, as of December 31, 2021 and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 Pinon Pines Metropolitan District No. 2 and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Pinon Pines Metropolitan District No. 2's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a

guarantee that an audit conducted in accordance with 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 Pinon Pines Metropolitan District No. 2's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Pinon Pines Metropolitan District No. 2's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information 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 opinions on the financial statements that collectively comprise the Pinon Pines Metropolitan District No. 2's basic financial statements. 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 supplementary 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

PINON PINES METROPOLITAN DISTRICT NO. 2
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED DECEMBER 31, 2021

As management of Pinon Pines Metropolitan District No. 2 (the District) we offer readers of the District’s annual financial report this narrative overview and analysis of the financial activities of the District for the fiscal year ended December 31, 2021. Readers are encouraged to consider the information presented here in conjunction with the annual financial report.

FINANCIAL HIGHLIGHTS

- Until September 2020 , the District had very minimal financial activity since it was formed in June 2003 as a “taxing” district in a four district restructuring of the original Forest Lakes Metropolitan District, which had been in existence since 1985. In September the District issued \$7.560 million of limited tax general obligation bonds in order to reimburse some of the past obligations of Forest Lakes Metropolitan District (FLMD) to the Developer for water, sewer, drainage and park and landscaping infrastructure for the benefit of the residents of the Forest Lakes development. The 2020 Bonds were issued at a premium of \$169,404.
- The District used the net proceeds from the 2020 bond issue to pay a portion of the accumulated interest expense on prior Developer Advances used to fund infrastructure for the Forest Lakes development. After providing for issuance expenses and the creation of both a Bond Fund (capitalized interest) and a Bond Reserve Fund, the remaining proceeds of \$6,148,884 were transferred to the Paying Agent on behalf of FLMD to pay a portion of the accumulated interest on Developer Advances from Forest Lakes LLC.
- The District began collecting a \$5,000 per lot Facilities Development Fee as lots in Forest Lakes Filing #5 have been sold. At year-end 2020, \$40,000 had been collected. During 2021, an additional \$125,000 in Facilities Development Fees were collected for Filing #5 lots. These revenues along with the debt service portion of the certified property tax and a proportionate share of the specific ownership tax are pledged to the repayment of the 2020 bonds. These revenues are remitted to the bond issue Trustee monthly and, per the terms of the Indenture of Trust, are deposited into a Surplus Fund for the bonds.
- As of the close of the current fiscal year, the District held \$432 in its checking account and \$953,387 in the three bond accounts with its Trustee.
- The District made debt service payments - interest only – on the 2020 bonds on June 1, 2021 and December 1, 2021 of \$189,000 for each payment which was funded from amounts held in the Bond Fund.
- The District does carry liability insurance through the Colorado Special District Association insurance pool. To the extent revenues permit, the District does reimburse FLMD for the legal and management services provided on its behalf.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis serves as an introduction to the District's basic financial statements. The District's basic financial statements consist of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains required and other supplementary information in addition to the basic financial statements.

Government-wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances as a whole, in a manner similar to a private-sector business and include two statements:

The *statement of net position* presents information on all of the District's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of activities* presents information reporting how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods. Accrued interest expense is an example of this type of item.

Both government-wide financial statements distinguish functions of the District that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the District include general government operations. Currently, the District has no business-type activities.

Fund Financial Statements

A fund is a grouping of related accounts used to maintain control over resources segregated for specific activities or objectives. The fund financial statements provide more detailed information about the District's operations, focusing on its most significant funds, not the District as a whole.

Governmental Funds: The activities of the of the District are reported in three governmental funds, the General fund, the Debt Service fund and the Capital Projects fund which focus on (1) how money flows into and out of the funds and (2) the balances left at year-end that are available for spending or reserves. Consequently, the governmental fund statements provide a detailed short-term view that helps determine the status of financial resources that can be spent in the near future to finance the District's programs.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. Thus, readers may better understand the long-term impact of the District's near-term financing decisions. To facilitate this comparison between governmental funds and governmental activities, reconciliations are provided for both the governmental fund balance sheet and the statement of revenues, expenditures, and changes in fund balance.

