

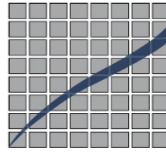
WILLOW SPRINGS RANCH METROPOLITAN DISTRICT

FINANCIAL STATEMENTS

DECEMBER 31, 2021

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BiggsKofford
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Willow Springs Ranch Metropolitan District
Colorado Springs, Colorado

Opinions

We have audited the accompanying financial statements of the governmental activities and each major fund of Willow Springs Ranch Metropolitan District ("District"), as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of December 31, 2021, the respective changes in financial position, and the budgetary comparison for the general fund 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 the report. We are required to be independent of the District and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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 District's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

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 auditing standards generally accepted in the United States of America 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 auditing standards generally accepted in the United States of America, we:

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

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

Other Matters

Required Supplementary Information

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinions on the basic financial statements are not affected by this missing information.

Supplementary Information

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

BiggsKofford, P.C.

Colorado Springs, Colorado
September 27, 2022

BASIC FINANCIAL STATEMENTS

WILLOW SPRINGS RANCH METROPOLITAN DISTRICT
STATEMENT OF NET POSITION
DECEMBER 31, 2021

	Governmental Activities
<u>ASSETS</u>	
Cash and investments	\$ 15,320
Cash and investments - restricted	1,117,473
Accounts receivable - County Treasurer	86
Property taxes receivable	24,674
Capital assets, not being depreciated:	
Construction in progress	18,576,795
Total assets	19,734,348
<u>LIABILITIES</u>	
Accounts payable	5,185
Accrued interest payable	442,229
Noncurrent liabilities:	
Developer advances	10,410,011
Due in more than one year	10,223,247
Total liabilities	21,080,672
<u>DEFERRED INFLOWS OF RESOURCES</u>	
Deferred property tax revenues	24,674
Total deferred inflows of resources	24,674
<u>NET POSITION</u>	
Restricted for:	
Debt service	674,555
Emergency reserve	689
Unrestricted	(2,046,242)
Total net position	\$ (1,370,998)

The accompanying notes and independent auditor's report
should be read with these financial statements.

WILLOW SPRINGS RANCH METROPOLITAN DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2021

	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expenses) Revenue and Changes in Net Position</u>	
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>		<u>Capital Grants and Contributions</u>
				<u>Governmental Activities</u>	
FUNCTIONS/PROGRAMS					
<u>PRIMARY GOVERNMENT</u>					
General government	\$ 29,938	\$ 410,000	\$ -	\$ -	\$ 380,062
Interest and related costs on long-term debt	689,220	-	-	-	(689,220)
Total primary government	\$ 719,158	\$ 410,000	\$ -	\$ -	(309,158)
<u>GENERAL REVENUES</u>					
Property taxes					9,277
Specific ownership taxes					1,089
Investment income					257
Total general revenues					10,623
Changes in net position					(298,535)
Net position, beginning of year					(1,072,463)
Net position, end of year					\$ (1,370,998)

The accompanying notes and independent auditor's report should be read with these financial statements.

**WILLOW SPRINGS RANCH METROPOLITAN DISTRICT
BALANCE SHEETS
GOVERNMENTAL FUNDS
DECEMBER 31, 2021**

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>				
Cash and investments	\$ 15,320	\$ -	\$ -	\$ 15,320
Cash and investments - restricted	689	-	1,116,784	1,117,473
Accounts receivable - County Treasurer	86	-	-	86
Property taxes receivable	24,674	-	-	24,674
Total assets	\$ 40,769	\$ -	\$ 1,116,784	1,157,553
<u>LIABILITIES</u>				
Accounts payable	\$ 5,185	\$ -	\$ -	5,185
Total liabilities	5,185	-	-	5,185
<u>DEFERRED INFLOWS OF RESOURCES</u>				
Deferred property tax revenues	24,674	-	-	24,674
Total deferred inflows of resources	24,674	-	-	24,674
<u>FUND BALANCES</u>				
Restricted for:				
Capital projects	-	-	-	-
Debt service	-	-	1,116,784	1,116,784
Emergency reserve	689	-	-	689
Unassigned:				
General government	10,221	-	-	10,221
Total fund balances	10,910	-	1,116,784	1,127,694
Total liabilities and fund balances	\$ 40,769	\$ -	\$ 1,116,784	
Amounts reported in governmental activities in the statement of net position are different because:				
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:				
Construction in progress				18,576,795
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds:				
Accrued interest payable				(442,229)
Developer advances				(10,410,011)
Bonds payable				(10,223,247)
Net position of governmental activities				\$ (1,370,998)

The accompanying notes and independent auditor's report
should be read with these financial statements.

