

East Fossil Creek Ranch Metropolitan District No. 2

FINANCIAL STATEMENTS AND  
REPORT OF INDEPENDENT  
CERTIFIED PUBLIC ACCOUNTANTS

December 31, 2021

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## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors  
East Fossil Creek Ranch Metropolitan District No. 2

### ***Opinion***

We have audited the financial statements of governmental activities and the governmental funds of the East Fossil Creek Ranch Metropolitan District No. 2 (the "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 accompanying financial statements present fairly, in all material respects, the respective financial position of the governmental activities and the governmental funds of the East Fossil Creek Ranch Metropolitan District No. 2 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 Opinion***

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("US GAAS"). 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 District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***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 issued or 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 opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS 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, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users made on the basis of these financial statements.

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

In performing an audit in accordance with US GAAS, 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*

The Board of Directors has elected to omit the Management's Discussion and Analysis information that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Government Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this omitted information.

#### *Supplementary Information*

Our audit was conducted with the purpose of forming an opinion on the basic financial statements of the East Fossil Creek Ranch Metropolitan District No. 2 taken as a whole. The supplementary information on pages 19 and 20 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information is the responsibility of management of the District and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to our auditing procedures applied in the audit of the financial statements and certain other additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Marc, James and Associates, PC*

Highlands Ranch, Colorado  
July 22, 2022

*BASIC FINANCIAL STATEMENTS*

East Fossil Creek Ranch Metropolitan District No. 2

GOVERNMENTAL FUNDS BALANCE SHEET/STATEMENT OF NET POSITION

December 31, 2021

	Governmental Funds				Adjustments	Statement of Net Position
	General	Debt Service	Capital Projects	Total		
<b>ASSETS</b>						
Cash and cash equivalents	\$ 1,000	\$ -	\$ -	\$ 1,000	\$ -	\$ 1,000
Property taxes receivable	19,936	-	-	19,936	-	19,936
Capital assets	-	-	-	-	503,698	503,698
<b>Total assets</b>	<b>\$ 20,936</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 20,936</b>	<b>503,698</b>	<b>524,634</b>
<b>LIABILITIES</b>						
Accounts payable	\$ -	\$ -	\$ 620,860	\$ 620,860	-	620,860
Accrued interest payable	-	-	-	-	199,583	199,583
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>620,860</b>	<b>620,860</b>	<b>199,583</b>	<b>820,443</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Property taxes	19,936	-	-	19,936	-	19,936
<b>LONG-TERM DEBT</b>						
Due in more than one year	-	-	-	-	4,750,000	4,750,000
<b>Total long-term debt</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,750,000</b>	<b>4,750,000</b>
<b>FUND BALANCE</b>						
Unassigned	1,000	-	(620,860)	(619,860)	619,860	-
<b>Total fund balance</b>	<b>1,000</b>	<b>-</b>	<b>(620,860)</b>	<b>(619,860)</b>	<b>619,860</b>	<b>-</b>
<b>Total liabilities, deferred inflows of resources and fund balance</b>	<b>\$ 20,936</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 20,936</b>		
<b>NET POSITION</b>						
Investment in capital assets, net of related debt					(4,445,885)	(4,445,885)
Unrestricted					(619,860)	(619,860)
<b>Total net position</b>					<b>\$ (5,065,745)</b>	<b>\$ (5,065,745)</b>

