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# FLYING HORSE

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*Metropolitan District No 2*

**COLORADO SPRINGS  
EL PASO COUNTY, COLORADO**



## **FINANCIAL STATEMENTS**

**As of and for the 12-month period ended  
December 31, 2023**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors

Flying Horse Metropolitan District No. 2

El Paso County, Colorado

### Opinions

We have audited the accompanying financial statements of the governmental activities, and each major fund of Flying Horse Metropolitan District No. 2 (the "District") as of and for the year ended December 31, 2023, 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 District, as of December 31, 2023, and the respective changes in financial position and the budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (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 opinions.

### Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

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

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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.

### **Required Supplementary Information**

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

### **Supplementary Information**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements as a whole. The supplementary information, as listed in the table of contents, is presented for purposes of legal compliance and 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.

### **Other Information**

Management is responsible for the other information, as identified in the table of contents. The other information does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or provide any assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

A handwritten signature in blue ink that reads "Flynn CPA, LLC". The signature is written in a cursive style and is underlined with a horizontal line.

Castle Pines, Colorado  
July 29, 2024

**FLYING HORSE METROPOLITAN DISTRICT NO 2**  
**STATEMENT OF NET POSITION**  
**December 31, 2023**

	Governmental Activities
<b>ASSETS</b>	
Cash and investments	\$ 52,395
Cash and investments – restricted	142,116
Accounts receivable	-
Accounts receivable - specific ownership tax	27,296
Property taxes receivable	4,451,400
Prepaid expenses	3,304
Depreciable capital assets, net	-
<b>Total Assets</b>	<b>4,676,511</b>
<b>LIABILITIES</b>	
Accounts payable and accrued liabilities	34,292
Accrued interest payable	1,336,266
Unamortized premium on Series 2020A Bonds	6,098,879
Current portion of general obligation refunding bonds	525,000
General obligation refunding bonds	50,175,000
<b>Total Liabilities</b>	<b>58,169,437</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred property tax revenue	4,451,400
<b>Total Deferred Inflows of Resources</b>	<b>4,451,400</b>
<b>NET POSITION (DEFICIT)</b>	
Restricted:	
Emergency reserves	36,500
Debt service	126,089
Capital projects	-
Non-spendable	3,304
Unassigned:	(58,110,219)
<b>Net Position (Deficit)</b>	<b>\$ (57,944,326)</b>

These financial statements should be read only in connection with  
the accompanying notes to the financial statements.

**FLYING HORSE METROPOLITAN DISTRICT NO 2**  
**STATEMENT OF ACTIVITIES**  
**For the 12-Month Period Ended**  
**December 31, 2023**

Functions/Programs	Program Revenue				Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Primary Government:</b>					
<b>Government Activities:</b>					
General government activities	\$ (875,045)	\$ -	\$ -	\$ -	\$ (875,045)
System development fees	-	-	32,000	-	32,000
Interest and related costs on long-term debt	(2,351,925)	-	-	-	(2,351,925)
Capital project activities	-	-	-	-	-
	<u>\$ (3,226,970)</u>	<u>\$ -</u>	<u>\$ 32,000</u>	<u>\$ -</u>	<u>(3,194,970)</u>
<b>General Revenues</b>					
Property taxes					3,394,104
Specific ownership taxes					355,374
Net investment income					81,111
<b>Total general revenue</b>					<u><b>3,830,589</b></u>
Change in net position					<u>635,619</u>
<b>Net Position (Deficit) – Beginning of Year</b>					<u>(58,579,945)</u>
<b>Net Position (Deficit) – End of Year</b>					<u><b>\$ (57,944,326)</b></u>

These financial statements should be read only in connection with  
the accompanying notes to the financial statements.

**FLYING HORSE METROPOLITAN DISTRICT NO 2**  
**BALANCE SHEET – GOVERNMENTAL FUNDS**  
**December 31, 2023**

	General Fund	Debt Service Fund	Capital Project Fund	Total Government Funds
<b>ASSETS</b>				
Cash and investments	\$ 52,395	\$ -	\$ -	\$ 52,395
Cash and investments - Restricted	36,500	105,616	-	142,116
Accounts receivable	-	-	-	-
Accounts receivable - specific ownership	6,823	20,473	-	27,296
Property taxes receivable	1,112,800	3,338,600	-	4,451,400
Prepaid expenses	3,304	-	-	3,304
<b>TOTAL ASSETS</b>	<b>\$ 1,211,822</b>	<b>\$ 3,464,689</b>	<b>\$ -</b>	<b>\$ 4,676,511</b>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities	\$ 34,292	\$ -	\$ -	\$ 34,292
<b>TOTAL LIABILITIES</b>	<b>34,292</b>	<b>-</b>	<b>-</b>	<b>34,292</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Deferred property tax revenue	1,112,800	3,338,600	-	4,451,400
<b>TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>	<b>1,147,092</b>	<b>3,338,600</b>	<b>-</b>	<b>4,485,692</b>
<b>FUND BALANCES</b>				
Restricted:				
Emergencies (TABOR)	36,500	-	-	36,500
Debt service	-	126,089	-	126,089
Capital projects	-	-	-	-
Non-spendable	3,304	-	-	3,304
Unrestricted	24,926	-	-	24,926
<b>TOTAL FUND BALANCES</b>	<b>64,730</b>	<b>126,089</b>	<b>-</b>	<b>190,819</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<b>\$ 1,211,822</b>	<b>\$ 3,464,689</b>	<b>\$ -</b>	

**Amounts reported for governmental activities in the statement of net position are different because:**

Other long-term assets are not available or otherwise cannot be converted to cash to pay for current expenditures and, therefore, are recorded as expenditures in the funds	
Property, structures and equipment, net	-
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds:	
General obligation bonds	(50,700,000)
Accrued interest payable	(1,336,266)
Series 2020A Bond premium	(6,098,879)
<b>Net position of governmental activities</b>	<b>\$ (57,944,326)</b>

These financial statements should be read only in connection with  
the accompanying notes to the financial statements.