**WILLOW SPRINGS RANCH METROPOLITAN DISTRICT
STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2021**

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
<u>REVENUES</u>				
Development fees	\$ -	\$ -	\$ 410,000	\$ 410,000
Property taxes	9,277	-	-	9,277
Specific ownership taxes	1,089	-	-	1,089
Investment income	-	154	103	257
Total revenues	10,366	154	410,103	420,623
<u>EXPENDITURES</u>				
Accounting	8,500	-	-	8,500
County Treasurer's fees	139	-	-	139
Dues	278	-	-	278
Insurance	2,834	-	-	2,834
Legal	9,371	-	-	9,371
Office expense	43	-	-	43
Utilities	1,773	-	-	1,773
Debt service:				
Interest expense	-	-	370,000	370,000
Trustee fees	-	-	7,000	7,000
Capital projects:				
Capital outlay	-	14,304,043	-	14,304,043
Total expenditures	22,938	14,304,043	377,000	14,703,981
Excess of revenues over (under) expenditures	(12,572)	(14,303,889)	33,103	(14,283,358)
<u>OTHER FINANCING SOURCES (USES)</u>				
Transfers (to) from other funds	5,185	16,179	(21,364)	-
Developer advances	25,000	10,242,684	-	10,267,684
Total other financing sources (uses)	30,185	10,258,863	(21,364)	10,267,684
Net change in fund balances	17,613	(4,045,026)	11,739	(4,015,674)
Fund balances, beginning of year	(6,703)	4,045,026	1,105,045	5,143,368
Fund balances, end of year	\$ 10,910	\$ -	\$ 1,116,784	\$ 1,127,694

The accompanying notes and independent auditor's report
should be read with these financial statements.

**WILLOW SPRINGS RANCH METROPOLITAN DISTRICT
RECONCILIATION OF THE STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2021**

<u>Net change in fund balances - total governmental funds</u>	\$ (4,015,674)
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Amounts reported for governmental activities in the statement of activities are different because:

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

<u>Capital outlay</u>	14,304,043
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The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums and discounts when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The net effect of these differences is the treatment of long-term debt and related items as follows:

<u>Amortization of bond premium</u>	11,115
<u>Net repayment of developer advance</u>	(10,267,684)

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

<u>Accrued interest payable on Series 2019 Bonds - change in liability</u>	(201,335)
<u>Accrued interest payable on the developer advance - change in liability</u>	(129,000)

<u>Changes in net position of governmental activities</u>	<u>\$ (298,535)</u>
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The accompanying notes and independent auditor's report should be read with these financial statements.

**WILLOW SPRINGS RANCH METROPOLITAN DISTRICT
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
YEAR ENDED DECEMBER 31, 2021**

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance</u>
<u>REVENUES</u>			
Property taxes	\$ 9,277	\$ 9,277	\$ -
Specific ownership taxes	649	1,089	440
Total revenues	<u>9,926</u>	<u>10,366</u>	<u>440</u>
<u>EXPENDITURES</u>			
Accounting	-	8,500	(8,500)
Contingency	1,491	-	1,491
County Treasurer's fees	139	139	-
Dues	400	278	122
Insurance	3,000	2,834	166
Legal	20,000	9,371	10,629
District management	10,000	-	10,000
Office expense	100	43	57
Posting and notices	300	-	300
Utilities	-	1,773	(1,773)
Total expenditures	<u>35,430</u>	<u>22,938</u>	<u>12,492</u>
Excess of revenues over (under) expenditures	<u>(25,504)</u>	<u>(12,572)</u>	<u>12,932</u>
<u>OTHER FINANCING SOURCES (USES)</u>			
Transfers (to) from other funds	-	5,185	5,185
Developer advances	24,000	25,000	1,000
Total other financing sources (uses)	<u>24,000</u>	<u>30,185</u>	<u>6,185</u>
Net change in fund balance	<u>\$ (1,504)</u>	17,613	<u>\$ 12,932</u>
Fund balance, beginning of year		<u>(6,703)</u>	
Fund balance, end of year		<u>\$ 10,910</u>	

The accompanying notes and independent auditor's report
should be read with these financial statements.