The accompanying notes are an integral part of these financial statements

East Fossil Creek Ranch Metropolitan District No. 2

STATEMENT OF GOVERNMENTAL FUNDS REVENUES, EXPENDITURES AND

CHANGE IN FUND BALANCE/STATEMENT OF ACTIVITIES

For the Year ended December 31, 2021

	Governmental Funds				Adjustments	Statement of Activities
	General	Debt Service	Capital Projects	Total		
EXPENDITURES						
OPERATIONS						
Bank fees	\$ -	\$ 102	\$ -	\$ 102	\$ -	\$ 102
Treasurer's fees	15	-	-	15	-	15
DEBT SERVICE						
Cost of bond issuance	-	291,539	-	291,539	-	291,539
Interest expense	-	-	-	-	199,583	199,583
Trustee fee	-	6,000	-	6,000	-	6,000
CAPITAL EXPENDITURES						
Infrastructure	-	-	5,074,102	5,074,102	(503,698)	4,570,404
Total expenditures	15	297,641	5,074,102	5,371,758	(304,115)	5,067,643
GENERAL REVENUES						
Property and other taxes	780	883	-	1,663	-	1,663
Interest	2	-	-	2	-	2
Total general revenues	782	883	-	1,665	-	1,665
EXPENDITURES IN EXCESS OF REVENUES	767	(296,758)	(5,074,102)	(5,370,093)	304,115	(5,065,978)
OTHER SOURCES						
Proceeds from the issuance of bonds	-	4,750,000	-	4,750,000	(4,750,000)	-
Transfer in (out)	-	(4,453,242)	4,453,242	-	-	-
Intergovernmental	(797)	-	-	(797)	-	(797)
Total other sources and (uses)	(797)	296,758	4,453,242	4,749,203	(4,750,000)	(797)
CHANGE IN FUND BALANCE	(30)	-	(620,860)	(620,890)	620,890	-
CHANGE IN NET POSITION	-	-	-	-	(5,066,775)	(5,066,775)
FUND BALANCE /NET POSITION						
Beginning of the year	1,030	-	-	1,030	-	1,030
End of the year	\$ 1,000	\$ -	\$ (620,860)	\$ (619,860)	\$ (4,445,885)	\$ (5,065,745)

The accompanying notes are an integral part of these financial statements

East Fossil Creek Ranch Metropolitan District No. 2

STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGE IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND

For the Year ended December 31, 2021

	<u>Original Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>REVENUES</b>			
Property and other taxes	\$ 884	\$ 780	\$ (104)
Interest and other	-	2	2
	<u>884</u>	<u>782</u>	<u>(102)</u>
<b>EXPENDITURES</b>			
<b>OPERATING</b>			
Intergovernmental	867	797	70
Treasurer's fees	17	15	2
	<u>884</u>	<u>812</u>	<u>72</u>
<b>CHANGE IN FUND BALANCE</b>	-	(30)	(30)
<b>FUND BALANCE</b>			
Beginning balance	<u>1,030</u>	<u>1,030</u>	-
Ending balance	<u><u>\$ 1,030</u></u>	<u><u>\$ 1,000</u></u>	<u><u>\$ (30)</u></u>

The accompanying notes are an integral part of these financial statements

NOTES TO FINANCIAL STATEMENTS

December 31, 2021

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the East Fossil Creek Ranch Metropolitan District No. 2 (the “District”) conform to the accounting principles generally accepted in the United States of America (“US GAAP”) as applicable to governmental entities. The following is a summary of the more significant policies consistently applied in the preparation of the basic financial statements of the District.

*1. Reporting Entity*

The District was formed, pursuant to the Colorado Special District Act, Article 1 of Title 32 of the Colorado Revised Statutes, in May 2016, as a quasi-municipal corporation and a political subdivision of the State of Colorado. The District was formed in conjunction with East Fossil Creek Metropolitan District No. 1. The Service Plan, approved by the Town of Windsor on November 9, 2015, contemplates District No. 1 serving as the coordinating district and the District serving as the residential financing district. The District is governed by a five-member Board of Directors. The District is located entirely in the Town of Windsor, Colorado in Larimer County in northern Colorado.

The District was formed for the purpose of financing public improvements related to the development of a residential community known as “Fossil Creek Ranch” (the “Development”). The Development is platted to include 260 single family detached homes, a neighborhood park, and common open space. The Development is being developed by Forestar (USA) Real Estate Group, Inc. (the “Developer”).

As required by US GAAP, these financial statements present the activities of the District, which is legally separate and financially independent of other state and local government entities. The District has no component units as defined by Governmental Accounting Standards Board (“GASB”), Statement No. 14, *The Reporting Entity* and GASB No. 39, *Determining Whether Certain Organizations are Component Units*.