**FLYING HORSE METROPOLITAN DISTRICT NO 2**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**12-Month Period Ended**  
**December 31, 2023**

	General Fund	Debt Service Fund	Capital Project Fund	Total Government Funds
<b>REVENUES</b>				
Property taxes	\$ 848,489	\$ 2,545,615	\$ -	\$ 3,394,104
Specific ownership taxes	88,840	266,534	-	355,374
Facilities fees	-	32,000	-	32,000
Other revenue	-	-	-	-
Net investment income	2,446	78,665	-	81,111
<b>Total Revenues</b>	<b>939,775</b>	<b>2,922,814</b>	<b>-</b>	<b>3,862,589</b>
<b>EXPENDITURES</b>				
General and administration	163,550	-	-	163,550
Park & open space maint expenses reimbursable to FHMD1	711,495	-	-	711,495
Debt service				
Direct and indirect collection costs	-	45,219	-	45,219
Interest Expense - Series 2020A Bonds	-	1,493,350	-	1,493,350
Interest Expense - Series 2020B Bonds	-	870,490	-	870,490
Bond principal - 2020A Series Bonds	-	470,000	-	470,000
Major capital projects	-	-	-	-
<b>Total Expenditures</b>	<b>875,045</b>	<b>2,879,059</b>	<b>-</b>	<b>3,754,104</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>64,730</b>	<b>43,755</b>	<b>-</b>	<b>108,485</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Fund Transfers In / (Out)	-	-	-	-
<b>EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES</b>	<b>64,730</b>	<b>43,755</b>	<b>-</b>	<b>108,485</b>
<b>FUND BALANCES – BEGINNING</b>	<b>-</b>	<b>82,334</b>	<b>-</b>	<b>82,334</b>
<b>FUND BALANCES – END OF YEAR</b>	<b>\$ 64,730</b>	<b>\$ 126,089</b>	<b>\$ -</b>	<b>\$ 190,819</b>

These financial statements should be read only in connection with the accompanying notes to the financial statements.

**FLYING HORSE METROPOLITAN DISTRICT NO 2  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE  
STATEMENT OF ACTIVITIES  
12-Month Period Ended  
December 31, 2023**

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances – Total government funds	\$	108,485
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The issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position.

Bond principal		470,000
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Governmental funds report capital outlays as expenditures. In the statement of activities, capital outlay is not reported as an expenditure. However, the statement of activities will report as depreciation expense the allocation of the cost of any depreciable asset over the estimated useful life of the asset. Therefore, this is the net capital outlay activity for the year:

Depreciation expense on property, structures and equipment		-
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Accrued liabilities		-
Increase in accrued interest payable on Series 2020B bonds		(311,636)
Amortization of Series 2020A Bond premium		368,770

<b>Changes in net position of governmental activities</b>	<b>\$</b>	<b>635,619</b>
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These financial statements should be read only in connection with  
the accompanying notes to the financial statements.

**FLYING HORSE METROPOLITAN DISTRICT NO 2**  
**GENERAL FUND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND**  
**BALANCES - BUDGET AND ACTUAL**  
**12-Month Period Ended**  
**December 31, 2023**

	Original Budget	Actual Amounts	Positive / (Negative) Variance with Original Budget
<b>REVENUES</b>			
Property taxes	\$ 848,495	\$ 848,489	\$ (6)
Specific ownership taxes	84,850	88,840	3,990
Other revenue	15,655	-	(15,655)
Net investment income	1,000	2,446	1,446
<b>Total Revenues</b>	<b>950,000</b>	<b>939,775</b>	<b>(10,225)</b>
<b>EXPENDITURES</b>			
General and administration	137,727	163,550	(25,823)
Park & open space maint expenses reimbursable to FHMD1	812,273	711,495	100,778
<b>Total Expenditures</b>	<b>950,000</b>	<b>875,045</b>	<b>74,955</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>-</b>	<b>64,730</b>	<b>64,730</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in (out)	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>EXCESS OF REVENUES AND OTHER FINANCIAL SOURCES OVER</b>	<b>-</b>	<b>64,730</b>	<b>64,730</b>
<b>FUND BALANCE – BEGINNING OF YEAR</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>FUND BALANCE – END OF YEAR</b>	<b>\$ -</b>	<b>\$ 64,730</b>	<b>\$ 64,730</b>

These financial statements should be read only in connection with  
the accompanying notes to the financial statements.

**FLYING HORSE METROPOLITAN DISTRICT NO 2  
GENERAL FUND  
EXPENDITURE DETAILS - BUDGET AND ACTUAL  
12-Month Period Ended  
December 31, 2023**

	Original Budget	Actual Amounts	Positive / (Negative) Variance with Original Budget
<b>GENERAL AND ADMINISTRATION</b>			
District management and accounting fees	\$ 39,800	\$ 36,800	\$ 3,000
Administrative costs	2,000	1,389	611
Audit fees	4,900	5,825	(925)
Collection fees – County Treasurer	12,727	12,739	(12)
Board of Directors’ fees	-	-	-
Board training and conferences	-	-	-
Insurance	3,300	3,299	1
Legal fees	40,000	50,363	(10,363)
Election expenses	35,000	53,135	(18,135)
<b>Total General and Administration</b>	<b><u>\$ 137,727</u></b>	<b><u>\$ 163,550</u></b>	<b><u>\$ (25,823)</u></b>

These financial statements should be read only in connection with  
the accompanying notes to the financial statements.