WILLOW SPRINGS RANCH METROPOLITAN DISTRICT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2021

1. DEFINITION OF REPORTING ENTITY

Willow Springs Ranch Metropolitan District ("District"), a quasi-municipal corporation and political subdivision of the state of Colorado, was formed on June 11, 2008, and is governed pursuant to provisions of the Colorado Special District Act. The District's service area is located in El Paso County, Colorado ("County"). The District was organized to construct public improvements including road and bridge, landscaping, sanitary and storm sewer, water systems, park and recreation, channel and other drainage improvements needed for the area.

The District follows the Governmental Accounting Standards Board ("GASB") accounting pronouncements which provide guidance for determining which governmental activities, organizations and functions should be included within the financial reporting entity. GASB pronouncements set forth the financial accountability of a governmental organization's elected governing body as the basic criterion for including a possible component governmental organization in a primary government's legal entity. Financial accountability includes, but is not limited to, appointment of a voting majority of the organization's governing body, ability to impose its will on the organization and a potential for the organization to provide specific financial benefits or burdens and fiscal dependency.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Government-wide and fund financial statements

The government-wide financial statements include the statement of net position and the statement of activities. These financial statements include all of the activities of the District. Material interfund activity has been removed from these statements. Governmental activities are normally supported by taxes and intergovernmental revenues.

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

See independent auditor's report.

WILLOW SPRINGS RANCH METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government-wide and fund financial statements (continued)

The statement of activities demonstrates the degree to which the direct and indirect expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: a) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or segment; and b) grants and contributions that are restricted to meet the operational or capital requirements of a particular function or segment. Taxes and other items are properly excluded from program revenues and are reported as general revenues.

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

Measurement focus, basis of accounting and financial statement position

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Revenues are considered to be available when they are collectable within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The major sources of revenue susceptible to accrual are property taxes. All other revenue items are considered to be measurable and available only when cash is received by the District. Expenditures, other than interest on long-term obligations, are recorded when the liability is incurred or the long-term obligation is due.

The District reports the following major governmental funds:

General fund - The general fund accounts for all financial resources of the District except those required to be accounted for in another fund.

Capital projects fund - The capital projects fund accounts for financial resources to be used for the acquisition and construction of capital equipment and facilities.

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

See independent auditor's report.

WILLOW SPRINGS RANCH METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budgets

In accordance with state budget law, the District holds public hearings in the fall each year to approve the budget and appropriate funds for the ensuing year. The appropriation is at the total fund expenditures, fund balance remaining, and other financing uses level, and lapses at year end. The District's board of directors can modify the budget by line item within the total appropriation without notification. The appropriation can only be modified upon completion of notification and publication requirements. The budget includes each fund on its basis of accounting unless otherwise indicated.

The District amended its annual budget for the year ended December 31, 2021. The District's expenditures in the debt service fund exceeded budgeted amounts due to transfers between funds. This may be a violation of budget law.

Pooled cash and investments

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

Property taxes

Property taxes are levied by the District's board of directors. The levy is based on assessed valuations determined by the County Assessor generally as of January 1 of each year. The levy is normally set by December 15 and attaches as an enforceable lien as of January 1 of the following year. The County Treasurer collects the determined taxes during the ensuing calendar year. The taxes are payable by April or, at the taxpayer's election, in February and June in equal installments. Delinquent taxpayers are notified in August and generally sales of the tax liens on delinquent properties are held in November or December. The County Treasurer remits the taxes collected to the District monthly.

Property taxes, net of estimated uncollectable taxes, are recorded initially as deferred revenues in the year they are levied and measurable. The deferred property tax revenues are recorded as revenues in the year they are available or collected.