*2. Measurement Focus and Financial Reporting Framework*

*Government-wide Financial Statements*

The government-wide financial statements, the Statement of Net Position and the Statement of Activities, report information on the accrual basis of accounting related to the *governmental-type activities* of the District, which rely to a significant extent on property taxes and specific ownership taxes. The Statement of Activities demonstrates the degree to which expenses of the *governmental-type activities* are supported by property tax and specific ownership taxes.

*Governmental Fund Financial Statements*

The governmental fund financial statements are prepared 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 if the revenues are collectible within the current period or soon thereafter to pay liabilities of the current period. For that purpose, the District considers revenues to be available if they are expected to be collected within 60 days of the end of the current fiscal period.

NOTES TO FINANCIAL STATEMENTS

December 31, 2021

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *continued*

2. *Measurement Focus and Financial Reporting Framework - continued*

*Governmental Funds*

The District maintains three individual governmental funds. The governmental funds information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balance for the General Fund, the Debt Service Fund and the Capital Projects Fund, all of which, the District considers to be major funds.

The *General Fund* is the District's primary operating fund. It accounts for all financial resources of the general government, except for those required to be accounted for in another fund.

The *Debt Service Fund* accounts for the resources accumulated and payments made for principal and interest on long-term liabilities of the District.

The *Capital Projects Fund* accounts for financial resources that are restricted, committed, or assigned to expenditures for capital outlays, including the acquisition of capital facilities and other assets.

3. *Cash and Cash Equivalents*

The District considers cash and cash equivalents to include cash on hand, unrestricted demand deposits and money market accounts, as applicable.

4. *Fair Value of Financial Instruments*

The District's financial instruments may include cash and cash equivalents, property taxes receivable, accounts payable, accrued liabilities and deferred inflows of resources. The District estimates that the fair value of these financial instruments as of December 31, 2021, do not differ materially from the aggregate carrying values used in the accompanying financial statements. The carrying amount of these financial instruments approximates the fair value due to the short maturity of these financial instruments.

5. *Capital Assets*

The District's capital assets as of December 31, 2021, consist of public improvements to be conveyed to the Town of Windsor or other local government entities and are reported in the government-wide financial statements. The District's capital assets are recorded at cost, if purchased or constructed.

The District has a capitalization policy of \$5,000. The District's Board of Directors has the option to capitalize certain items less than \$5,000.

The cost of normal maintenance and repairs that do not add to the value of, or materially extend the life of, the related capital asset, are charged to expense as incurred.

NOTES TO FINANCIAL STATEMENTS

December 31, 2021

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *continued*

6. *Use of Estimates*

The preparation of financial statements in conformity with US GAAP may involve the use of District management's estimates that affect the reported amounts of assets and liabilities as of the date of the financial statements, and the reported amounts of revenue and expenses as applicable, during the reporting period. These estimates are based upon District management's best judgment, after considering past events and assumptions about future events. Actual results could differ from those estimates.

NOTE B – BUDGET INFORMATION

The District's annual budget is prepared on a Non-GAAP basis for the District's General Fund, Debt Service Fund and Capital Projects Fund. An annual appropriated budget is adopted at the total fund expenditure level and the annual appropriations lapse at the end of the District's fiscal year.

The District conforms to the following procedures, in accordance with the State of Colorado Revised Statutes, in the establishment of the budgetary information reflected in the accompanying financial statements.

On or before October 15, the District's Treasurer and/or the District's Manager submit a proposed budget for the subsequent fiscal year to the District's Board of Directors. The budget sets forth all proposed expenditures for administration, operations, maintenance, debt service, and capital projects for the budget year; all anticipated revenues for the budget year; estimated beginning and ending fund balances; actual figures for the prior fiscal year and projected figures through the end of the current year; and a written budget message describing the important features of the budget.

Following receipt of the proposed budget, the District publishes notice of the hearing at which the adoption of the proposed budget will be considered, a statement that the proposed budget is available for inspection, and that any interested elector may file objections to the proposed budget prior to its adoption. The budget hearing is held at a regular or special Board of Directors' meeting.

Following the budget hearing, the Board of Directors adopts the budget and makes appropriations for the budget year. The District also certifies a mill levy for collection in the budget year. Because the District certifies a mill levy, the adoption of the budget, appropriations and certification of the mill levy must occur on or before December 15. Expenditures in excess of the amounts appropriated for a Fund or transfer of monies between Funds must be approved by the Board of Directors in the same manner as the adoption of the budget.