FLYING HORSE METROPOLITAN DISTRICT NO. 2  
**NOTES TO FINANCIAL STATEMENTS**  
12-Month Period Ended December 31, 2023

**NOTE 1 – DEFINITION OF REPORTING ENTITY**

Flying Horse Metropolitan District No. 2 (District), a quasi-municipal corporation and political subdivision of the State of Colorado, was organized on November 08, 2004, and is governed pursuant to provisions of the Colorado Special District Act (Title 32). The District operates under a consolidated service plan approved by the City of Colorado Springs (City) in August 2004 and amended with City approval in December 2017. The District's service area is located in El Paso County, Colorado entirely within the boundaries of the City and, when combined with Flying Horse Metropolitan District No 3 (FHMD3), the combined service area of both districts encompasses 1,968 single family homes and multi-family units generally on the south side of North Gate Boulevard between Voyager Parkway and Highway 83. The District was established to provide financing for the design, acquisition, construction and installation of water, wastewater/stormwater, street improvements, safety protection, parks and recreational facilities, mosquito control, transportation, drainage and other improvements (Public Improvements) within and without the District boundaries that benefit the taxpayers and inhabitants of the District.

Through the consolidated service plan, the District was organized in conjunction with two other related districts, Flying Horse Metropolitan District No. 1 (FHMD1) and FHMD3. FHMD1 owns the parks and open spaces located within the service areas of the District and FHMD1 relies entirely on funding from the District and FHMD3 to fund the cost of maintaining FHMD1-owned parks and open spaces.

The District follows the Governmental Accounting Standards Board (GASB) accounting pronouncements, which provide guidance for determining which governmental activities, organizations and functions should be included within the financial reporting entity. GASB pronouncements set forth the financial accountability of a governmental organizations 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 organizations 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 District is not financially accountable for any other organization, nor is the District a component unit of any other primary governmental entity.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies of the District are as follows:

**Government-wide and Fund Financial Statements**

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

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

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.

Separate financial statements are provided for governmental funds. 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 timing of related cash flows.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized 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 major sources of revenue susceptible to accrual are property taxes and specific ownership taxes. All other revenue items are considered to be measurable and available only when cash is received by the District. Expenditures, other than interest on long-term obligations, are recorded when the liability is incurred or the long-term obligation is due.

The District reports the following major governmental funds:

The General Fund is the District's primary operating fund. It accounts for all financial resources of the general government, except 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 general obligation debt of the governmental funds.

The Capital Projects Fund is used to account for financial resources to be used for the acquisition and construction of capital equipment and facilities.

When both restricted and unassigned resources are available for use, it is the District's policy to use restricted resources first, then unassigned resources as they are needed.

### **Budgets**

In accordance with Colorado State Budget Law, the District's Board of Directors holds public hearings in the fall each year to approve the budget and appropriate funds for the ensuing year. The appropriation is at the total fund expenditures level and lapses at year end. The District's Board of Directors can modify the budget by line item within the total appropriation without notification. The appropriation can only be modified upon completion of notification and publication requirements. The budget includes each fund on its basis of accounting unless otherwise indicated.

## **Pooled Cash and Investments**

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

Investments are carried at net asset value.

## **Property Taxes**

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

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

## **Specific Ownership Taxes**

Beginning in 1937, the State of Colorado began assessing a tax annually on motor vehicles (aka Specific Ownership Tax). The Specific Ownership Tax is graduated based on a vehicle's age and original value. Specific Ownership Tax revenue collected by the State is apportioned among the 64 counties based on the number of state highway miles within each county. Each county allocates its respective share of specific ownership tax revenue proportionally among the various property-taxing governmental entities on the basis of total property taxes assessed by each entity in relation to total property taxes assessed by all entities within the county. The District's share of specific ownership taxes received from the State is approximately 10.5% of total property taxes collected.

Specific ownership tax is allocated proportionally between each fund based on the ratio of property tax revenue collected for each fund compared to total property revenue collected by the District.

## **Facilities Fees**

Pursuant to the Resolution Imposition of Facilities Fees adopted and approved by the District on June 24, 2013, as amended pursuant to the First Amendment to Resolution Imposition of Facilities Fees adopted and approved by the District on July 14, 2020 the District imposed fees (the "Facilities Fees") in the amount of \$2,000 for each single-family unit, \$500 for each multi-family unit and \$0.75 per square foot of commercial property, which Facilities Fees are due and payable to the District at the earlier of: (i) the issuance of a building permit; or (ii) the sale of a platted lot.

Facilities Fees are pledged towards the repayment of the District's 2020A Senior Bonds and 2020B Subordinate Bonds.

## Deferred Outflows of Resources and Deferred Inflows of Resources

A deferred inflow of resources is an acquisition of net position by a government that is applicable to a future reporting period and a deferred outflow of resources is a consumption of net position by a government that is applicable to a future reporting period. Both deferred inflows and outflows are reported in the statement of net position but are not recognized in the financial statement as revenues and expenses until the period(s) to which they relate. Deferred inflows of resources in the governmental fund financial statements of the District for the 12-month period ended December 31, 2023 are comprised of property taxes due from El Paso County that will not be collected within 60 days of the end of the current calendar year. Deferred inflows of resources in the government-wide financial statements represents property taxes for which an enforceable legal claim to assets exists, but for which the levy pertains to the subsequent year.

## Capital Assets

Capital assets, which include infrastructure assets, are reported in the applicable governmental activities column in the government-wide financial statements. Capital assets are defined by the District has assets with an initial, individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

When purchased or constructed, the District classifies newly acquired property, equipment and structures by functional area. The estimated depreciable lives assigned to each asset class are based on the assumption that such assets are reasonably and regularly maintained and used for their intended purpose.

