

FOSSIL RIDGE METROPOLITAN DISTRICT NO. 1

Financial Statements

Year Ended December 31, 2022

with


Independent Auditors' Report


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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Fossil Ridge Metropolitan District No. 1

Opinions

We have audited the accompanying financial statements of the governmental activities, and each major fund of Fossil Ridge Metropolitan District No. 1, as of and for the year ended December 31, 2022, 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 Fossil Ridge Metropolitan District No. 1, as of December 31, 2022, and the respective changes in financial position, and the respective 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 our report. We are required to be independent of the Fossil Ridge Metropolitan District No. 1 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 these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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 Fossil Ridge Metropolitan District No. 1's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations,



or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Fossil Ridge Metropolitan District No. 1'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 Fossil Ridge Metropolitan District No. 1's ability to continue as a going concern for a reasonable period of time.

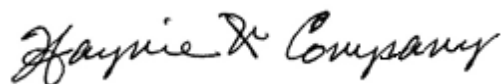
We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

Management has omitted the 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, 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. 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 Fossil Ridge Metropolitan District No. 1's basic financial statements. The supplemental information, as listed 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. 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 combining and individual nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.



Littleton, Colorado
July 20, 2023

BASIC FINANCIAL STATEMENTS

FOSSIL RIDGE METROPOLITAN DISTRICT NO. 1
BALANCE SHEET/STATEMENT OF NET POSITION
GOVERNMENTAL FUNDS
December 31, 2022

| | General | Capital Projects | Reserve Study | Special Revenue | Total | Adjustments | Statement of Net Position |
|--|---------------------|-------------------------|----------------------|------------------------|---------------------|----------------------|----------------------------------|
| Assets | | | | | | | |
| Cash and investments - unrestricted | \$ 673,919 | \$ 1,104,743 | \$ 1,182,731 | \$ 108,264 | \$ 3,069,657 | - | \$ 3,069,657 |
| Accounts receivable - assessments | 12,853 | - | 150 | - | 13,003 | - | 13,003 |
| Due from District No. 2 | 163,145 | - | - | - | 163,145 | - | 163,145 |
| Due from District No. 3 | 516,055 | - | - | - | 516,055 | - | 516,055 |
| Deposits | 20,000 | 5,000 | - | - | 25,000 | - | 25,000 |
| Prepaid expenditures | 59,586 | - | - | - | 59,586 | - | 59,586 |
| Accounts receivable - Brookfield | - | - | - | - | - | 90,590 | 90,590 |
| Capital assets not being depreciated | - | - | - | - | - | 36,885,869 | 36,885,869 |
| Capital assets, net of accumulated depreciation | - | - | - | - | - | 5,028,370 | 5,028,370 |
| Total Assets | \$ 1,445,558 | \$ 1,109,743 | \$ 1,182,881 | \$ 108,264 | \$ 3,846,446 | \$ 42,004,829 | \$ 45,851,275 |
| Liabilities | | | | | | | |
| Accounts and retainage payable | \$ 148,353 | \$ 8,483 | \$ 7,922 | \$ - | \$ 164,758 | \$ - | \$ 164,758 |
| Prepaid assessments | 14,845 | - | - | - | 14,845 | - | 14,845 |
| Deposits | 11,535 | - | - | - | 11,535 | - | 11,535 |
| Long-term liabilities: | | | | | | | |
| Due in more than one year | - | - | - | - | - | 68,373,615 | 68,373,615 |
| Total Liabilities | 174,733 | 8,483 | 7,922 | - | 191,138 | 68,373,615 | 68,564,753 |
| Fund Balance/Net Position | | | | | | | |
| Fund Balance | | | | | | | |
| Non-spendable: | | | | | | | |
| Prepaid expenditures | 59,586 | - | - | - | 59,586 | (59,586) | - |
| Deposits | 20,000 | 5,000 | - | - | 25,000 | (25,000) | - |
| Restricted: | | | | | | | |
| Emergency reserve | 59,100 | - | - | - | 59,100 | (59,100) | - |
| Assigned: | | | | | | | |
| Capital projects | - | 1,096,260 | - | - | 1,096,260 | (1,096,260) | - |
| Special revenue | - | - | - | 108,264 | 108,264 | (108,264) | - |
| Subsequent year's expenditures | 273,798 | - | - | - | 273,798 | (273,798) | - |
| Reserve | - | - | 1,174,959 | - | 1,174,959 | (1,174,959) | - |
| Unrestricted: | | | | | | | |
| Unassigned | 858,341 | - | - | - | 858,341 | (858,341) | - |
| Total Fund Balance | 1,270,825 | 1,101,260 | 1,174,959 | 108,264 | 3,655,308 | (3,655,308) | - |
| Total Liabilities, Deferred Inflows of Resources and Net Position | \$ 1,445,558 | \$ 1,109,743 | \$ 1,182,881 | \$ 108,264 | \$ 3,846,446 | | |
| Net Position | | | | | | | |
| Net investment in capital assets | | | | | | | |
| Restricted for: | | | | | | | |
| Emergencies | | | | | | | |
| Unrestricted | | | | | | | |
| Total Net Position (Deficit) | | | | | | | |
| | | | | | | (14,735,107) | (14,735,107) |
| | | | | | | 59,100 | 59,100 |
| | | | | | | (8,037,471) | (8,037,471) |
| | | | | | | \$ (22,713,478) | \$ (22,713,478) |

The notes to the financial statements are an integral part of these statements.