For 2021, the District's Board of Directors amended the Debt Service Fund and the Capital Projects Fund budgets. State of Colorado Statutes requires a balanced budget. The amended budgets reflected an anticipated increase in the amount of bonds issued and the related expenditures for public improvements.

NOTES TO FINANCIAL STATEMENTS

December 31, 2021

NOTE C – CASH AND INVESTMENTS

The Colorado Public Deposit Protection Act (“PDPA”) requires that all units of local government deposit cash in eligible public depositories. State regulators determine the eligibility. Amounts on deposit in excess of the Federal Deposit Insurance Corporation (“FDIC”) insurance levels must be collateralized. The eligible collateral is determined by the PDPA. The PDPA allows institutions to create a single collateral pool for all public funds. The pool is to be maintained by another institution, or held in trust for all uninsured public deposits. The market value of the collateral must be equal to 102% of the aggregate uninsured public deposits. The Colorado Division of Banking for banks and savings associations is required by statute to monitor the naming of eligible depositories and reporting of the uninsured deposits and assets maintained in the collateral pools.

As of December 31, 2021, all of the District’s funds were held in eligible public depositories.

NOTE D – LONG-TERM DEBT

*Limited Tax General Obligation Bonds, Series 2021A*

In April 2021, the District issued Limited Tax General Obligation Bonds, Series 2021A, (“Series 2021A Bonds”) with a par value of \$4,750,000. The Series 2021A Bonds were issued for the purpose of funding the costs of the public improvements and paying the other costs of issuance of the bonds.

The Series 2021A Bonds have a final maturity of December 1, 2048, and bear interest from the issuance date at a rate of 6% calculated on the basis of a 360-day year of twelve 30-day months, payable to the extent Pledged Revenues, as defined in the Trust Indenture, are available annually on each December 1, commencing December 1, 2021, until the Series 2021A Bonds are deemed to be paid in full or are redeemed prior to maturity.

Due to the “cash flow” structure of the Series 2021A Bonds, there are no scheduled payments on the Series 2021A Bonds prior to the final maturity date.

The Pledged Revenue and other amounts available may be insufficient to pay the principal of, and any interest on the Series 2021A Bonds when due. As long as the District neither fails nor refuses to impose the Required Mill Levy or to apply the Pledged Revenue as required, the inability of the District to pay the principal, and any interest when due will not constitute an event of default.

Any principal of the Series 2021A Bonds, that is not paid when due, shall remain outstanding until paid or until the Series 2021A Termination Date (December 2, 2052). Any interest on the Series 2021A Bonds, that is not paid when due, will compound semiannually on each Series 2021A Interest Payment Date listed above at the interest rate borne by such Series 2021A Bonds.

Under the terms of the Trust Indenture any amount of principal or interest on the Series 2021A Bonds that remains unpaid after the application of all Pledged Revenue available on December 2, 2052 shall be deemed to be paid, satisfied, and discharged.

The scheduled December 1, 2021 interest payment totaling \$174,958 was not made as scheduled. As of December 31, 2021, there was accrued interest payable of \$199,583, which includes the December 1, 2021 scheduled interest payment, the accrued and unpaid interest for the period December 1, 2021 through December 31, 2021, and the compounded interest on the scheduled December 1, 2021 interest payment as reflected on the Statement of Net Position.

East Fossil Creek Ranch Metropolitan District No. 2

NOTES TO FINANCIAL STATEMENTS

December 31, 2021

NOTE D – LONG-TERM DEBT - *continued*

*Limited Tax General Obligation Bonds, Series 2021A – continued*

Optional Redemption

The Series 2021A Bonds are subject to redemption prior to maturity, at the option of the District, as a whole or partial multiples of \$1,000, on June 1, 2026, and on any date thereafter, upon payment of par, accrued interest and redemption premium equal to a percentage of the principal amount so redeemed, as follows:

<u>Date of Redemption</u>	<u>Redemption Premium</u>
June 1, 2026 to May 31, 2027	3.00%
June 1, 2027 to May 31, 2028	2.00
June 1, 2028 to May 31, 2029	1.00
June 1, 2029 and thereafter	-

Mandatory Redemption

The Series 2021A Bonds are also subject to mandatory redemption from Pledged Revenue from, and solely to the extent of, Pledged Revenue on deposit in the Bond Fund on October 16 each year after the payment of interest due on the Series 2021A Bonds, including current interest, accrued but unpaid interest, and any interest due as result of compounding, if any, and following notice of prior redemption as provided in the Trust Indenture.