## Equity

### Net Position

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

### Fund Balance

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

- **Non-spendable fund balance** – The portion of a fund balance that cannot be spent because it is either not in spendable form (such as prepaid amounts) or legally or contractually required to be maintained intact.
- **Restricted fund balance** – The portion of a fund balance that is constrained to being used for a specific purpose by external parties (such as bondholders), constitutional provisions, or enabling legislation.
- **Committed fund balance** – The portion of a fund balance that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, the Board of Directors. The constraint may be removed or changed only through formal action of the Board of Directors.

- **Assigned fund balance** – The portion of a fund balance that is constrained by the government's intent to be used for specific purposes but is neither restricted nor committed. Intent is expressed by the Board of Directors to be used for a specific purpose. Constraints imposed on the use of assigned amounts are more easily removed or modified than those imposed on amounts that are classified as committed.
- **Unassigned fund balance** – The residual portion of a fund balance that does not meet any of the criteria described above.

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

### NOTE 3 – CASH AND INVESTMENTS

Cash and investments as of December 31, 2023 are classified in the accompanying financial statements as follows:

Statement of net position:

Cash and investments – unrestricted	\$ 52,395
Cash and investments – restricted	142,116
<b>Total cash and investments</b>	<b>\$ 194,511</b>

Cash and investments as of December 31, 2023 consist of the following:

Deposits with financial institutions	\$ 35,291
Investments	159,220
<b>Total cash and investments</b>	<b>\$ 194,511</b>

#### Deposits with Financial Institutions

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

As of December 31, 2023, the District's cash deposits had a bank and carrying balance of \$35,291.

#### Investments

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

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

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

Revenue bonds of local government securities, corporate and bank securities, and guaranteed investment contracts not purchased with bond proceeds, are limited to maturities of three years or less.

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

- Obligations of the United States, certain U.S. government agency securities, and the World Bank
- General obligation and revenue bonds of U.S. local government entities
- Certain certificates of participation
- Certain securities lending agreements
- Bankers’ acceptances of certain banks
- Commercial paper
- Written repurchase agreements and certain reverse purchase agreements collateralized by certain authorized securities
- Certain money market funds
- Guaranteed investment contracts
- Local government investment pools

As of December 31, 2023, the District’s investments were comprised of the following:

Investment	Maturity	Amortized Cost
Colorado Surplus Asset Fund Trust (CSAFE)	Weighted Average Under 60 Days	\$ 158,634
ColoTrust+ Fund	Weighted Average Under 60 Days	586
		\$ 159,220

### CSAFE

The District holds investments in the Colorado Surplus Asset Fund Trust (CSAFE), which is an investment vehicle established by state statute for local government entities to pool surplus assets. The State Securities Commissioner administers and enforces all State statutes governing CSAFE. CSAFE operates similarly to a money market fund and each share is equal in value to \$1.00. CSAFE may invest in U.S. Treasury securities, repurchase agreements collateralized by U.S. Treasury securities, certain money market funds and highest rated commercial paper. CSAFE measures its investments at amortized cost, which value is not materially different (less than 0.005% difference) than the fair value measurement of such investments. There are no unfunded commitments, the redemption frequency is daily, and there is no redemption period notice. A designated custodial bank serves as custodian for CSAFE's portfolio pursuant to a custodian agreement. The custodian acts as safekeeping agent for CSAFE's investment portfolio and provides services as the depository in connection with direct investments and withdrawals. The custodian's internal records segregate investments owned by CSAFE. No limitations exist on the District’s ability to withdraw funds invested in CSAFE. CSAFE is rated AAAM by Standard & Poor’s.

## NOTE 4 – LONG-TERM DEBT

The following is a summary of the changes in the District's long-term debt for the 12-month period ended December 31, 2023:

	Balance at Dec. 31, 2022	Additions	Retirements	Balance at Dec. 31, 2023	Due within one year
Series 2020A Senior Bonds	\$ 35,765,000	\$ -	(\$ 470,000)	\$ 35,295,000	\$ 525,000
Accrued Interest – Series 2020A Senior Bonds	124,446	1,493,350	( 1,493,350)	124,446	-
Series 2020B Subordinate Bonds	15,405,000	-	-	15,405,000	-
Accrued Interest – Series 2020B Subordinate Bonds	900,184	1,182,126	( 870,490)	1,211,820	-
Premium on Series 2020A Bonds	6,467,649	-	( 368,770)	6,098,879	-
<b>Total</b>	<b>\$ 58,662,279</b>	<b>\$2,675,476</b>	<b>(\$3,202,610)</b>	<b>\$ 58,135,145</b>	<b>\$ 525,000</b>

Details regarding the District's long-term obligations are as follows:

### Series 2020A General Obligation Limited Tax Bonds (2020A Senior Bonds)

On August 08, 2020, the District issued \$36,595,000 in General Obligation Refunding and Improvement Bonds, Series 2020A ("2020A Senior Bonds"), the proceeds of which were used to refund the Series 2013A Bonds, fund the construction of additional public infrastructure and pay the costs of issuance of the 2020A Senior Bonds. The 2020A Senior Bonds have a final maturity date of December 1, 2050. The principal amount of the 2020A Senior Bonds is subject to mandatory sinking fund payments prior to their final maturity date. The 2020A Senior Bonds were issued as tax exempt bonds bearing interest rates rate of between 4.00% and 5.00% per annum.

The 2020A Senior Bonds are secured by and payable solely from Senior Pledged Revenue, net of any costs of collection, which is comprised of the following:

- a) all property tax revenues generated by the imposition of the Required Senior Debt Service Mill Levy (not to exceed 30 mills);
- b) all specific ownership taxes attributable to the Required Senior Debt Service Mill Levy;
- c) Facility Fees; and
- d) any other legally available amounts that the District determines, in its absolute discretion, to transfer to the Trustee for application as Pledged Revenue.