FOSSIL RIDGE METROPOLITAN DISTRICT NO. 1
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES/STATEMENT OF ACTIVITIES
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2022

| | General | Capital Projects | Reserve Study | Special Revenue | Total | Adjustments | Statement of Activities |
|---|---------------------|-----------------------------|--------------------------|----------------------------|---------------------|------------------------|--|
| Expenditures | | | | | | | |
| Property management | \$ 69,600 | \$ - | \$ - | \$ - | \$ 69,600 | \$ - | \$ 69,600 |
| Accounting and audit | 116,020 | - | - | - | 116,020 | - | 116,020 |
| District management | 42,221 | - | - | - | 42,221 | - | 42,221 |
| District office administration | 2,064 | - | - | - | 2,064 | - | 2,064 |
| Elections | 9,916 | - | - | - | 9,916 | - | 9,916 |
| Dues and memberships | 1,237 | - | - | - | 1,237 | - | 1,237 |
| Insurance | 42,483 | - | - | - | 42,483 | - | 42,483 |
| Legal | 243,582 | - | - | - | 243,582 | - | 243,582 |
| Website | 1,439 | - | - | - | 1,439 | - | 1,439 |
| Miscellaneous | 12,455 | - | - | - | 12,455 | - | 12,455 |
| Grounds | 489,229 | - | - | - | 489,229 | - | 489,229 |
| Retreat expenses | 300,382 | - | - | - | 300,382 | - | 300,382 |
| Utilities | 229,654 | - | - | - | 229,654 | - | 229,654 |
| Sewer operations | 407,859 | - | - | - | 407,859 | - | 407,859 |
| Maintenance and repairs | - | - | 162,190 | 65,773 | 227,963 | 234,677 | 462,640 |
| Capital improvements | - | 298,669 | - | - | 298,669 | (298,669) | - |
| Depreciation | - | - | - | - | - | 384,869 | 384,869 |
| Interest on developer advances - operations | - | - | - | - | - | 48,495 | 48,495 |
| Interest on developer advances - capital | - | - | - | - | - | 3,398,961 | 3,398,961 |
| Total Expenditures | <u>1,968,141</u> | <u>298,669</u> | <u>162,190</u> | <u>65,773</u> | <u>2,494,773</u> | <u>3,768,333</u> | <u>6,263,106</u> |
| Program Revenues | | | | | | | |
| Homeowner assessments | 1,663,641 | - | - | - | 1,663,641 | - | 1,663,641 |
| Sewer service fees | 279,614 | - | - | - | 279,614 | - | 279,614 |
| Sewer operations fees | 107,960 | - | - | - | 107,960 | - | 107,960 |
| Sewer administration fees | 12,500 | 5,481 | - | - | 17,981 | - | 17,981 |
| Storm drainage fees | - | 19,250 | - | - | 19,250 | - | 19,250 |
| System development fees | - | 151,900 | - | - | 151,900 | - | 151,900 |
| Maintenance fees | - | - | - | 78,203 | 78,203 | - | 78,203 |
| Amenity user fees | 82,231 | - | - | - | 82,231 | - | 82,231 |
| Late and legal fees | 6,405 | - | - | - | 6,405 | - | 6,405 |
| Miscellaneous | 20,158 | - | - | - | 20,158 | - | 20,158 |
| Reimbursements - Brookfield | 251,749 | - | - | - | 251,749 | 90,590 | 342,339 |
| Total Program Revenues | <u>2,424,258</u> | <u>176,631</u> | <u>-</u> | <u>78,203</u> | <u>2,679,092</u> | <u>90,590</u> | <u>2,769,682</u> |
| General Revenues | | | | | | | |
| Transfer from District No. 2 | 146,946 | - | - | - | 146,946 | - | 146,946 |
| Transfer from District No. 3 | 250,622 | - | - | - | 250,622 | - | 250,622 |
| Interest | - | 11,177 | - | - | 11,177 | - | 11,177 |
| Total General Revenues | <u>397,568</u> | <u>11,177</u> | <u>-</u> | <u>-</u> | <u>408,745</u> | <u>-</u> | <u>408,745</u> |
| Excess of Revenues Over (Under) | | | | | | | |
| Expenditures | <u>853,685</u> | <u>(110,861)</u> | <u>(162,190)</u> | <u>12,430</u> | <u>593,064</u> | <u>(3,677,743)</u> | <u>(3,084,679)</u> |
| Other Financing Sources (Uses) | | | | | | | |
| Transfers (to) from other funds | (602,075) | 200,000 | 402,075 | - | - | - | - |
| Total Other Financing Sources (Uses) | <u>(602,075)</u> | <u>200,000</u> | <u>402,075</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Change in Fund Balance | 251,610 | 89,139 | 239,885 | 12,430 | 593,064 | (593,064) | - |
| Change in Net Position | | | | | | (3,084,679) | (3,084,679) |
| Fund Balance/Net Position | | | | | | | |
| Beginning of Year | 1,019,215 | 1,012,121 | 935,074 | 95,834 | 3,062,244 | (22,691,043) | (19,628,799) |
| End of Year | <u>\$ 1,270,825</u> | <u>\$ 1,101,260</u> | <u>\$ 1,174,959</u> | <u>\$ 108,264</u> | <u>\$ 3,655,308</u> | <u>\$ (26,368,786)</u> | <u>\$ (22,713,478)</u> |

The notes to the financial statements are an integral part of these statements.

FOSSIL RIDGE METROPOLITAN DISTRICT NO. 1
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL -
GENERAL FUND
For the Year Ended December 31, 2022

| | Original and Final Budget | Actual Amounts | Variance Favorable (Unfavorable) |
|---|--|---------------------------|---|
| Revenues | | | |
| Homeowner assessments | \$ 1,680,000 | \$ 1,663,641 | \$ (16,359) |
| Sewer service fees | 240,000 | 279,614 | 39,614 |
| Sewer operations fees | 110,000 | 107,960 | (2,040) |
| State pool grant | - | 12,500 | 12,500 |
| Amenity user fee | 53,000 | 82,231 | 29,231 |
| Transfer from District No. 2 | 146,946 | 146,946 | - |
| Transfer from District No. 3 | 250,622 | 250,622 | - |
| Late and legal fee income | 15,000 | 6,405 | (8,595) |
| Miscellaneous and interest | 10,000 | 20,158 | 10,158 |
| Reimbursements - Brookfield | - | 251,749 | 251,749 |
| Total Revenues | <u>2,505,568</u> | <u>2,821,826</u> | <u>316,258</u> |
| Expenditures | | | |
| Accounting | 110,000 | 87,704 | 22,296 |
| Audit Preparation | 20,000 | 21,916 | (1,916) |
| Audit | 6,400 | 6,400 | - |
| District management | 60,000 | 42,221 | 17,779 |
| District office administration | 10,000 | 2,064 | 7,936 |
| Election | 20,000 | 9,916 | 10,084 |
| Legal - general | 75,000 | 47,629 | 27,371 |
| Legal - litigation | 100,000 | 195,953 | (95,953) |
| Dues and memberships | 1,400 | 1,237 | 163 |
| Insurance | 40,000 | 42,483 | (2,483) |
| Property and community management | 69,600 | 69,600 | - |
| Website | 5,000 | 1,439 | 3,561 |
| Refunds to homeowners | 6,500 | - | 6,500 |
| Miscellaneous | 200,000 | 12,455 | 187,545 |
| Grounds | 461,500 | 489,229 | (27,729) |
| Retreat expenses | 308,380 | 300,382 | 7,998 |
| Utilities | 228,000 | 229,654 | (1,654) |
| Sewer operations | 350,000 | 407,859 | (57,859) |
| Emergency reserves | 75,200 | - | 75,200 |
| Total Expenditures | <u>2,146,980</u> | <u>1,968,141</u> | <u>178,839</u> |
| Excess of Revenues over Expenditures | <u>358,588</u> | <u>853,685</u> | <u>495,097</u> |
| Other Financing Uses | | | |
| Transfer to Reserve Study Fund | (402,075) | (402,075) | - |
| Transfer to Capital Projects Fund | (200,000) | (200,000) | - |
| Total Other Financing Uses | <u>(602,075)</u> | <u>(602,075)</u> | <u>-</u> |
| Net Change in Fund Balance | (243,487) | 251,610 | 495,097 |
| Beginning Fund Balance | <u>1,004,294</u> | <u>1,019,215</u> | <u>14,921</u> |
| Ending Fund Balance | <u>\$ 760,807</u> | <u>\$ 1,270,825</u> | <u>\$ 510,018</u> |