Covenants and Agreements

Under the terms of the Trust Indenture, the District is required to have an annual audit of its financial records to be performed by a Certified Public Accountant completed within reasonable efforts no later than September 30 of the calendar year after the calendar which is the subject of such audit. Additionally, the District is required to prepare at least once a year in the time and manner provided by law an annual budget.

Changes in Long-Term Debt

The following is an analysis of the changes in the long-term debt for the year ended December 31, 2021:

	<u>December 31, 2020</u>	<u>Additions</u>	<u>Payments</u>	<u>December 31, 2021</u>	<u>Due within One Year</u>
Series 2021A Bonds	\$ -	\$ 4,750,000	\$ -	\$ 4,750,000	\$ -

East Fossil Creek Ranch Metropolitan District No. 2

NOTES TO FINANCIAL STATEMENTS

December 31, 2021

NOTE D – LONG-TERM DEBT - *continued*

*Limited Tax General Obligation Bonds, Series 2021A – continued*

*Authorized, But Unissued Debt*

As of December 31, 2021, the amount of the voter authorized, but unissued, debt for the East Fossil Creek Metropolitan District No. 2 was \$178,400,000 for public infrastructure, \$20,350,000 for refunding, and \$20,350,000 for intergovernmental agreements. However, the District's Service Plan limits its total debt issuance to \$16,280,000. As such, the District has \$11,530,000 in remaining authorized, but unissued debt.

In the future, the District may issue a portion or all of the remaining authorized, but unissued general obligation debt for purposes of providing public improvements to support development as it occurs within the District's service area. However, the amount and timing of any debt issuances, if any, are not determinable.

*Dependence Upon Timely Payment of Property Taxes*

Delinquency in the payment of property taxes by the owners of taxable property in the District may impair the repayment of the Series 2021A Bonds in a timely manner. Generally, property tax does not constitute a personal obligation on the property owner, but rather constitutes a lien against the taxed property until paid. The County Treasurer can enforce the payment of delinquent property taxes through the power of foreclosure and subsequent sale in the manner provided by applicable law. The ability of the District to enforce and collect the necessary property taxes is dependent upon the taxed property to have sufficient market value to support the property taxes that are imposed against it.

NOTE E – CAPITAL ASSETS

*Certified Cost of Infrastructure in Process*

In November 2021, a cost certification was completed by an independent engineering firm which resulted in the certification of public improvements completed by the Developer in the amount of \$5,074,102. During 2021, the District reimbursed the Developer \$4,453,242 from the proceeds of the Series 2021A Bonds leaving a balance due to the Developer of \$620,860. Based upon the cost certification, public improvements totaling \$4,570,404 accepted by the Town of Windsor and other local government entities was conveyed. As discussed in NOTE D, the payment to the Developer was made from the proceeds of the Series 2021A Bonds.

*Change in Capital Assets*

The change in the District's capital assets for the year ended December 31, 2021 is as follows:

	Balance December 31, 2020	Additions	Conveyance	Balance December 31, 2021
Capital assets				
Infrastructure	\$ -	\$ 5,074,102	\$ (4,570,404)	\$ 503,698

As part of the acceptance, the District is required to warranty the public improvements conveyed to the Fort Collins Water and Sanitation District through December 1, 2023.

NOTES TO FINANCIAL STATEMENTS

December 31, 2021

NOTE F – FUND BALANCE/NET POSITION

*Fund Balance*

The District utilizes the fund balance presentation as required under GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Fund balances are categorized as non-spendable, restricted, committed, assigned or unassigned.