At the time of the issuance of the 2020A Senior Bonds, the District purchased from Assured Guaranty Municipal a reserve insurance policy that covers the entire term of the 2020A Senior Bonds. This policy allows the District to not maintain a cash reserve fund as otherwise required per the 2020A Senior Bonds Indenture of Trust Agreement.

The 2020A Senior Bonds may be redeemed prior to maturity at the option of the District on December 1, 2030, and any date thereafter, upon payment of par and accrued interest.

Outstanding bond principal and interest on the 2020A Senior Bonds mature as follows:

	Principal	Interest	Total
2024	525,000	1,474,550	1,999,550
2025	545,000	1,453,550	1,998,550
2026	605,000	1,431,750	2,036,750
2027	635,000	1,401,500	2,036,500

2028	705,000	1,369,550	2,074,750
2029-2033	4,330,000	6,270,000	10,600,000
2034-2038	5,975,000	5,139,000	11,114,000
2039-2043	7,815,000	3,802,800	11,617,800
2044-2048	9,710,000	2,086,000	11,796,000
2049-2050	4,450,000	268,800	4,718,800
<b>Total</b>	<b>\$ 35,295,000</b>	<b>\$ 24,697,700</b>	<b>\$ 59,992,700</b>

The District’s detail debt service schedule for its Senior Bonds is provided on page 24.

**Series 2020B Subordinate General Obligation Limited Tax Bonds (“2020B Subordinate Bonds”)**

On August 08, 2020, the District issued General Obligation Bonds, Series 2020B (“2020B Subordinate Bonds”) in the amount of \$15,405,000. The proceeds from the sale of the 2020B Subordinate Bonds were used to refund the Series 2020B Subordinate Bonds and pay the costs of issuing the 2020B Bonds. The 2020B Subordinate Bonds were issued as tax exempt bonds bearing interest at 7.25% per annum. The 2020B Subordinate Bonds are structured as cash flow bonds meaning that there are no scheduled payments of principal or interest prior to the final maturity date. Unpaid interest on the 2020B Subordinate Bonds compounds annually on each December 15. In the event any amounts due and owing on the 2020B Subordinate Bonds remain outstanding on December 16, 2059, such amounts shall be deemed discharged and shall no longer be due and outstanding.

The 2020B Subordinate Bonds are secured by and payable from Subordinate Pledged Revenue, net of any costs of collection, which includes:

- a) all Subordinate Property Taxes (generated by the imposition of the Required Subordinate Mill Levy – which is equal to 30 mills less the Required Senior Debt Service Mill Levy);
- b) all Subordinate Specific Ownership Taxes (attributable to the Required Subordinate Mill Levy);
- c) Subordinate Facility Fee revenue;
- d) any other legally available amounts that the District may designate towards payment of the Subordinate Bonds.

The 2020B Subordinate Bonds are subject to redemption prior to maturity, at the option of the District on September 01, 2025, and on any date thereafter, upon payment of par, accrued interest, and a redemption premium equal to a percentage of the principal amount so redeemed, as follows:

Date of Redemption	Redemption Premium (%)	Redemption Premium (\$)
September 01, 2025, to August 31, 2026	3.0%	\$ 462,150
September 01, 2026, to August 31, 2027	2.0%	\$ 308,100
September 01, 2027, to August 31, 2028	1.0%	\$ 154,050
September 01, 2028 and thereafter	0.0%	\$ -

**Debt Authorization – TABOR**

On November 04, 2004, the District’s nine electors (all of whom were individuals qualified by the Developer to vote in the election) unanimously voted to authorize the District to issue debt at net effective interest rates not to exceed 16% per annum in amounts not totaling more than \$64.5 million to fund infrastructure improvements and \$64.5 million to refund outstanding debt on new terms at a net higher cost to taxpayers. (No voter approval is required for the District to refund debt on new terms that generate a net cost savings to taxpayers.)

On November 07, 2023, 1,863 of the District’s electors voted in an election (1) approving by a margin of 60% to reduce the District’s voter-authorized borrowing power down to \$3,727,000 and (2) approving by a margin of 58% to eliminate the District’s voter authority to enter into multiple fiscal year financial obligations with other government entities.

The District’s authorized but unissued indebtedness in the following amounts allocated for the following purposes is as follows:

	<b>Authorized Nov. 2004 Election</b>	<b>Authorization Used w 2005 Bonds, 2013 Bonds and Funding Agrmnt</b>	<b>Authorization Used w 2020A and B Bonds</b>	<b>Authorization Rescinded Nov. 2023 Election</b>	<b>Unused Voter Authorization</b>
Street improvements	\$ 30,000,000	(\$ 25,444,157)	(\$ 4,308,146)	(\$ 247,697)	\$ -
Park & recreation facilities	15,000,000	( 8,721,855)	( 2,545,723)	( 5,422)	3,727,000
Storm water and sanitary sewers	7,000,000	( 1,082,960)	( 5,874,744)	( 42,296)	-
Water	5,000,000	( 1,957,258)	( 2,937,372)	( 105,370)	-
Traffic safety protection	5,000,000	( 923,597)	( 3,916,496)	( 159,907)	-
Television relay	1,000,000	-	-	( 1,000,000)	-
Mosquito control	1,000,000	-	-	( 1,000,000)	-
Transportation facilities	500,000	-	-	( 500,000)	-
<b>Subtotal</b>	<b>64,500,000</b>	<b>( 38,129,827)</b>	<b>( 19,582,481)</b>	<b>( 3,060,692)</b>	<b>3,727,000</b>
Refunding of debt	64,500,000	( 8,430,173)	( 1,573,962)	( 54,495,865)	-
<b>Total</b>	<b>\$ 129,000,000</b>	<b>(\$ 46,560,000)</b>	<b>(\$ 21,156,443)</b>	<b>(\$57,556,557)</b>	<b>\$ 3,727,000</b>

Per C.R.S 32-1-1101(2), the remaining, unused debt issuance authorization obtained from the District’s electors will expire in November 2024 – 20 years after the original debt authorization election.