The notes to the financial statements are an integral part of these statements.

FOSSIL RIDGE METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements

December 31, 2022

Note 1:

Summary of Significant Accounting Policies

The accounting policies of the Fossil Ridge Metropolitan District No. 1 (District), located in Jefferson County, Colorado, conform to the accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant policies consistently applied in the preparation of financial statements.

Definition of Reporting Entity

The District was organized October 10, 2006, as a quasi-municipal corporation and political subdivision of the State of Colorado pursuant to the Colorado Special District Act. At the time of organization, Fossil Ridge Metropolitan District No. 2 (District No. 2) and Fossil Ridge Metropolitan District No. 3 (District No. 3) were also organized (collectively, the Districts). All three Districts are governed by the same Service Plan (as amended by the Second Amended and Restated Service Plan approved by the City of Lakewood on August 27, 2007), which provides that the District is the Operating District and District No. 2 and District No. 3 are the Taxing Districts. The Taxing Districts are to provide funding to the Operating District for the construction, operation and maintenance of various public improvements and the Operating District is expected to manage such construction, operation and maintenance. The Operating District's primary revenues are homeowner assessments, various fees, developer advances and transfers from the Taxing Districts. The District is governed by an elected board of directors.

As required by GAAP, these financial statements present the activities of the District, which is legally separate and financially independent of other state and local governments. The District follows the GASB pronouncements, which provide guidance for determining which governmental activities, organizations and functions should be included within the financial reporting entity. GASB sets 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, a potential for the organization to provide specific financial benefits or burdens and fiscal dependency. The pronouncements also require including a possible component unit if it would be misleading to exclude it.

The District is not financially accountable for any other organization. The District has no component units as defined by GASB.

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

FOSSIL RIDGE METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements

December 31, 2022

Basis of Presentation

The accompanying financial statements are presented per GASB Statement No. 34 – Special Purpose Governments.

The government-wide financial statements (i.e. the governmental funds balance sheet/statement of net position and the governmental funds statement of revenues, expenditures and change in fund balance/statement of activities) report information on all of the governmental activities of the District. The statement of net position reports all financial and capital resources of the District. The difference between the (a) assets and deferred outflows of resources and the (b) liabilities and deferred inflows of resources of the District is reported as net position. The statement of activities demonstrates the degree to which expenditures/expenses of the governmental funds are supported by general revenues. For the most part, the effect of interfund activity has been removed from these statements.

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 1) 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. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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 time of the related cash flows. Property taxes are recognized as revenues in the year for which they are collected.

Government 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 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 material sources of revenue subject to accrual are property taxes and interest. Expenditures, other than interest on long-term obligations, are recorded when the liability is incurred or the long-time obligation is paid.

FOSSIL RIDGE METROPOLITAN DISTRICT NO. 1
Notes to Financial Statements
December 31, 2022

The District reports the following major governmental funds:

General Fund – the General Fund is the general operating fund of the District. It is used to account for all financial resources not accounted for and reported in another fund.

Capital Projects Fund – the Capital Projects Fund is used to account for all financial resources that are restricted, committed or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other assets.

Reserve Study Fund – the Reserve Study Fund is used to account for all financial resources that are restricted, committed or assigned for repairs and maintenance of existing District assets.

Special Revenue Fund – the Special Revenue Fund is used to account for all financial resources that are restricted, committed or assigned to expenditures for designated maintenance costs.

Budgetary Accounting

Budgets are adopted on a non-GAAP basis for the governmental funds. In accordance with the Local Government Budget Law of Colorado, the District’s board of directors holds a public hearing in the fall of each year to approve the budget and appropriate the funds for the ensuing year. The District’s board of directors can modify the budget by line item within the total appropriation without notification. The total appropriation can only be modified upon completion of public notification and hearing requirements. The appropriation is at the total fund expenditures level and lapses at year end. For the year ended December 31, 2022, supplementary appropriations approved by the District’s board of directors modified the appropriation in the Special Revenue Fund from \$58,660 to \$66,500.

Assets, Liabilities and Net Position

Fair Value of Financial Instruments

The District’s financial instruments include cash and cash equivalents, accounts receivable and accounts payable. The District estimates that the fair value of all financial instruments at December 31, 2022, does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying balance sheet. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

Deposits and Investments

The District’s cash and cash equivalents are considered to be cash on hand and short-term investments with maturities of three months or less from the date of acquisition. Investments for the government are reported at fair value.

FOSSIL RIDGE METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements

December 31, 2022

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 minimum number of bank accounts. 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.

Deferred Outflow/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 that time. The District has no items that qualify for reporting in this category.

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.

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g. roads, bridges, sidewalks and similar items), are reported in the applicable governmental activities columns in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the life of the asset are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable using the straight-line method. Depreciation on the property that will remain assets of the District is reported on the Statement of Activities as a current charge. Improvements that will be conveyed to other governmental entities are classified as construction in progress and are not depreciated. Land and certain landscaping improvements are not depreciated.