Notes to the Basic Financial Statements

The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information concerning the District. For 2021, the District adopted an annual appropriated budget for the general fund and for the debt service fund. A budgetary comparison schedule has been provided to demonstrate compliance with the budget.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of the District's financial position. For the year ended December 31, 2021, the District's assets - mainly the various bond accounts held by the Trustee for the 2020 Bonds - were far less than liabilities - mainly the long term debt reflected by the issuance of the 2020 Bonds - and deferred inflows resulting in a negative net position of \$(6,809,289). Since the majority of the net bond proceeds were transferred to FLMD - the operating district - to partially pay accumulated interest on prior Developer Advances which helped to fund the public infrastructure for the benefit of the Pinon Districts, the resulting negative net position is to be expected. The following reflects key financial information in a condensed format:

Condensed Statement of Net Position

	<u>2021</u>	<u>2020</u>
Current and other assets	\$ 1,016,650	\$ 1,218,031
Total assets	<u>1,016,650</u>	<u>1,218,031</u>
Deferred outflows	<u>-</u>	<u>-</u>
Long-term liabilities	7,727,462	7,733,109
Other liabilities	<u>37,720</u>	<u>35,403</u>
Total liabilities	<u>7,765,182</u>	<u>7,768,512</u>
Deferred inflows	<u>60,757</u>	<u>5,802</u>
Net position:		
Restricted	953,535	1,200,407
Unrestricted	<u>(7,762,824)</u>	<u>(7,756,690)</u>
Total net position	<u>\$ (6,809,289)</u>	<u>\$ (6,556,283)</u>

Condensed Statement of Activities

	<u>2021</u>	<u>2020</u>
Revenues:		
Program revenues:		
Charges for services	\$ 125,000	\$ 40,000
General revenues:		
Property and other taxes	6,484	7,058
Interest income	<u>107</u>	<u>162</u>
Total revenues	<u>131,591</u>	<u>47,220</u>
Expenses:		
General administration	11,947	4,368
Interest on long-term debt	372,650	96,897
Issuance Expense	-	350,920
Intergovernmental	<u>-</u>	<u>6,148,884</u>
Total expenses	<u>384,597</u>	<u>6,601,069</u>
Change in net position	<u>(253,006)</u>	<u>(6,553,849)</u>
Net position, beginning	<u>(6,556,283)</u>	<u>(2,434)</u>
Net position, ending	<u>\$ (6,809,289)</u>	<u>\$ (6,556,283)</u>

ANALYSIS OF THE DISTRICT'S FUNDS

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

The general fund is the operating fund of the District. The fund balance for the general fund was a surplus of \$438 at the end of the current fiscal year.

The debt service fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds. The fund balance for the debt service fund was a surplus of \$953,435 at the end of the current fiscal year.

The capital projects fund is used to account for all resources available for acquiring capital sites, buildings, and equipment. The fund balance in the capital projects fund was a surplus of \$0 at the end of the current fiscal year.

BUDGETARY HIGHLIGHTS

The District's budget is prepared in accordance with state law. The 2021 Budget provided for only a modest level of administrative activity within the General Fund - including liability insurance and modest expenditures for legal expenses and payment to FLMD for the management services it provides to the District. In the Debt Service Fund, the 2021 Budget provided for the required debt service payments for the 2020 bonds. An analysis of budget results in the following observations:

- The 2021 General Fund Budget provided for expenditures of \$9,517. Actual results were in line with the Budget.

- The 2021 Budget provided for a Debt Service Fund Budget of \$381,367 which reflects the June 1st and December 1st debt service payment due on the 2020 Bonds and modest general administrative expenses.
- The 2021 Budget provided for no activity in the Capital Projects Fund.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The District's principal activity is to serve as the financing district for FLMD – the operating district. Thus it would not be expected for the District to own any capital assets as long as FLMD continues to function as the operating district.

Long-Term Liabilities

Outstanding debt at December 31, 2021 was \$7,723,757 and consists largely of the \$7,560,000 in limited tax general obligation bonds issued in September 2020 and the \$163,757 in issuance premium. There is a small amount - \$ 3,705 - of developer advance debt that was incurred in the early years of the District's existence.