See independent auditor's report.

WILLOW SPRINGS RANCH METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital assets

Capital assets, which include property, equipment and infrastructure assets (e.g., roads, sidewalks and similar items), are reported in the applicable governmental activities column in the government-wide financial statements. Capital assets are defined by the District as assets with an initial individual cost of more than \$500 and a useful life greater than one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Contributed capital assets are recorded at estimated fair value at the date of contribution.

Maintenance and repairs are charged to expense as incurred. At the time of retirement or disposition of depreciable assets, the related cost and accumulated depreciation are removed from the accounts, and the resulting gain or loss, if any, is reflected in revenues or expenses.

Capital assets which are anticipated to be conveyed to other governmental entities are recorded as construction in progress, and are not depreciated or included in the calculation of net investment in the capital assets component of the District's net position.

Deferred inflows of resources

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenues) until that time. The District has one item that qualifies for reporting in this category. Accordingly, that item, deferred property tax revenues, is deferred and recognized as an inflow of resources in the period that the amounts become available.

Net position

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

See independent auditor's report.

WILLOW SPRINGS RANCH METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund balance

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

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

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

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

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

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

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

See independent auditor's report.

WILLOW SPRINGS RANCH METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021

3. CASH AND INVESTMENTS

Cash and investments as of December 31, 2021, are classified in the accompanying financial statements as follows:

Statement of net position:

Cash and investments	\$ 15,320
Cash and investments - restricted	<u>1,117,473</u>
	<u><u>\$ 1,132,793</u></u>

The carrying amounts of cash and investments, which equal estimated fair value, as of December 31, 2021, are as follows:

Deposits with financial institutions	\$ 16,009
Investments	<u>1,116,784</u>
	<u><u>\$ 1,132,793</u></u>

Deposits with financial institutions

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

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

At December 31, 2021, the District's cash deposits had a bank balance of \$16,507 and a book balance of \$16,009.

Investments

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

See independent auditor's report.

WILLOW SPRINGS RANCH METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021

3. CASH AND INVESTMENTS (CONTINUED)

Investments (continued)

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

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

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

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

As of December 31, 2021, the District had the following in investments:

<u>Investment</u>	<u>Maturity</u>	<u>Amount</u>
Federated Treasury Obligation Fund	Less than 1 year	<u>\$ 1,116,784</u>

The Federated Treasury Obligation Fund portfolio is a money market fund that is managed by Federated Investors and each share is equal in value to \$1. The fund is rated AAAM and invests in high quality short-term US government securities. The average maturity of the underlying securities is 90 days or less.

See independent auditor's report.

WILLOW SPRINGS RANCH METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021

4. CAPITAL ASSETS

Capital assets consist of construction in progress of road and bridge improvements, water and wastewater systems, drainage, and landscaping. Capital asset activity for the year ended December 31, 2021, is as follows:

	Balance 1/1/2021	Additions/ Reclass- ifications	Dispositions/ Reclass- ifications	Balance 12/31/21
Capital assets, not being depreciated:				
Construction in progress	\$ 4,272,752	\$ 14,304,043	\$ -	\$ 18,576,795

5. LONG-TERM OBLIGATIONS

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

	Balance 1/1/2021	Additions/ Reclass- ifications	Dispositions/ Reclass- ifications	Balance 12/31/21	Due Within One Year
2019 Series					
A Bonds	\$ 7,400,000	\$ -	\$ -	\$ 7,400,000	\$ -
2019 Series					
B Bonds	2,600,000	-	-	2,600,000	-
Bond					
premium	234,362	-	11,115	223,247	-
Subtotal	10,234,362	-	11,115	10,223,247	-

See independent auditor's report.