## Events of Default

The following events are considered events of default under the bond indenture of trust: (1) The District fails or refuses to impose the Required Mill Levy or to apply the Pledged Revenue as required by the Indenture of Trust, (2) the District defaults in the performance or observance of any of the covenants, agreements, or conditions on the part of the District in the Indenture or the Bond Resolution and fails to remedy the same after notice thereof is provided to the District by the Trustee, Bond Insurer or Bond Owners or (3) the District files a petition under the federal bankruptcy laws or other applicable bankruptcy laws seeking to adjust the obligation represented by the Bonds. Failure to pay the principal of or interest on the Bonds when due shall not, of itself, constitute an Event of Default if the District has levied the Required Mill Levy, complied with all covenants and conditions of the Indenture of Trust and remitted all Pledged Revenues to the Trustee. Available remedies for an Event of Default are (1) placing the district in receivership, (2) Trustee initiating a lawsuit against the District and (3) compelling the District to cure the default via mandamus or any other suit, action, or proceeding at law or in equity. Acceleration of the repayment of the Bonds is not an available remedy for an Event of Default.

## Debt Authorization – Service Plan

The District’s Amended and Restated Service Plan establishes a Maximum Mill Levy, subject to certain conditions and restrictions, the District is permitted to impose on taxable property within the District for the payment of debt. The Maximum Debt Mill Levy is 30 mills, as adjusted by the State of Colorado for changes in the ratio of taxable valuation to assessed valuation of real property since January 01, 2005 – at which time, the ratio for residential and commercial

property was 7.96% and 29%, respectively. The ratio for the 2023 collection year was 6.95% and 29%, respectively, for residential and commercial property, which caused the District's Maximum Debt Mill Levy for debt service for 2023 to be 34.151.

The District's Amended and Restated Service Plan does not contain a limitation on the amount of debt the District may issue but, the financial projection attached to the Service Plan projected total debt to be issued by the District, FHMD3 and FHMD1 between 2005 and 2015 to total \$71.4 million. As of December 31, 2023, the District has issued \$67.7 million in debt, FHMD3 has issued \$34.4 million in debt and FHMD1 has issued no debt.

#### **NOTE 5 – 2004 INTERGOVERNMENTAL AGREEMENT (2004 IGA)**

On December 02, 2004, the District, FHMD3 and FHMD1 ("Districts") entered into an intergovernmental agreement to establish certain rights and obligations among the districts pertaining to (1) the financing and construction of public infrastructure benefitting the Flying Horse Community and (2) the operations and maintenance of public parks and open spaces within the Flying Horse Community (2004 IGA). At the time the 2004 IGA was ratified by the Districts, all directors serving on all three districts were officers/employees of the Developer and all such directors reported conflicts of interest regarding their service as directors on these Districts.

Per the 2004 IGA, the District contracted with FHMD1 to provide on a cost-reimbursement basis all legal, accounting and administrative services necessary to operate the District. Per the 2004 IGA, FHMD1 has agreed to maintain an account into which the District and FHMD3 deposit funds for the purpose of reimbursing FHMD1 for (1) paying for the respective Administrative Services (as defined in section 4.4 of the 2004 IGA) of the District and FHMD3 and (2) subsidizing the actual costs incurred by FHMD1 related to maintaining FHMD1-owned public parks and open space land tracts located throughout the service areas of the District and FHMD3.

In June 2023, the District provided notice to FHMD1 that the District would be directly funding its own Administrative Services (as opposed to reimbursing FHMD1 for paying the District's contractor's bills).

Powers Granted to FHMD1: While all Districts have agreed to cooperate and coordinate in the drafting and approval of their respective annual budgets, the 2004 IGA authorizes FHMD1 to draft the annual budgets and set the proposed mill levies for the District and FHMD3 and, if the districts are unable to agree on the proposed mill levies, revenues and expenditures presented in the annual budgets drafted by FHMD1, such budgets drafted by FHMD1 become the "Final Budgets" (as defined in the 2004 IGA) for each district.

Per the 2004 IGA, the Districts agreed to assign to FHMD1 authority to own and maintain all public parks and open spaces located within the District and FHMD3.

Per the 2004 IGA, the Districts authorize FHMD1 to levy and collect fees, rates, tolls and charges on the property owners within the District and FHMD3 to fund (1) the maintenance of FHMD1-owned parks and open spaces and (2) the repayment of any revenue bonds issued by FHMD1.

Public Infrastructure Construction and Actual Capital Costs: Per the 2004 IGA, the Districts agreed to assign to FHMD1 authority to contract for and supervise the construction and acquisition of public facilities for the benefit of the Districts. Prior to the construction or acquisition of such public facilities, FHMD1 agrees to submit plans for the construction such proposed facilities to the District and FHMD3 for review and approval. FHMD1 also agrees to submit copies of all construction contracts and related documents to the District and FHMD3.

Section 3.7 of the 2004 IGA (as amended) states: "The financial obligations of the District and FHMD3 to fund the Actual Capital Costs incurred by FHMD1 shall be limited tax general obligations (limited to the mill levy limitations set forth in

the Service Plan) of the District and FHMD3 payable from ad valorem property taxes generated as a result of the certification by the District and FHMD3 of a debt service mill levy.”<sup>1</sup>

Termination Provisions: The 2004 IGA may be terminated by the District or FHMD3 upon the provision of one year’s written notice subject to the District and FHMD3 reimbursing FHMD1 for all Actual Capital Costs incurred by FHMD1. The 2004 IGA may be terminated by FHMD1 if FHMD1 first transfers ownership of all FHMD1-owned parks and open spaces to either the District and FHMD3 or, subject to approval by the District and FHMD3, to another governmental entity.