ECONOMIC FACTORS

For 2021, the assessed valuation of the property within PPMD #2 \$104,230 still reflects the largely undeveloped nature of the property during 2020. As development has progressed during 2021 and future years, the assessed valuation would be expected to increase materially. For the 2022 Budget, the assessed valuation was \$1,091,500.

REQUESTS FOR INFORMATION

This financial report is designed to provide the District's taxpayers and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Ann Nichols, Pinon Pines Metropolitan District, 2 N. Cascade Avenue, Suite 1280, Colorado Springs, CO 80903.

BASIC FINANCIAL STATEMENTS

PINON PINES METROPOLITAN DISTRICT NO. 2
STATEMENT OF NET POSITION
DECEMBER 31, 2021

ASSETS

Cash and cash equivalents	\$ 953,819
Cash with county treasurer	54
Property taxes receivable	60,757
Prepaid expenses	<u>2,020</u>
 Total assets	 <u>1,016,650</u>

LIABILITIES

Accounts payable	2,020
Accrued interest	35,700
Long-term liabilities:	
Due in more than one year	
Developer advances payable	3,705
Bonds payable	7,560,000
Premium on bonds payable	<u>163,757</u>
 Total liabilities	 <u>7,765,182</u>

DEFERRED INFLOWS OF RESOURCES

Unavailable property tax revenue	<u>60,757</u>
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NET POSITION

Restricted for:	
TABOR	100
Debt service	953,435
Unrestricted	<u>(7,762,824)</u>
 Total net position	 <u>\$ (6,809,289)</u>

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

PINON PINES METROPOLITAN DISTRICT NO. 2
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2021

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Change in Net Position	
		Charges for Services	Operating Grants and Contributions		Capital Grants and Contributions
Governmental activities:					
General government	\$ 11,947	125,000	\$ -	\$ -	\$ 113,053
Interest	372,650	-	-	-	(372,650)
Total governmental activities	\$ 384,597	\$ 125,000	\$ -	\$ -	(259,597)
General revenues:					
Property and specific ownership taxes					6,484
Investment income					107
Total general revenues					6,591
Change in net position					(253,006)
Net position - beginning					(6,556,283)
Net position - ending					\$ (6,809,289)

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

PINON PINES METROPOLITAN DISTRICT NO. 2
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2021

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Total</u>
ASSETS				
Cash and cash equivalents	\$ 432	\$ 953,387	\$ -	\$ 953,819
Cash with county treasurer	54	-	-	54
Property taxes receivable	12,151	48,606	-	60,757
Due from other funds	-	48	-	48
Prepaid expenses	2,020	-	-	2,020
	<u>2,020</u>	<u>-</u>	<u>-</u>	<u>2,020</u>
Total assets	<u>\$ 14,657</u>	<u>\$ 1,002,041</u>	<u>\$ -</u>	<u>\$ 1,016,698</u>
LIABILITIES				
Accounts payable	\$ 2,020	\$ -	\$ -	\$ 2,020
Due to other funds	48	-	-	48
	<u>2,020</u>	<u>-</u>	<u>-</u>	<u>2,068</u>
Total liabilities	<u>2,068</u>	<u>-</u>	<u>-</u>	<u>2,068</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable property tax revenue	12,151	48,606	-	60,757
	<u>12,151</u>	<u>48,606</u>	<u>-</u>	<u>60,757</u>
FUND BALANCES				
Nonspendable	2,020	-	-	2,020
Restricted for:				
TABOR	100	-	-	100
Debt service	-	953,435	-	953,435
Unassigned	(1,682)	-	-	(1,682)
	<u>438</u>	<u>953,435</u>	<u>-</u>	<u>953,873</u>
Total fund balances	<u>438</u>	<u>953,435</u>	<u>-</u>	<u>953,873</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 14,657</u>	<u>\$ 1,002,041</u>	<u>\$ -</u>	<u>\$ 1,016,698</u>

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

**PINON PINES METROPOLITAN DISTRICT NO. 2
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2021**

Total Fund Balance of Governmental Funds		\$ 953,873
Amounts reported for governmental activities in the statement of net position are different because:		
Accrued interest is not due and payable in the current period and, therefore, is not reported in the funds.		(35,700)
Liabilities that are not due and payable in the current period are not reported at the fund level but are reported on the government-wide statement of net position.		
Bonds payable	\$ (7,560,000)	
Premium	(163,757)	
Funding agreement payable	(3,705)	
	(7,727,462)	(7,727,462)
Net position of governmental activities		\$ (6,809,289)