WILLOW SPRINGS RANCH METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021

5. LONG-TERM OBLIGATIONS (CONTINUED)

	Balance 1/1/2021	Additions/ Reclass- ifications	Dispositions/ Reclass- ifications	Balance 12/31/21	Due Within One Year
Other debt					
Developer advances					
O&M	\$ 13,327	\$ 25,000	\$ -	\$ 38,327	\$ -
Developer advances					
Capital	-	10,242,684	-	10,242,684	-
Accrued interest:					
Developer advances					
O&M	-	1,237	-	1,237	-
Developer advances					
Capital	-	127,763	-	127,763	-
Subtotal	<u>13,327</u>	<u>10,396,684</u>	<u>-</u>	<u>10,410,011</u>	<u>-</u>
Total long-term obligations	<u>\$ 10,247,689</u>	<u>\$ 10,396,684</u>	<u>\$ 11,115</u>	<u>\$ 20,633,258</u>	<u>\$ -</u>

Series 2019 Limited Tax General Obligation Bonds

On December 16, 2019, the District issued Series 2019A and Series 2019B General Obligation Bonds (collectively, "Series 2019 Bonds"). The Series 2019A Limited Tax General Obligation Bonds ("Series 2019A Bonds") were issued for the purpose of: (i) financing public improvements; (ii) paying capitalized interest on the 2019A Senior Bonds; (iii) funding reserves; and (iv) paying other costs in connection with the issuance of the Bonds. The Series 2019B Subordinate Limited Tax General Obligation Bonds ("Series 2019B Bonds") were issued for the purpose of financing additional public improvements related to the District. The Series 2019A Bonds were issued in the amount of \$7,400,000. The bonds bear interest at 5.00% per annum, calculated on the basis of a 360-day year of twelve 30-day months. Mandatory principal payments are due each December 1 beginning in 2025 through maturity on December 1, 2049.

The Series 2021B Subordinate Bonds were issued in the amount of \$2,600,000; bearing interest at a rate of 7.75% per annum, calculated on the basis of a 360-day year of twelve 30-day months; payable to the extent of pledged revenues available on each December 15; and mature on December 15, 2049.

See independent auditor's report.

WILLOW SPRINGS RANCH METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021

5. LONG-TERM OBLIGATIONS (CONTINUED)

Series 2019 Limited Tax General Obligation Bonds (continued)

The District is required to maintain bond payment, reserve, and surplus cash accounts. The purpose of the reserve cash account is to provide adequate reserves to meet principal and interest requirements if the bond account does not have enough funding. The reserve account is required to be maintained as long as the bonds are outstanding.

The Series 2019A Bonds are secured by and payable from the pledged revenue consisting of monies derived by the District from the following sources, net of any collection costs: (i) property taxes; (ii) specific ownership taxes; (iii) capital fees; and (iv) any other legally available monies which the District determines to be treated as pledged revenue. The 2019A Bonds are also secured by amounts held by the trustee in the reserve fund.

The 2019B Bonds are secured by and payable from the subordinate pledged revenue consisting of monies derived by the District from the following sources, net of any collection costs: (i) subordinate property taxes; (ii) subordinate specific ownership taxes; (iii) subordinate capital fees; (iv) any amounts in the 2019A surplus fund; and (v) any other legally available monies which the District determines to be treated as pledged revenue. The 2019B Bonds are also secured by amounts held by the trustee in the reserve fund.

The Series 2019 Bonds are subject to redemption prior to maturity, at the option of the District, as a whole or in integral multiples of \$1,000, in any order of maturity, and in whole or partial maturities; on December 1, 2024, and on the specified dates thereafter; upon payment of par, accrued interest, and a redemption premium of a percentage of the principal amount redeemed, as follows:

Date of Redemption	Premium Redemption
December 1, 2024, to November 30, 2025	3.00%
December 1, 2025, to November 30, 2026	2.00%
December 1, 2026, to November 30, 2027	1.00%
December 1, 2027, and thereafter	0.00%

See independent auditor's report.

WILLOW SPRINGS RANCH METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021

5. LONG-TERM OBLIGATIONS (CONTINUED)

Series 2019 Limited Tax General Obligation Bonds (continued)

Events of default

The occurrence of any one or more of the following events or the existence of any one or more of the following conditions constitutes an event of default under the bond indentures:

- i. Failure to deposit with the trustee all pledged revenue as required by the indenture.
- ii. The District fails to pay the principal of, premium if any, or interest on the 2019 Senior Bonds when due, past the first principal or interest payment date occurring after the first mill levy certification by the District.
- iii. The District defaults in the performance of any of its material covenants in the bond resolution.