Property, plant and equipment are depreciated using the straight-time method over the following estimated useful lives:

| | |
|-------------------|-----------|
| Recreation center | 25 years |
| Equipment | 5-7 years |
| Sanitation | 40 years |

FOSSIL RIDGE METROPOLITAN DISTRICT NO. 1
Notes to Financial Statements
December 31, 2022

Interfund Balances

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as due to/due from other funds. These amounts are eliminated in the Statement of Net Position.

Estimates

The preparation of these financial statements in conformity with GAAP requires the District's management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Property Taxes

Property taxes are levied by a special 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 by certification to the County Commissioners to put the tax lien on the individual properties as of January 1 of that year. The County Treasurer collects the determined taxes during the ensuing calendar year. The taxes are payable by April or if in equal installments, at the taxpayers' election, in February and June. Delinquent taxpayers are notified in July or August and the sales of the resultant tax liens on delinquent properties are generally held in November or December. The County Treasurer remits the taxes collected monthly to the special district.

Property taxes, net of estimated uncollectible taxes, are recorded initially as deferred inflows in the year they are levied and measurable since they are not normally available nor are they budgeted as a resource until the subsequent year. The deferred property taxes are recorded as revenue in the subsequent year when they are available or collected.

There are only 53 residential properties within the District's jurisdictional boundaries, all of which are also within the jurisdictional boundaries of either District No. 2 or District No. 3. Because the residential properties are already being assessed property taxes by either District No. 2 or District No. 3, the District does not assess a property tax against the residences.

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities.

Fund Equity

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. Because circumstances differ among governments, not every government or every governmental fund will present all of these components. The following classifications make the nature and extent of the constraints placed on a government's fund balance more transparent:

FOSSIL RIDGE METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements

December 31, 2022

Nonspendable Fund Balance

Nonspendable fund balance includes amounts that cannot be spent because they are either not spendable in form (such as inventory or prepaids) or are legally or contractually required to be maintained intact.

The nonspendable fund balance in the General Fund in the amount of \$79,586 represents \$59,586 in prepaid expenditures and \$20,000 in deposits.

The nonspendable fund balance in the Capital Projects Fund in the amount of \$5,000 represents a deposit.

Restricted Fund Balance

The restricted fund balance includes amounts restricted for a specific purpose by external parties such as grantors, bondholders, constitutional provisions or enabling legislation.

The restricted fund balance in the General Fund represents emergency reserves that have been provided as required by Article X, Section 20 of the Constitution of the State of Colorado. A total of \$59,100 of the General Fund balance has been reserved in compliance with this requirement.

Committed Fund Balance

Committed fund balance is the portion of fund balance that can only be used for specific purposes pursuant to constraints imposed by a 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

Assigned fund balance includes amounts the District intends to use for a specific purpose. Intent can be expressed by the District's board of directors or by an official or body to which the board of directors delegates the authority.

The District has established a Reserve Study Fund related to repairs and maintenance of existing District assets. Each year, the District's board of directors may approve a specific amount to add to this assigned reserve fund as part of the annual budget process. The District's board of directors must specifically approve expenditures that are to be paid from the assigned reserve fund. The assigned reserve fund balance at the end of 2022 was \$1,174,959.

The District has established a Special Revenue Fund related to the collection and expenditures of funds for designated maintenance costs. The assigned special revenue fund balance at the end of 2022 was \$108,264.

The assigned fund balance in the General Fund in the amount of \$273,798 is comprised of the amounts appropriated for use in the budget for the year ending December 31, 2023.

The remaining assigned fund balance of \$1,096,260 is set aside for future capital projects.

FOSSIL RIDGE METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements

December 31, 2022

Unassigned Fund Balance

Unassigned fund balance includes amounts that are available for any purpose. Positive amounts are reported only in the General Fund.

For the classification of Governmental Fund balances, the District considers an expenditure to be made from the most restrictive first when more than one classification is available.

Net Position

Net position represents the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources. The District can report 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 the purposes for which both restricted and unrestricted net position are available, the District will use the most restrictive net position first.

Note 2:

Cash and Investments

As of December 31, 2022, cash and investments are classified in the accompanying statement of net position as follows:

| | |
|-------------------------------------|---------------------|
| Cash and investments – unrestricted | <u>\$ 3,069,657</u> |
| Total | <u>\$ 3,069,657</u> |

Cash and investments as of December 31, 2022 consist of the following:

| | |
|--------------------------------------|---------------------|
| Deposits with financial institutions | \$ 1,596,197 |
| Investments – COLOTRUST | <u>1,473,460</u> |
| Total | <u>\$ 3,069,657</u> |

FOSSIL RIDGE METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements

December 31, 2022

Deposits:

Custodial Care Risk

The Colorado Public Deposit Protection Act, (PDPA) requires that all units of local government deposit cash in eligible public depositories. State regulators determine eligibility. Amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is determined by the PDPA. PDPA allows the institution 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 the uninsured public deposits as a group. The market value of the collateral must be at least equal to 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.

The District follows state statutes for deposits. None of the District's deposits were exposed to custodial credit risk. At December 31, 2022 the District's cash deposits had a bank balance of \$1,721,469 and a carrying balance of \$1,596,197.

Investments:

Investment Valuation

Certain investments are measured at fair value within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The District's investments are not required to be categorized within the fair value hierarchy.

Credit Risk

The District has not adopted a formal investment policy; however, the District follows state statutes regarding investments. Colorado statutes specify the types of investments meeting defined rating and risk criteria in which local governments may invest. These investments include obligations of the United States and certain U.S. Government agency entities, certain money market funds, guaranteed investment contracts and local government investment pools.

Custodial and Concentration of Credit Risk

None of the District's investments are subject to custodial or concentration of credit risk.

Interest Rate Risk

Colorado revised statutes limit investment maturities to five years or less unless formally approved by the board of directors.