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

PINON PINES METROPOLITAN DISTRICT NO. 2
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2021

	General Fund	Debt Service Fund	Capital Projects Fund	Total
REVENUES				
Property taxes	\$ 1,161	\$ 4,642	\$ -	\$ 5,803
Specific ownership taxes	136	545	-	681
Facility fees	-	125,000	-	125,000
Interest income	-	107	-	107
Total revenues	<u>1,297</u>	<u>130,294</u>	<u>-</u>	<u>131,591</u>
EXPENDITURES				
General administration	7,878	4,069	-	11,947
Debt service:				
Interest	-	378,000	-	378,000
Total expenditures	<u>7,878</u>	<u>382,069</u>	<u>-</u>	<u>389,947</u>
Excess (deficiency) of revenues over expenditures	(6,581)	(251,775)	-	(258,356)
OTHER FINANCING SOURCES (USES)				
Transfers in (out)	-	5,003	(5,003)	-
Net change in fund balances	(6,581)	(246,772)	(5,003)	(258,356)
Fund balance - beginning	<u>7,019</u>	<u>1,200,207</u>	<u>5,003</u>	<u>1,212,229</u>
Fund balance - ending	<u>\$ 438</u>	<u>\$ 953,435</u>	<u>\$ -</u>	<u>\$ 953,873</u>

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

**PINON PINES METROPOLITAN DISTRICT NO. 2
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2021**

Net Change in Fund Balances - Total Governmental Funds	\$ (258,356)
Amounts reported for governmental activities in the statement of activities are different because:	
Accrued interest reported in the statement of activities does not require the use of current financial resources and is not reported as expenditures in governmental funds.	<u>5,350</u>
Change in net position of governmental activities	<u><u>\$ (253,006)</u></u>

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

NOTES TO FINANCIAL STATEMENTS

PINON PINES METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Pinon Pines Metropolitan District No. 2 (the District) have been prepared in conformity with generally accepted accounting principles (GAAP) as applicable to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the District are described below.

A. REPORTING ENTITY

Pinon Pines Metropolitan District No. 2 (along with Pinon Pines Metropolitan Districts No. 1 and No. 3) was formally established in calendar year 2003 as part of the reorganization of the then existing Forest Lakes Metropolitan District (Forest Lakes). Pinon Pines No. 2 (PPMD No.2) primarily serves as a Taxing District to provide the tax revenues to Forest Lakes, which the District serves as the service/control District for the Forest Lakes Development. Forest Lakes will own all public infrastructure and will provide all necessary utility and general governmental services to the residents of the Pinon Pines Districts. The Pinon Pines Districts originally operated under the terms of an Intergovernmental Agreement between Forest Lakes and the three Pinon Pines Districts. A new Intergovernmental Agreement was adopted on September 8, 2020, following the issuance of the 2020 limited tax general obligation bonds.

The accompanying financial statements present the governmental 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—GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements (i.e. the statement of net position and the statement of activities) report information on all the non-fiduciary activities of the government. Governmental activities are normally supported by taxes, intergovernmental revenues, and other nonexchange transactions. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

C. BASIS OF PRESENTATION—FUND FINANCIAL STATEMENTS

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 reports the following major governmental funds:

- The *General Fund* is the general operating fund of the District, used for all financial resources except those required to be accounted for in another fund.
- The *Debt Service Fund* is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

PINON PINES METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. BASIS OF PRESENTATION—FUND FINANCIAL STATEMENTS (CONTINUED)

- The *Capital Projects Fund* is used to account for all resources available for acquiring capital sites, buildings, and equipment.

During the course of operations, the government has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities are eliminated so that only the net amount is included as internal balances in the governmental activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column.

D. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flow. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue in the fiscal year in which all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis* of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the period or soon enough thereafter to pay liabilities of the current fiscal period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, specific ownership taxes, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Expenditure-driven grants recognize revenue when the qualifying expenditures have been incurred and all other grant requirements have been met, and the amount is received during the period or within the availability period of this revenue source (within 60 days of year-end). All other revenue items are considered to be measurable and available only when cash is received by the government.