It is acknowledged that, due to the limited nature of the pledged revenue, the failure to pay the principal of or interest on the bonds prior to the first principal or interest payment date occurring after the first mill levy certification by the District when due does not, in itself, constitute an event of default under the indenture.

Upon the occurrence and continuance of an event of default, the trustee has the following rights and remedies which may be pursued:

- i. Receivership - Upon the filing of a bill in equity or other commencement of judicial proceedings to enforce the rights of the trustee and of the owners, the trustee is entitled to the possession and control of any cash, securities, or other instruments at the time held by, or payable or deliverable under the provisions of the bond to the trustee.
- ii. Suit for judgment - The trustee may proceed to protect and enforce its rights and the rights of the owners by such suit, action, or special proceedings as the trustee, being advised by counsel, deems appropriate.
- iii. Mandamus or other suit - The owner may proceed by mandamus or any other suit, action, or proceeding at law or in equity, to enforce its rights.

Notwithstanding the foregoing or anything else herein to the contrary, acceleration will not be an available remedy for an event of default.

See independent auditor's report.

WILLOW SPRINGS RANCH METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021

5. LONG-TERM OBLIGATIONS (CONTINUED)

The District's long-term obligations on the Series 2019A Bonds mature as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ -	\$ 370,000	\$ 370,000
2023	-	370,000	370,000
2024	-	370,000	370,000
2025	95,000	370,000	465,000
2026-2030	630,000	1,769,000	2,399,000
2031-2035	940,000	1,581,750	2,521,750
2036-2040	1,345,000	1,308,750	2,653,750
2041-2045	1,850,000	923,750	2,773,750
2046-2049	2,540,000	368,250	2,908,250
Total	<u>\$ 7,400,000</u>	<u>\$ 7,431,500</u>	<u>\$ 14,831,500</u>

The Series 2019B Bonds are subordinate to the Series 2021A Bonds and are structured as cash flow bonds, meaning that no regularly scheduled payments of principal are due prior to the maturity date of December 15, 2049. Accordingly, a maturity schedule is not provided for these amounts. In the event that any amount of principal or interest on the subordinate bonds remains unpaid after the application of all subordinate pledged revenue available on December 15, 2059, the subordinate bonds will be deemed to be discharged and paid in full.

Developer advances

In October 2019, the District entered into a reimbursement agreement with a developer under which the developer will advance the District up to \$50,000 in 2020 and up to \$50,000 in 2021 for the cost of operations and maintenance within the District. The District agreed to repay these advances with interest at the prime rate plus 1.5% per annum from the date of the advances and to repay the balances in full no later than 30 years from the date of the agreement. As of the year ended December 31, 2021, the outstanding developer advance totaled \$38,327 and the accrued interest related to the developer advance totaled \$1,237.

See independent auditor's report.

WILLOW SPRINGS RANCH METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021

5. LONG-TERM OBLIGATIONS (CONTINUED)

Developer advances (continued)

In October 2019, the District entered into an additional reimbursement agreement with the developer under which the developer will advance the District for the cost of improvements within the District. The District agreed to repay these advances with interest at the prime rate plus 1.5% per annum from the date of the advances. This agreement will terminate at the earlier of full repayment or 20 years from the date of this agreement at which point any remaining obligations, including principal and accrued interest, will be considered fully forgiven and there will be no further obligation under this agreement. As of the year ended December 31, 2021, the outstanding developer advance totaled \$10,242,684 and the accrued interest related to the developer advance totaled \$127,763.

6. NET POSITION

The District has a net position consisting of two components: restricted and unrestricted.

Restricted net position includes balances with external restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments; or imposed by law through constitutional provisions or enabling legislation. The District had a restricted net position as of December 31, 2021, as follows:

Restricted net position:

Debt service (Note 5)	\$ 674,555
Emergency reserve (Note 10)	<u>689</u>
	<u><u>\$ 675,244</u></u>

The District's unrestricted net position as of December 31, 2021 totaled a deficit of \$2,046,242. This deficit amount was a result of the District being responsible for the repayment of general obligation bonds.