FOSSIL RIDGE METROPOLITAN DISTRICT NO. 1
Notes to Financial Statements
December 31, 2022

As of December 31, 2022, the District had the following investment:

COLOTRUST

During 2022, the District invested in the Colorado Local Government Liquid Asset Trust (Colotrust), an investment trust/joint venture established for local government entities in Colorado to pool surplus funds. The State Securities Commissioner administers and enforces all State statutes governing Colotrust. The District invested in COLOTRUST PLUS+ and COLOTRUST PRIME, two of the three portfolios offered by Colotrust. Colotrust records its investments at fair value and the District records its investments in Colotrust using the net asset value method. COLOTRUST PLUS+ and COLOTRUST PRIME operate similarly to a money market fund and each share is equal in value to \$1.00. There are no unfunded commitments, the redemption period frequency is daily and there is no redemption notice period. Both portfolios may invest in U.S. Treasury securities, federal instrumentality and agency securities, repurchase agreements and tri-party repurchase agreements, collateralized bank deposits and government money market funds. COLOTRUST PLUS+ may also invest in corporate bonds and highest rated commercial paper.

A designated custodial bank serves as custodian for Colotrust's portfolios pursuant to a custodian agreement. The custodian acts as safekeeping agent for Colotrust's investment portfolios and provides services as the depository in connection with direct investments and withdrawals. The custodian's internal records segregate investments owned by Colotrust. COLOTRUST PLUS+ and COLOTRUST PRIME are rated AAAM by S&P Global Ratings with a weighted average maturity of under 60 days. At December 31, 2022, the District had \$670,170 invested in COLOTRUST PLUS+ and \$803,290 invested in COLOTRUST PRIME.

FOSSIL RIDGE METROPOLITAN DISTRICT NO. 1
Notes to Financial Statements
December 31, 2022

Note 3:

Capital Assets

An analysis of the changes in capital assets for the year ended December 31, 2022 follows:

| <u>Governmental Type Activities</u> | <u>Balance 1/1/2022</u> | <u>Transfers/ Additions</u> | <u>Transfers/ Deletions</u> | <u>Balance 12/31/2022</u> |
|---|-----------------------------|---------------------------------|---------------------------------|-------------------------------|
| Capital assets not being depreciated: | | | | |
| Construction in progress | \$ 26,409,897 | \$ 63,992 | \$ - | \$ 26,473,889 |
| Parks and recreation | 10,411,980 | - | - | 10,411,980 |
| Total capital assets not being depreciated: | <u>36,821,877</u> | <u>63,992</u> | <u>-</u> | <u>36,885,869</u> |
| Capital assets being depreciated: | | | | |
| Recreation center and equipment | 8,242,749 | - | - | 8,242,749 |
| Sanitation | 1,910,117 | - | - | 1,910,117 |
| Total capital assets being depreciated: | <u>10,152,866</u> | <u>-</u> | <u>-</u> | <u>10,152,866</u> |
| Less accumulated depreciation: | | | | |
| Recreation center | 4,247,694 | 337,116 | - | 4,584,810 |
| Sanitation | 491,933 | 47,753 | - | 539,686 |
| Total accumulated depreciation: | <u>4,739,627</u> | <u>384,869</u> | <u>-</u> | <u>5,124,496</u> |
| Net capital assets being depreciated: | <u>5,413,239</u> | <u>(384,869)</u> | <u>-</u> | <u>5,028,370</u> |
| Government type assets, net | <u>\$ 42,235,116</u> | <u>\$ (320,877)</u> | <u>\$ -</u> | <u>\$ 41,914,239</u> |

Upon completion and acceptance, all fixed assets except for the recreation center, sanitation, parks and landscaping will be conveyed by the District to other local governments. The District will not be responsible for maintenance except as noted in the First Amended and Restated Intergovernmental Agreement Between The City of Lakewood and Fossil Ridge Metropolitan District No. 1 Relating to Maintenance.

FOSSIL RIDGE METROPOLITAN DISTRICT NO. 1
Notes to Financial Statements
December 31, 2022

Note 4:

Long-Term Obligations

The following is an analysis of changes in long-term obligations for the year ended December 31, 2022:

| | <u>Balance</u> <u>1/1/2022</u> | <u>Additions</u> | <u>Retirements/ Refunding</u> | <u>Balance</u> <u>12/31/2022</u> | <u>Current Portion</u> |
|------------------------|-----------------------------------|---------------------|-----------------------------------|-------------------------------------|----------------------------|
| Other obligations: | | | | | |
| Developer advances | | | | | |
| Capital - principal | \$ 56,649,346 | \$ - | \$ - | \$ 56,649,346 | \$ - |
| Capital - interest | 6,952,645 | 3,398,961 | - | 10,351,606 | - |
| Operations - principal | 808,257 | - | - | 808,257 | - |
| Operations - interest | 515,911 | 48,495 | - | 564,406 | - |
| Total | <u>\$ 64,926,159</u> | <u>\$ 3,447,456</u> | <u>\$ -</u> | <u>\$ 68,373,615</u> | <u>\$ -</u> |

Developer advances represent the amounts the Developer (defined below) has submitted to the Districts for inclusion on the Developer Advances spreadsheet maintained by the Districts. The Districts have not yet determined to what extent the amounts submitted constitute District Eligible Costs and Repayment Obligations within the meaning of the Service Plan and the May 13, 2008 Reimbursement of Developer Loan and Public Infrastructure Acquisition Agreement.

A description of long-term obligations as of December 31, 2022, is as follows:

Reimbursement of Developer Loan and Public Infrastructure Acquisition Agreement

On May 13, 2008, the District and Carma Lakewood LLC entered into a Reimbursement of Developer Loan and Public Infrastructure Acquisition Agreement (Loan Agreement). On December 6, 2011 Carma Lakewood LLC, Solterra LLC and the District entered into an Assignment of Reimbursement of Developer Loan and Public Infrastructure Acquisition Agreement, by which Carma Lakewood LLC assigned all of its rights and delegated all of its duties under the Loan Agreement to Solterra LLC (Developer or Solterra LLC).