PINON PINES METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, AND NET POSITION/FUND BALANCE

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.

Investments

Investments with a maturity of less than one year when purchased, non-negotiable certificates of deposit, and other nonparticipating investments are stated at cost or amortized cost. Investments with a maturity greater than one year when purchased are stated at fair value. Fair value is the price that would be received to sell an investment in an orderly transaction at year end.

Local government investment pools in Colorado must be organized under Colorado Revised Statutes, which allows certain types of governments within the state to pool their funds for investment purposes. Investments in such pools are valued at the pool's share price, the price at which the investment could be sold.

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.

Long-term Liabilities

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the debt using the straight-line method. Bonds payable are reported net of the applicable premium or discount.

In the fund financial statements, governmental fund types recognize premiums and discounts, as well as issuance costs, during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

PINON PINES METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, AND NET POSITION/FUND BALANCE (CONTINUED)

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 government-wide 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.

Fund Balance Classification

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications available to be used in the governmental fund financial statements are as follows:

Nonspendable – This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact.

Restricted – This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

Committed – This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Board of Trustees. These amounts cannot be used for any other purpose unless the Board of Trustees removes or changes the specified use by taking the same type of action that was used when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.

Assigned – This classification includes amounts that are constrained by the District's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Board of Trustees or through the Board of Trustees delegating this responsibility to management through the budgetary process. This classification also includes the remaining positive fund balance for any governmental funds except for the General Fund.

Unassigned – This classification includes the residual fund balance for the General Fund. The unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

The District would typically use restricted fund balances first, followed by committed resources, and then assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these other classified funds.

PINON PINES METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. REVENUES AND EXPENDITURES/EXPENSES

Program revenues

Amounts reported as *program revenues* include 1) fees and charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Revenues that are not classified as program revenues, including all taxes, are reported as general revenues.

Property taxes

Property taxes attach as an enforceable lien on real property and are levied as of January 1. The tax levy is payable in two installments due February 28 and June 15, or in one installment due April 30. The El Paso County Treasurer bills and collects the District's property tax. District property tax revenues are recognized when levied to the extent they result in current receivables. The tax rate for the year ended December 31, 2021 was 11.133 mills for general operating expenditures, and 44.531 mills for contractual obligations. The District's assessed valuation for 2021 was \$104,230.

G. 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.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

BUDGET INFORMATION

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all funds. All annual appropriations lapse at fiscal year-end. The operating budget includes proposed expenditures and the means of financing them for the upcoming year, along with estimates for the current year and actual data for the preceding year.

Budgets are required by Colorado State Statutes for all funds. During October, management submits to the Board of Trustees a proposed budget for all funds for the fiscal year commencing the following January 1. The budget includes proposed expenditures and the means of financing them. Prior to December 31, the budget is adopted by formal resolution.

Formal budgetary integration is employed as a management control device during the year for the Governmental funds. The appropriated budget is prepared by fund. The legal level of control is the fund level.

Expenditures may not legally exceed appropriations at the fund level. Revisions that alter the total expenditures of any fund must be approved by the Board of Trustees.

PINON PINES METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

BUDGET INFORMATION (CONTINUED)

Appropriations are based on total funds expected to be available in each budget year, including beginning fund balances and reserves as established by the Board of Directors. Variances between budget and actual are the result of the non-expenditure of reserves, nonoccurrence of anticipated events, and normal operating variances.

The Board of Directors may authorize supplemental appropriations during the year. For budgetary management purposes, funds are appropriated for capital outlays.

NOTE 3 – DEPOSITS AND INVESTMENTS

A summary of deposits and investments as of December 31, 2021 is as follows:

Cash and cash equivalents:

Deposits	\$ 432
ColoTrust	<u>953,387</u>
	<u>\$ 953,819</u>

Cash deposits with financial institutions

Custodial credit risk—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. The 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 uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the uninsured deposits.

At December 31, 2021 the carrying amount of the District's deposits was \$432, and the bank balances were \$432. All bank balances were covered by FDIC insurance.