*Non-spendable* – represents amounts that cannot be spent because they are either in non-spendable form or legally required to remain intact,

*Restricted* – represents amounts with external constraints placed on the use of these resources or imposed by enabling legislation,

*Committed* – represents amounts that can only be used for specific purposes imposed by a formal action of the District’s highest level of decision-making authority, the District’s Board of Directors. Committed resources cannot be used for any other purpose unless the District’s Board of Directors removes or changes the specific use by the same type of action used to commit those amounts, either by resolution or by ordinance,

*Assigned* – represents amounts that the District intends to use for specific purposes as expressed by the District’s Board of Directors or a District official delegated the authority to assign amounts,

*Unassigned* – represents the residual classification for the general fund or deficit balances in other funds, as applicable.

Amounts are considered to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) amounts are available. Unrestricted amounts are considered to have been spent when an expenditure is incurred for purposes for which amounts in any of these unrestricted fund balances classifications could be used.

As of December 31, 2021, the District’s fund balances consisted of the following:

	General Fund	Debt Service Fund	Capital Projects Fund	Total
<i>Fund balances</i>				
Unassigned	1,000	-	(620,890)	(619,860)
Total	\$ 1,000	\$ -	\$ (620,890)	\$ (619,860)

NOTES TO FINANCIAL STATEMENTS

December 31, 2021

NOTE F – FUND BALANCE/NET POSITION - *continued*

*Net Position*

Net Position represents the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources. The District reports three categories of net position, as follows:

*Net investment in capital assets* – consists of net capital assets, reduced by outstanding balances of any related debt obligations and deferred inflows of resources attributable to the acquisition, construction, or improvement of those assets and increased by balances of deferred outflows or resources related to those assets.

*Restricted net position* – net position is considered restricted if their use is constrained to a particular purpose. Restrictions are imposed by external organizations such as federal or state laws. Restricted net position is reduced by liabilities and deferred inflows of resources related to the restricted assets.

*Unrestricted net position* – consists of all other net position that does not meet the definition of the above two components and is available for general use by the District.

When an expense is incurred for purposes for which both restricted and unrestricted net position is available, the District will use the most restrictive net position first.

NOTE G – CAPITAL IMPROVEMENT FEE

In February 2021, the District entered into the Capital Improvement Fee Agreement between the District and the Developer under which the District receives a capital improvement fee of \$2,000 per lot to be collected and remitted to the District.

NOTE H - RELATED PARTY

*Members of the Board of Directors*

Members of the Board of Directors are affiliated with the Developer.

NOTE I – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets and natural disasters. These risks are covered by commercial insurance purchased from independent insurance brokers. Settled claims have not exceeded this commercial coverage in any of the past three years.

NOTES TO FINANCIAL STATEMENTS

December 31, 2021

NOTE J – 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 and debt limitations which apply to the State of Colorado and all local governments.

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.

The District’s management believes it is in compliance with the provisions of TABOR. However, TABOR is complex and subject to interpretation. Many of the provisions, including the calculation of the fiscal year spending limits may require judicial interpretation.

NOTE K – CORONAVIRUS PANDEMIC

In December 2019, an outbreak of a novel strain of coronavirus (“COVID-19”) originated in Wuhan, China and has since spread world-wide, including the United States. In March 2020, the World Health Organization characterized COVID-19 as a pandemic.

The spread of COVID-19 and its variants has altered the behavior of individuals and businesses in a manner that has had significant impacts on global, national, and local economies. Accordingly, state and local governments, including the State of Colorado, have announced orders, recommendations and other measures intended to slow the spread of COVID-19, including the closing of businesses and “stay at home” orders. The COVID-19 measures are changing rapidly and in 2022, many restrictions are being relaxed or eliminated.

The District continues to monitor and assess the effects of the COVID-19 pandemic on the District; however, the ultimate impact of the COVID-19 outbreak or a similar health epidemic is highly uncertain and subject to change.

NOTE L – MANAGEMENT’S EVALUATION OF SUBSEQUENT EVENTS

The preparation of the District’s financial statements and accompanying footnotes in conformity with generally accepted accounting principles requires management of the District to evaluate transactions and events subsequent to the balance sheet date involving the District. Management has evaluated the subsequent transactions and events of the District through July 22, 2022, which is the date the financial statements and accompanying footnotes were available for issuance.