The Loan Agreement provides for the advancement by the Developer of certain monies for capital improvements and operating and maintenance costs for an amount not to exceed \$91,000,000. The Loan Agreement also provides that the Developer may construct public improvements and transfer them to the District (or to a third party at the District's direction). The Loan Agreement expressly limits the District's obligation to repay the Developer for cash advances, or the value of public improvements constructed, to bond proceeds. The Districts are responsible for determining when bonds should be issued, based on

FOSSIL RIDGE METROPOLITAN DISTRICT NO. 1
Notes to Financial Statements
December 31, 2022

economic factors. The District's board of directors may, in its sole discretion, use other legally available funds to repay Developer advances. The Developer's cash advances bear interest at a rate of 6% per annum from the date of the advance. With respect to public improvements constructed by the Developer, interest at the rate of 6% per annum will begin accruing when all of the following criteria have been met: a) the District has provided notice of acceptance to the Developer; b) the notice also states that the District does not have funds at such time to pay the purchase price as defined in the Loan Agreement; and, c) the Developer has provided a bill of sale and otherwise satisfied the District's conditions for the District to acquire the public improvements. The repayment obligations by the District constitute a multiple fiscal year financial obligation and normally would be subject to annual appropriation; however, the District's eligible electors previously authorized this multiple fiscal year financial obligation, so it is not subject to annual appropriation. That said, as discussed above, the repayment obligation is restricted to bond proceeds.

Joint Funding and Capital Pledge Agreement

In 2009 and 2014 the District entered into Joint Funding Agreements with the Taxing Districts for the purpose of providing for the payment of debt in the District and District No. 3. In connection with the 2020 issuance of District No. 3's refunding and improvement bonds, on October 29, 2020, the Districts entered into a termination of pledge agreement, terminating the 2009 and 2014 Joint Funding Agreements. On October 29, 2020, the District entered into a Joint Funding and Capital Pledge Agreement (2020 Joint Funding Agreement) with the Taxing Districts. Whereas the 2009 Joint Funding Agreement, as amended, contemplated that any subsequent debt obligations secured by ad valorem property taxes would be issued by the District, the Districts subsequently determined that it would be in the best interest of the Districts, the residents and the taxpayers thereof: (i) for such indebtedness to be issued by District No. 3, (ii) for such indebtedness be payable from such ad valorem property taxes and specific ownership taxes of the Taxing Districts for the purpose of prepaying in full the District's Series 2010 Bonds, District No. 3's Series 2014 Bonds and Series 2016 Bonds, and financing or reimbursing an additional portion of improvements funded by the District.

Under the 2020 Joint Funding Agreement, the Taxing Districts are obligated to provide for the payment to District No. 3's trustee of certain property taxes and specific ownership taxes collected for the purpose of paying debt service on District No. 3's Series 2020 Bonds.

Debt Authorization

As of December 31, 2022, the District had remaining voted debt authorization of approximately \$694,650,000. The District did not issue new debt during 2022. Per the District's Service Plan, the District, in combination with the Taxing Districts, cannot issue more than \$91 million in revenue debt, of which \$70 million of such authorization may be allocated to general obligation debt. As of December 31, 2022, the Districts have issued \$38,130,000 in general obligation debt, the proceeds of which were paid to the Developer.

FOSSIL RIDGE METROPOLITAN DISTRICT NO. 1
Notes to Financial Statements
December 31, 2022

Note 5:

District Agreements

Master Intergovernmental Agreement

On January 8, 2008, the District entered into a Master Intergovernmental Agreement (IGA) with the Taxing Districts. Per the IGA, the District is to construct, own, maintain and operate the facilities benefiting the Taxing Districts, which may include the borrowing of funds or issuance of revenue bonds. Since its organization and through December 31, 2017, the District had no appreciable assessed valuation and, therefore, did not certify a mill levy. On February 21, 2018, the Jefferson County District Court, in Case No. 2005CV3044, issued an order including into the District 53 residential properties; however, because those properties are also already included within the boundaries of one of the Taxing Districts, the District board does not intend to assess a property tax against those properties.

As a result, the Taxing Districts are to pay all costs related to the construction, operation and maintenance of such facilities, including the payment of amounts owing in connection with bonds issued to finance such facilities. Such financial obligations are to be paid from bond proceeds (to the Developer), the Taxing Districts' annual certification of a mill levy, homeowner assessments and various fees, subject to the limitations of the Service Plan. The original maximum mill levy was 50 mills. However, at the time of their organization the Taxing Districts' voters authorized the Taxing Districts to adjust their property tax rate in response to any change in the method of calculating assessed valuation or any constitutionally mandates tax credit, cut or abatement, so that, to the extent possible, the actual tax revenues generated by the Taxing Districts' mill levy are neither diminished nor enhanced as a result of such changes. For purposes of the foregoing, a change in the ratio of actual valuation is deemed to be a change in the method of calculating assessed valuation. As a result of this prior voter authorization, the maximum mill levy at December 31, 2022 is 55.664 mills. The IGA also sets forth certain provisions pertaining to the processes for payment of capital, operations and maintenance costs, review of budgets and project plans, execution of construction contracts, administrative management, establishment of user fees and the transfers of funds between the Districts.

IGA with Green Mountain Water and Sanitation District – Extra-territorial Sewer Service

On January 15, 2008, the District entered into an Intergovernmental Agreement for Extra-territorial Sewer Service with the Green Mountain Water and Sanitation District (Green Mountain). The purpose of this agreement is to outline the responsibilities associated with the design and construction of the sewer system within the Districts as well as the collection of the associated system development fees and the billing for the ongoing sewer service. In 2014, the District and Green Mountain entered into an Amended and Restated Intergovernmental Agreement for Extra-Territorial Sewer Service which, among other things, provided for the collection of the system development fee payments.

FOSSIL RIDGE METROPOLITAN DISTRICT NO. 1
Notes to Financial Statements
December 31, 2022

IGA with Green Mountain Water and Sanitation District – Sewer System Maintenance and Repair

On September 19, 2008, the District entered into an Intergovernmental Agreement for Maintenance and Repair of Sewer System with Green Mountain. Under the agreement, Green Mountain will perform the maintenance and repair services and the District will compensate Green Mountain monthly based on a mutually agreed upon rate schedule. In 2018, the District and Green Mountain entered into a First Amendment to the Intergovernmental Agreement for Maintenance and Repair of the Sewer System, which amendment updated Green Mountain's rate schedule and adjusted the scope of the services Green Mountain will provide.