## **2004 Acquisition Agreement**

The Districts entered into an Acquisition Agreement with the Developer on December 2, 2004 (the “2004 Acquisition Agreement”), pursuant to which the Developer agreed to design, engineer, construct and install certain public infrastructure improvements and facilities as described therein and the Districts agreed to purchase and acquire such facilities at an amount equal to 100% of the actual and reasonable construction costs, including related soft costs, but excluding developer overhead and profit. The 2004 Acquisition Agreement provides that all public infrastructure in the Districts constructed by the Developer must conform to the standards and specifications of the City and any other governmental entities having jurisdiction over the Districts. The 2004 Acquisition Agreement provides that the District may satisfy its obligations thereunder through the issuance of bonds or other debt obligations.

2020 Bonds – Developer Assertions Regarding Capital Costs: On August 08, 2020, the District issued 2020A Bonds and 2020B Bonds (defined below) and the proceeds of which were used to (1) retire the District’s Series 2013 Bonds, (2) retire FHMD1’s Series 2005 Bonds, (3) fund \$18.7 million in Actual Capital Costs incurred by FHMD1 and (4) pay the costs related to issuing the 2020A and 2020B Bonds. Per the District’s 2020 Limited Offering Memorandum (2020 LOM):

The net proceeds of the Bonds will be insufficient to reimburse the Developer for all of its unreimbursed costs in connection with providing the Public Improvements. According to the Developer, it or a related entity will finance the estimated \$20,000,000 remaining in infrastructure costs necessary to serve the Residential Development at full build-out, and any further infrastructure costs necessary to serve the Commercial Development at full build-out, with one or more development loans.

The Developer anticipates the remaining infrastructure necessary to serve the Residential Development at full build-out will additionally cost approximately \$20,000,000, none of which the Developer anticipates selling to the District for reimbursement to the Developer. The Developer does not yet have an estimate for the remaining infrastructure costs related to the Commercial Development. The Developer reports, however, that all remaining infrastructure costs will be funded by the Developer or a related entity with one or more development loans. The Developer anticipates obtaining such loans and completing the requisite infrastructure as necessary to meet the anticipated development timeline for all components of the remaining Residential Development and Commercial Development, as applicable.

The Developer issued to the District a consent letter regarding the District’s 2020 LOM that stated (1) the Developer reviewed the 2020 LOM and (2) the Developer asserted all statements made within the 2020 LOM regarding representations or beliefs of the Developer are accurately stated in all material respects. Also, per the consent letter, the Developer agreed to indemnify and hold harmless the District “...against any and all losses, claims, damages, liabilities, expenses (including attorneys’ fees), causes of action (whether in contract, tort or otherwise), suits, demands and judgments of any kind (collectively, the “Liabilities”) asserted against an Indemnified Party to the extent such Liabilities arise out of or are based on the assertion that, with respect to information in the Limited Offering Memorandum described in Section 1(c) hereof (collectively, the “Covered Information”), there is a materially untrue

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<sup>1</sup> **NOTE:** When the District issued bond debt in May 2005, June 2013 and August 2020, accrued, unreimbursed Actual Capital Costs claimed by FHMD1 under the 2004 IGA, 2004 Acquisition Agreement and the 2004 Reimbursement Agreement were not reported in the related bond offering documents as debt obligations of the District.

statement of a material fact therein or a material omission or alleged omission to state a material fact therein required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.”

2020 and 2021 Annual Service Plan Report: The District’s Service Plan requires the District, FHMD1 and FHMD3 submit a combined annual report to El Paso County and City of Colorado Springs regarding the operations and financial conditions of the three districts. Per the 2020 and 2021 annual service plan reports, “All public improvements for the development have been constructed.”

FHMD1 Accepts Additional Capital Costs from Developer in April 2023: On April 28, 2023 (four days before the District’s board election), the FHMD1 board (which is controlled by the Developer) approved the acceptance of \$11.3 million in construction costs submitted by the Developer and amended the 2004 IGA to require the District and FHMD3 to fund the repayment of the \$11.3 million from the issuance of additional bonds (in contravention to statements made by the Developer in the District’s 2020 registered securities filings regarding the funding source for any remaining infrastructure costs) subject to the mill levy limitations set forth in the District’s Service Plan.

### **2004 Reimbursement Agreement**

On December 2, 2004, the Districts entered into the Reimbursement Agreement with the Developer (the “Reimbursement Agreement”) whereby, among other things, the Developer agreed to advance funds to the Districts for: (i) payment of costs and expenses related to the creation of the Districts (“Organizational Costs”) and to fund any shortfalls in monthly operations and maintenance expenses (“Operations Costs”); and (ii) payment of the costs of designing, engineering, constructing, and installing certain municipal infrastructure (“Construction Costs”) associated with the provision of certain public improvements (collectively, the “Advances”). Pursuant to the Reimbursement Agreement, Developer Advances to FHMD1 accrue interest at 8.00% per annum. Advances are intended to be paid from bond proceeds of one or more series of the Districts’ general obligation or revenue bonds and other legally available revenues of the Districts after payment of debt service on such bonds.

On November 02, 2004, the District submitted multiple TABOR ballot issues requesting the voters authorize the District to issue up to \$129,000,000 in debt and nine voters unanimously voted in favor of all such ballot issues. However, no ballot issues have ever been approved by the District’s voters authorizing the District to incur debt or enter into multiple fiscal year financial obligations for the purpose of financing ongoing operations and maintenance costs.

As of December 31, 2023, unreimbursed Operating Advances from the Developer to FHMD1 totaled \$14,664,408 plus accrued interest totaling \$3,314,146.