Investments

The District is required to comply with State statutes that specify investment instruments meeting defined rating maturity and concentration risk criteria in which local governments may invest, which include the following.

- Obligations of the United States and certain U.S. government agencies' securities;
- Certain international agencies' securities
- General obligation and revenue bonds of U.S. local government entities;
- Bankers' acceptances of certain banks;
- Certain commercial paper;
- Local government investment pools;
- Written repurchase agreements collateralized by certain authorized securities;
- Certain money market fund;
- Guaranteed investment contracts.

**PINON PINES METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)

At December 31, 2021 the District’s investment balances were as follows:

<u>Investments</u>	<u>Maturities</u>	<u>Fair Value</u>
ColoTrust	Less than 60 days	\$ <u>953,387</u>

Credit Risk: Credit risk involves the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State law limits investments to those described above. The District does not have a formal investment policy that would further limit its investment choices. As of December 31, 2021, the District’s investments were rated AAAM by Standard & Poor’s.

The District has invested in the Colorado Government Liquid Asset Trust (COLOTRUST). COLOTRUST is an investment vehicle established for local government entities in Colorado pursuant to Part 7 of Article 75 of Title 24 of the Colorado Revised Statutes, to pool surplus funds for investment purposes. This investment vehicle operates similarly to money market funds and each share is equal in value to \$1.00. The fair value of the position in the pool is the same as the value of the pool shares.

State statutes generally limit investments to an original maturity of five years unless the governing board authorizes the investment for a period in excess of five years. State statutes do not address custodial risk. At December 31, 2021, the District does not have a formal investment policy other than following Colorado Revised Statutes (CRS).

NOTE 4 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of December 31, 2021 is as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Debt Service Fund	\$ <u>48</u>

Outstanding balances between funds reflect the pledged revenues collected in the current year that were in excess of what was required to be transmitted to the bond trustee.

Interfund transfers

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations and (3) move capital assets from one fund to another fund when the fund using the capital assets changes.

In the year ended December 31, 2021, the government made the following transfers:

A transfer of unused project funds from the Capital Projects Fund to the Debt Service Fund in the amount of \$5,003.

PINON PINES METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021

NOTE 5 - LONG-TERM OBLIGATIONS

2020 Limited Tax General Obligation Bonds

\$7,560,000 of Limited Tax General Obligation Bonds, Series 2020 were issued on September 29, 2020 to fund the District's proportional share of public improvements previously financed by Forest Lakes. Principal is due annually on December 1 beginning in 2025 through 2050. Interest is due annually on December 1 and accrues at an annual interest rate of 5.0%.

Funding agreements

The District has entered into Funding Agreements with the Developer (see Note 7) 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.

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 \$139,900,000 at an interest rate not to exceed 18% per annum. \$132,340,000 remains unauthorized and unissued as of December 31, 2021.

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

<u>Fiscal Year</u> <u>Ending December 31</u>	<u>Principal</u>	<u>Interest</u>
2022	\$ -	\$ 378,000
2023	-	378,000
2024	-	378,000
2025	15,000	378,000
2026	100,000	377,250
2027-2031	640,000	1,802,750
2032-2036	960,000	1,612,500
2037-2041	1,365,000	1,334,250
2042-2046	1,895,000	942,500
2047-2050	<u>2,585,000</u>	<u>375,500</u>
Total	<u>\$ 7,560,000</u>	<u>\$ 7,956,750</u>

PINON PINES METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021

NOTE 5 - LONG-TERM OBLIGATIONS (CONTINUED)

Changes in Long-term Obligations

The following is a summary of long-term debt transactions of the District for the year ended December 31, 2021:

	<u>Balance</u> <u>12/31/20</u>	<u>Debt Issued</u> <u>And Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>12/31/21</u>	<u>Due Within</u> <u>One year</u>
G.O. Bond payable	\$ 7,560,000	\$ -	\$ -	\$ 7,560,000	\$ -
Premium	169,404	-	5,647	163,757	-
Funding Agreement	<u>3,705</u>	<u>-</u>	<u>-</u>	<u>3,705</u>	<u>-</u>
Total	<u>\$ 7,729,404</u>	<u>\$ -</u>	<u>\$ 5,647</u>	<u>\$ 7,723,757</u>	<u>\$ -</u>

NOTE 6 – 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.