IGA with the City of Lakewood – Maintenance

On April 22, 2008, the District entered into an Intergovernmental Agreement Relating to Maintenance with the City of Lakewood (Lakewood). The purpose of this agreement is to set forth the obligations of and the benefits to both parties in relation to the maintenance activities within the District. Lakewood's responsibilities will be comparable to its maintenance of other similar improvements throughout the city. This agreement terminates on December 31 of each year and automatically renews for successive one-year periods. On September 12, 2016, this agreement was amended by the First Addendum to First Amended and Restated Intergovernmental Agreement between the City of Lakewood and Fossil Ridge Metropolitan District No. 1 Relating to Maintenance. This Addendum relates only to the provisions pertaining to sign posts and frames within the District.

Note 6:

Tax, Spending and Debt Limitations

Article X, Section 20 of the Colorado Constitution, commonly known as the Taxpayer Bill of Rights (TABOR), contains tax, spending, revenue and debt limitations which apply to the State of Colorado and all local governments. Spending and revenue limits are determined based on the prior year's 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 revenue.

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 interpretation of how to calculate Fiscal Year Spending limits will require judicial interpretation.

FOSSIL RIDGE METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements

December 31, 2022

On November 7, 2006, a majority of the District's electors authorized the District to collect and spend or retain in a reserve all currently levied taxes and fees of the District without regard to any limitations under Article X, Section 20 of the Colorado Constitution.

Note 7:

Risk Management

Except as provided in the Colorado Governmental Immunity Act, 24-10-101, et seq., CRS, the District may be exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets; errors or omissions; injuries to agents; and natural disasters. The District has elected to participate in the Colorado Special Districts Property and Liability Pool (Pool) which is an organization created by intergovernmental agreement to provide common liability and casualty insurance coverage to its members at a cost that is considered economically appropriate.

The District pays annual premiums to the Pool for auto, public officials' liability, and property and general liability coverage. In the event aggregated losses incurred by the Pool exceed its amounts recoverable from reinsurance contracts and its accumulated reserves, the District may be called upon to make additional contributions to the Pool on the basis proportionate to other 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. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

Note 8:

Developer Litigation

As discussed in Note 4 above, the District has entered into a Loan Agreement with the Developer.

To date, the Districts have issued \$38,130,000 in general obligation debt, the proceeds of which were paid to the Developer. The Districts are authorized to issue up to an additional \$31,870,000 in general obligation debt (i.e., general obligations bonds (Bonds)). On December 6, 2022, the Developer filed a lawsuit against the Districts in the District Court for Jefferson County, Case No. 2022CV31409 (Original Complaint). The Original Complaint asserts claims for: a) breach of contract against the District for allegedly failing to pay the Developer the remaining \$31,870,000; b) Declaratory Judgment seeking the Court's determination that the District owes the Developer the remaining \$31,870,000 and that the District can compel Districts Nos. 2 and 3 to issue \$31,870,000 in Bonds; c) breach of contract against the District for allegedly failing to accept and maintain public improvements constructed by or for the Developer, causing the Developer to allegedly overpay for continued maintenance of the public improvements; d) breach of the covenant of good faith and fair dealing against the District for allegedly failing to cause Districts Nos. 2 and 3 to issue \$31,870,000 in Bonds; e) unjust enrichment against Districts Nos. 2 and 3 for

FOSSIL RIDGE METROPOLITAN DISTRICT NO. 1
Notes to Financial Statements
December 31, 2022

allegedly receiving the benefit of the public improvements without paying for them; and, f) promissory estoppel against Districts Nos. 2 and 3 to force them to issue the remaining \$31,870,000 in Bonds based on alleged representations they made in the Loan Agreement.

On January 13, 2023, the Districts filed a Partial Motion to Dismiss the Original Complaint. Instead of responding to the Partial Motion to Dismiss, on February 8, 2023, the Developer filed a First Amended Complaint. On March 8, 2023, the District filed a Partial Motion to Dismiss the First Amended Complaint. On the same date, Districts Nos. 2 and 3 also filed a Partial Motion to Dismiss the First Amended Complaint.

The Partial Motions to Dismiss the First Amended Complaint have been fully briefed and are awaiting a ruling by the Judge. The Districts anticipate a ruling sometime this summer.

Green Mountain Water and Sanitation District Litigation

On Friday, February 17, 2023, the Developer filed a motion in the District Court for Jefferson County, Case No. 2005CV003044, to enforce the Districts' Service Plan (Motion), arguing that the Service Plan requires the Districts to provide sewer service to the Solterra community and they must force Green Mountain to provide sewer service to the Developer's remaining filings 18, 20, and 21, which are not yet occupied and/or built out. The Developer's Motion ignores the undisputable fact that the Districts do not, and cannot, provide the sewer service. Green Mountain provides the sewer service through the sewer lines that the District was required to construct within Solterra. On March 21, 2023, the Districts responded to the Developer's Motion, pointing out the obvious flaws in the Developer's argument and asserting that, as the service provider, Green Mountain must be joined as a party to the lawsuit. On June 26, 2023, the Developer filed a Motion to join Green Mountain as a party. The Districts believe they have solid defenses to the Developer's claims and will continue to vigorously defend against this lawsuit.

Note 9:

Reconciliation of Government-Wide Financial Statements with Fund Financial Statements

The Government Funds Balance Sheet/Statement of Net Position includes an adjustments column. The adjustments have the following elements:

- 1) Capital improvements used in government activities are not financial resources and, therefore are not reported in the funds; and,
- 2) Long-term liabilities such as bonds payable, accrued bond interest payable, developer advances payable and accrued interest on developer advances are not due and payable in the current period and, therefore, are not in the funds.

FOSSIL RIDGE METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements

December 31, 2022

The Governmental Funds Statement of Revenues, Expenditures and Change in Fund Balance/Statement of Activities includes an adjustments column. The adjustments have the following elements:

- 1) Governmental funds report capital outlays as expenditures; however, in the statement of activities, the costs of those assets are held as construction in progress pending transfer to other governmental entities or depreciated over their useful lives;
- 2) Governmental funds report interest expense on the modified accrual basis; however, interest expense is reported on the full accrual method in the statement of activities; and,
- 3) Governmental funds report developer advances as revenue; however, these are reported as changes to long-term liabilities on the government-wide financial statements.

This information is an integral part of the accompanying financial statements.