NOTES TO FINANCIAL STATEMENTS

December 31, 2021

NOTE M – RECONCILIATION OF GOVERNMENT-WIDE AND GOVERNMENTAL FUND FINANCIAL STATEMENTS

The Governmental Funds Balance Sheet/Statement of Net Position includes an adjustments column which reconciles the differences between the government-wide and fund financial statements as follows:

Capital assets reflected in the Statement of Net Position are not financial resources in the governmental funds and accordingly are not reported in the governmental funds,	\$	503,698
Long-term liabilities are not due and payable in the current period and, therefore, are not reflected in the governmental funds,		4,750,000
Interest is recognized in the governmental funds as paid; therefore accrued interest is only recognized on the Statement of Net Position.		199,583

The Statements of Governmental Funds Revenues, Expenditures and Changes in Fund Balance/Statement of Net Activities includes an adjustment column which reconciles the differences between the government-wide and fund financial statements as follows:

Interest is recognized in the governmental funds as paid. For the Statement of Activities interest expense is recognized as incurred. This is the difference between the amount of interest paid and the amount of interest incurred,	\$	199,583
Governmental funds report capital expenditures as expenditures. However, in the Statement of Net Position, the capital expenditures are capitalized. During 2021, this is the amount of public improvements capitalized, net of the public improvements conveyed to the Town of Windsor and other local government entities		503,698

*SUPPLEMENTARY INFORMATION*

East Fossil Creek Ranch Metropolitan District No. 2

SCHEDULE OF REVENUES, EXPENDITURES AND  
CHANGE IN FUND BALANCE - BUDGET AND ACTUAL - DEBT SERVICE FUND

For the Year ended December 31, 2021

	Original Budget	Amended and Final Budget	Actual	Variance
<b>REVENUES</b>				
Property and other taxes	\$ -	\$ -	\$ 883	\$ 883
Capital improvemet fee	150,000	150,000	-	(150,000)
Total revenues	150,000	150,000	883	(149,117)
<b>EXPENDITURES</b>				
<b>OPERATING</b>				
Bank fees	-	-	102	(102)
<b>DEBT SERVICE</b>				
Cost of issuance of bonds	186,580	186,580	291,539	(104,959)
Interest	211,789	211,789	-	211,789
Trustee fee	-	-	6,000	(6,000)
Total expenditures	398,369	398,369	297,641	100,728
EXPENDITURES IN EXCESS OF REVENUES	(248,369)	(248,369)	(296,758)	(48,389)
<b>OTHER SOURCES AND (USES)</b>				
Proceeds from the issuance of bonds	4,910,000	7,250,000	4,750,000	(2,500,000)
Transfers out	(3,861,155)	(7,001,631)	(4,453,242)	2,548,389
Net other sources	1,048,845	248,369	296,758	48,389
CHANGE IN FUND BALANCE	800,476	-	-	-
<b>FUND BALANCE</b>				
Beginning balance	-	-	-	-
Ending balance	\$ 800,476	\$ -	\$ -	\$ -

East Fossil Creek Ranch Metropolitan District No. 2

SCHEDULE OF REVENUES, EXPENDITURES AND  
CHANGE IN FUND BALANCE - BUDGET AND ACTUAL - CAPITAL PROJECTS FUND

For the Year ended December 31, 2021

	Original Budget	Amended and Final Budget	Actual	Variance
EXPENDITURES				
CAPITAL EXPENDITURES				
Infrastructure	3,861,155	7,001,631	5,074,102	1,927,529
Total expenditures	3,861,155	7,001,631	5,074,102	1,927,529
OTHER SOURCES				
Transfer in	3,861,155	7,001,631	4,453,242	2,548,389
Total other sources	3,861,155	7,001,631	4,453,242	2,548,389
CHANGE IN FUND BALANCE	-	-	(620,860)	620,860
FUND BALANCE				
Beginning balance	-	-	-	-
Ending balance	\$ -	\$ -	\$ (620,860)	\$ 620,860