See independent auditor's report.

WILLOW SPRINGS RANCH METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021

7. RELATED PARTIES

The developer of the property which constitutes the District is Polo Brown Company (Note 5). The members of the board of directors are officers, employees or associated with the developer and may have conflicts of interest in dealing with the District.

8. ECONOMIC DEPENDENCY

The District has not yet established a revenue base sufficient to fund general and capital expenditures. Until an independent revenue base is established, general expenses and construction of public improvements will be dependent upon funding by the developers.

9. RISK MANAGEMENT

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

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 workers' 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.

10. TAX, SPENDING AND DEBT LIMITATIONS

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

Spending and revenue limits are determined based on the prior fiscal year spending adjusted for allowable increases based upon inflation and local growth. Fiscal year spending is generally defined as expenditures plus reserve increases with certain exceptions. Revenue in excess of the fiscal year spending limit must be refunded unless the voters approve retention of such revenues. The District's electors authorized the District to collect, spend or retain any revenues without regard to any limitations under TABOR.

See independent auditor's report.

WILLOW SPRINGS RANCH METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021

10. TAX, SPENDING AND DEBT LIMITATIONS (CONTINUED)

TABOR requires local governments to establish emergency reserves. These reserves must be at least 3% of fiscal year spending (excluding bonded debt service). Local governments are not allowed to use the emergency reserves to compensate for economic conditions, revenue shortfalls, or salary or benefit increases.

District management believes the District is in compliance with the provisions of TABOR. However, TABOR is complex and subject to interpretation. Many of the provisions, including the interpretation of how to calculate fiscal year spending limits, will likely require judicial interpretation.

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See independent auditor's report.

SUPPLEMENTARY INFORMATION

**WILLOW SPRINGS RANCH METROPOLITAN DISTRICT
CAPITAL PROJECTS FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
YEAR ENDED DECEMBER 31, 2021**

	Budget		Actual Amounts	Variance
	Original	Final		
<u>REVENUES</u>				
Investment income	\$ -	\$ 154	\$ 154	\$ -
Total revenues	-	154	154	-
<u>EXPENDITURES</u>				
Accounting	8,343	-	-	-
Capital outlay	3,588,957	14,298,203	14,304,043	(5,840)
Trustee fees	-	7,000	-	7,000
Total expenditures	3,597,300	14,305,203	14,304,043	1,160
Excess of revenues over (under) expenditures	(3,597,300)	(14,305,203)	(14,304,043)	1,160
<u>OTHER FINANCING SOURCES (USES)</u>				
Transfers (to) from other funds	-	-	16,179	(16,179)
Developer advance	-	10,245,355	10,242,684	(2,671)
Total other financing sources (uses)	-	10,245,355	10,258,863	(18,850)
Net change in fund balance	<u>\$ (3,597,300)</u>	<u>\$ (14,305,049)</u>	(4,045,026)	<u>\$ (1,511)</u>
Fund balance, beginning of year			4,045,026	
Fund balance, end of year			<u>\$ -</u>	

See independent auditor's report.

**WILLOW SPRINGS RANCH METROPOLITAN DISTRICT
DEBT SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
YEAR ENDED DECEMBER 31, 2021**

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance</u>
<u>REVENUES</u>			
Development fees	\$ -	\$ 410,000	\$ 410,000
Investment income	-	103	103
Total revenues	-	410,103	410,103
<u>EXPENDITURES</u>			
Contingency	500	-	500
Interest expense	370,000	370,000	-
Trustee fees	7,000	7,000	-
Total expenditures	377,500	377,000	500
Excess of revenues over (under) expenditures	(377,500)	(377,000)	(500)
<u>OTHER FINANCING SOURCES (USES)</u>			
Transfers (to) from other funds	-	(21,364)	(21,364)
Total other financing sources (uses)	-	(21,364)	(21,364)
Net change in fund balance	<u>\$ (377,500)</u>	11,739	<u>\$ 388,239</u>
Fund balance, beginning of year		1,105,045	
Fund balance, end of year		<u>\$ 1,116,784</u>	

See independent auditor's report.