SUPPLEMENTAL INFORMATION

**FOSSIL RIDGE METROPOLITAN DISTRICT NO. 1
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGE IN FUND BALANCE - BUDGET AND ACTUAL -
CAPITAL PROJECTS FUND
For the Year Ended December 31, 2022**

| | Original and Final Budget | Actual Amounts | Variance Favorable (Unfavorable) |
|---|--|---------------------------|---|
| Revenues | | | |
| Development fees | \$ 189,300 | \$ 151,900 | \$ (37,400) |
| Storm drainage fees | 27,000 | 19,250 | (7,750) |
| Administrative set up fee | 7,047 | 5,481 | (1,566) |
| Miscellaneous | 500 | - | (500) |
| Interest | 200 | 11,177 | 10,977 |
| Total Revenues | <u>224,047</u> | <u>187,808</u> | <u>(36,239)</u> |
| Expenditures | | | |
| Engineering | 100,000 | 63,992 | 36,008 |
| Capital improvements | 260,000 | 234,677 | 25,323 |
| Total Expenditures | <u>360,000</u> | <u>298,669</u> | <u>61,331</u> |
| Excess of Expenditures Over Revenues | <u>(135,953)</u> | <u>(110,861)</u> | <u>25,092</u> |
| Other Financing Sources | | | |
| Transfer from General Fund | 200,000 | 200,000 | - |
| Total Other Financing Uses | <u>200,000</u> | <u>200,000</u> | <u>-</u> |
| Net Change in Fund Balance | 64,047 | 89,139 | 25,092 |
| Beginning Fund Balance | 1,060,817 | 1,012,121 | (48,696) |
| Ending Fund Balance | <u>\$ 1,124,864</u> | <u>\$ 1,101,260</u> | <u>\$ (23,604)</u> |

**FOSSIL RIDGE METROPOLITAN DISTRICT NO. 1
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGE IN FUND BALANCE - BUDGET AND ACTUAL -
RESERVE STUDY FUND
For the Year Ended December 31, 2022**

| | Original and Final Budget | Actual Amounts | Variance Favorable (Unfavorable) |
|---|--|---------------------------|---|
| Revenues | | | |
| Total Revenues | \$ - | \$ - | \$ - |
| Expenditures | | | |
| Repairs - pool | 40,500 | 48,057 | (7,557) |
| Repairs - retreat | 68,000 | 56,977 | 11,023 |
| Repairs - common area | 55,000 | 57,156 | (2,156) |
| Total Expenditures | <u>163,500</u> | <u>162,190</u> | <u>1,310</u> |
| Excess of Expenditures Over Revenues | <u>(163,500)</u> | <u>(162,190)</u> | <u>\$ 1,310</u> |
| Other Financing Sources | | | |
| Transfer from General Fund | 402,075 | 402,075 | - |
| Total Other Financing Sources | <u>402,075</u> | <u>402,075</u> | <u>-</u> |
| Net Change in Fund Balance | 238,575 | 239,885 | 1,310 |
| Beginning Fund Balance | 932,932 | 935,074 | 2,142 |
| Ending Fund Balance | <u>\$ 1,171,507</u> | <u>\$ 1,174,959</u> | <u>\$ 3,452</u> |

**FOSSIL RIDGE METROPOLITAN DISTRICT NO. 1
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGE IN FUND BALANCE - BUDGET AND ACTUAL -
SPECIAL REVENUE FUND
For the Year Ended December 31, 2022**

| | <u>Budget Amounts</u> | | <u>Actual Amounts</u> | <u>Variance Favorable (Unfavorable)</u> |
|-----------------------------------|-----------------------|-------------------|---------------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues | | | | |
| Maintenance fees | | | | |
| Private Access Area No. 1 | \$ 7,800 | \$ 9,700 | \$ 9,750 | \$ 50 |
| Townhome Area No. 3 - 15 | 12,900 | 12,900 | 12,955 | 55 |
| Townhome Area No. 3 - 16N | 12,760 | 14,000 | 13,920 | (80) |
| Townhome Area No. 3 - 16S | 25,200 | 25,000 | 25,050 | 50 |
| PAA #2 (Brookfield Share) | - | 4,400 | 2,307 | (2,093) |
| PAA #3 F15 (Brookfield Share) | - | 12,000 | 7,209 | (4,791) |
| PAA #3 F16N (Brookfield Share) | - | 3,100 | 2,497 | (603) |
| PAA #3 F16S (Brookfield Share) | - | 5,600 | 4,515 | (1,085) |
| Total Revenues | <u>58,660</u> | <u>86,700</u> | <u>78,203</u> | <u>(8,497)</u> |
| Expenditures | | | | |
| Maintenance and repairs | | | | |
| Private Access Area No. 1 | 7,800 | 11,000 | 10,586 | 414 |
| Townhome Area No. 3 - 15 | 12,900 | 11,000 | 10,862 | 138 |
| Townhome Area No. 3 - 16N | 12,760 | 7,500 | 7,375 | 125 |
| Townhome Area No. 3 - 16S Fee | 25,200 | 12,000 | 11,833 | 167 |
| PAA #2 (Brookfield Share) | - | 4,400 | 4,377 | 23 |
| PAA #3 F15 (Brookfield Share) | - | 12,000 | 12,021 | (21) |
| PAA #3 F16N (Brookfield Share) | - | 3,100 | 3,136 | (36) |
| PAA #3 F16S (Brookfield Share) | - | 5,500 | 5,583 | (83) |
| Total Expenditures | <u>58,660</u> | <u>66,500</u> | <u>65,773</u> | <u>727</u> |
| Net Change in Fund Balance | - | 20,200 | 12,430 | (7,770) |
| Beginning Fund Balance | 140,000 | 95,834 | 95,834 | - |
| Ending Fund Balance | <u>\$ 140,000</u> | <u>\$ 116,034</u> | <u>\$ 108,264</u> | <u>\$ (7,770)</u> |
| Private Access Area No. 1 | | | \$ 179 | |
| Private Access Area No. 2 | | | 50,308 | |
| PAA #2 (Brookfield Share) | | | (2,070) | |
| PAA #3 F15 (Brookfield Share) | | | (4,812) | |
| PAA #3 F16N (Brookfield Share) | | | (639) | |
| PAA #3 F16S (Brookfield Share) | | | (1,068) | |
| Townhome Area No. 3 - 15 | | | 19,884 | |
| Townhome Area No. 3 - 16N | | | 14,043 | |
| Townhome Area No. 3 - 16S | | | 32,439 | |
| | | | <u>\$ 108,264</u> | |