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 7 - 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 \$3,705 and \$3,705, respectively. Accrued interest on the Funding Agreements as of December 31, 2021 and 2020 totaled \$4,200 and \$3,903, respectively.

PINON PINES METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021

NOTE 8 – INTERGOVERNMENTAL AGREEMENTS

Intergovernmental Agreement with Forest Lakes Metropolitan District

In order to fulfill the requirements of the service plan, the District entered into a Facilities Funding, Construction, and Operations Agreements with Forest Lakes Metropolitan District (Forest Lakes), effective July 19, 2004. On September 30, 2020, Pinon Pines Metropolitan District No. 2 signed a new agreement with Forest Lakes. The new agreement supersedes and replaces the Prior Master IGA. Under the terms of this agreement, the District contributed \$6,148,884 to Forest Lakes to pay down accrued interest on developer funding agreements.

Forest Lakes will own, operate, maintain, finance, and construct facilities benefiting all of the districts, and the District will primarily be responsible for providing funding and the necessary tax base for financing the construction, operation and maintenance of the public improvements for Forest Lakes.

NOTE 9 – 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.

REQUIRED SUPPLEMENTARY INFORMATION

PINON PINES METROPOLITAN DISTRICT NO. 2
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2021

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES				
Property taxes	\$ 1,160	\$ 1,160	\$ 1,161	\$ 1
Specific ownership taxes	116	116	136	20
Advanced funding agreement	5,250	5,250	-	(5,250)
Total revenues	<u>6,526</u>	<u>6,526</u>	<u>1,297</u>	<u>(5,229)</u>
EXPENDITURES				
General administration	<u>9,517</u>	<u>9,517</u>	<u>7,878</u>	<u>1,639</u>
Total expenditures	<u>9,517</u>	<u>9,517</u>	<u>7,878</u>	<u>1,639</u>
Net change in fund balance	(2,991)	(2,991)	(6,581)	(3,590)
Fund balance - beginning	<u>3,435</u>	<u>3,435</u>	<u>7,019</u>	<u>3,584</u>
Fund balance - ending	<u>\$ 444</u>	<u>\$ 444</u>	<u>\$ 438</u>	<u>\$ (6)</u>

See the accompanying Independent Auditors' Report.

SUPPLEMENTAL INFORMATION

PINON PINES METROPOLITAN DISTRICT NO. 2
DEBT SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2021

	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
REVENUES			
Property taxes	\$ 4,642	\$ 4,642	\$ -
Specific ownership taxes	464	545	81
Interest income	297	107	(190)
Facility fees	<u>235,000</u>	<u>125,000</u>	<u>(110,000)</u>
Total revenues	<u>240,403</u>	<u>130,294</u>	<u>(110,109)</u>
EXPENDITURES			
General administration	3,070	4,069	(999)
Debt service			
Interest	<u>378,297</u>	<u>378,000</u>	<u>297</u>
Total expenditures	<u>381,367</u>	<u>382,069</u>	<u>(702)</u>
Excess (deficiency) of revenues over expenditures	(140,964)	(251,775)	(110,811)
OTHER FINANCING SOURCES (USES)			
Transfers in (out)	<u>-</u>	<u>5,003</u>	<u>5,003</u>
Net change in fund balance	(140,964)	(246,772)	(105,808)
Fund balance - beginning	<u>1,209,500</u>	<u>1,200,207</u>	<u>(9,293)</u>
Fund balance - ending	<u>\$ 1,068,536</u>	<u>\$ 953,435</u>	<u>\$ (115,101)</u>

See the accompanying Independent Auditors' Report.

PINON PINES METROPOLITAN DISTRICT NO. 2
CAPITAL PROJECTS FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2021

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES			
Interest income	\$ -	\$ -	\$ -
EXPENDITURES			
Debt service			
Issuance costs	-	-	-
Excess (deficiency) of revenues over expenditures	-	-	-
OTHER FINANCING SOURCES (USES)			
Transfers in (out)	-	(5,003)	(5,003)
Net change in fund balance	-	(5,003)	(5,003)
Fund balance - beginning	-	5,003	5,003
Fund balance - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See the accompanying Independent Auditors' Report.