## **NOTE 6 – NET POSITION (DEFICIT)**

### **Non-Spendable Net Position**

The District’s non-spendable net position as of December 31, 2023 in the general fund, debt service fund and capital project fund totaled \$3,304, \$0, and \$0, respectively.

### **Restricted Net Position**

The District’s restricted net position as of December 31, 2023 in the general fund, debt service fund and capital projects fund totaled \$36,500, \$126,089 and \$0, respectively. The restricted net position within the general fund is due to spending restrictions established by TABOR. See Note 9 for further details. The restricted net position within the debt service fund is comprised of funds that are restricted to servicing the Series 2020 Bonds.

## **Unassigned Net Position**

The District's unassigned net position as of December 31, 2023 totaled (\$58,110,219). This deficit amount was a result of the District being responsible for the repayment of bonds issued for public improvements conveyed to El Paso County and to FHMD1.

## **NOTE 7 – RELATED PARTIES**

The developer of all land within the District is Classic Development – Flying Horse, LLC, a Colorado limited liability company (the “Developer”). The Developer is a wholly owned subsidiary of Elite Properties of America, Inc., a Colorado Corporation (“Elite Properties”).

In 1999, a Developer-related entity, Pulpit Rock Investments, LLC, a Colorado limited liability company (“Pulpit Rock”), purchased the property that constitutes the Flying Horse Master Planned Community, which comprises all land located within the service boundaries of the District, FHMD3 and FHMD1. In general, the Developer purchases land from Pulpit Rock and then sells or transfers fully entitled lots to Elite Properties, or a subsidiary thereof, for the purpose of building homes on such lots.

Between 2004 and May 03, 2022, all directors serving on the District’s board were officers/employees/owners of the Developer and/or Elite Properties and filed conflicts of interest disclosures with the Colorado Secretary of State regarding their public service on the District’s board. Between May 03, 2022 and May 02, 2023, one of five directors was independent and had no no employment, familial or financial relationships with the Developer. Subsequent to the May 03, 2023 board election, four of five directors serving on the District’s board were independent from and had no employment, familial or financial relationships with the Developer.

On December 02, 2004, the District, FHMD1 and FHMD3 entered into the 2004 IGA. At the time the 2004 IGA was ratified, all directors serving on all district boards were officers/employees of the Developer.

For the annual periods from 2004 through 2020, the Developer’s accounting staff prepared and submitted to the Colorado Division of Local Government the District’s annual budget. For the annual periods from 2004 through 2019, the Developer’s accounting staff prepared and filed with the State the District’s annual financial statements and annual service plan report. The Developer did not report the value of such services provided to the District and, while under control of the Developer, the District did not report on the District’s annual financial statements the fair value of accounting and management services provided by the Developer to the District.

## **NOTE 8 – LAND EXCLUSION**

On April 28, 2023 – four days prior to the District’s board election and the term expiration of three Developer employees serving on the District’s board - Pulpit Rock Investments, LLC petitioned the District to exclude approximately 23 acres of undeveloped commercially-zoned land from the District. At the time such petition was submitted, four of five directors service on the District’s board were employees, officers and/or owners of the Developer and/or Pulpit Rock Investments, LLC. The District board approved the exclusion petition on a 4-1 vote. On May 02, 2023, El Paso District Court approved the exclusion of the 23 acres of undeveloped commercially-zoned land owned by Pulpit Rock Investments, LLC.

Although the 23 acres of land has been excluded from the District’s service area, such land remains subject to paying property taxes to the District on the District’s annual debt service mill levy until the District’s 2020 Senior Bonds and 2020 Subordinate Bonds (and any subsequent refinancing of such bonds) are paid off in full.

## **NOTE 9 – RISK MANAGEMENT**

Except as provided in the Colorado Governmental Immunity Act, the District may be exposed to various risks of loss related to torts; thefts of, damage to, or destruction of assets; errors or omissions; injuries to employees; or acts of God.

The District is a member of the Colorado Special Districts Property and Liability Pool (Pool). The Pool is an organization created by intergovernmental agreement to provide property, liability, public officials' liability, boiler and machinery and workers compensation coverage to its members. Settled claims have not exceeded this coverage in any of the past three fiscal years.

The District pays annual premiums to the Pool for liability, property, public officials' liability, and workers compensation coverage. In the event aggregated losses incurred by the Pool exceed amounts recoverable from reinsurance contracts and funds accumulated by the Pool, the Pool may require additional contributions from the Pool members. Any excess funds which the Pool determines are not needed for purposes of the Pool may be returned to the members pursuant to a distribution formula.

## **NOTE 10 – TAX, SPENDING AND DEBT LIMITATIONS**

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

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). TABOR prohibits the District from using its emergency reserves to compensate for economic conditions and revenue shortfalls.

TABOR is complex and subject to legal interpretation. Many of the provisions, including the interpretation of how to calculate Fiscal Year Spending limits, may require judicial interpretation.

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.

On November 04, 2004, nine individuals qualified to vote by the Developer unanimously voted in approval of authorizing the District to:

- assess property taxes at no more than \$1.5 million annually, without limitation to rate, to pay the District's administrative, operations, maintenance and other expenses; and
- collect and spend or retain all currently levied taxes and fees of the District without regard to any limitations under Article X, Section 20 of the Colorado Constitution.

## **NOTE 11 – LITIGATION**

On August 15, 2023, FHMD1 filed a lawsuit against FHMD2 and FHMD3 in El Paso District Court claiming the District and FHMD3 breached the 2004 IGA and FHMD1 demanded the Court place the District and FHMD3 into receivership pending the outcome of the lawsuit. On September 10, 2023, the District and FHMD3 jointly filed counterclaims against FHMD1 claiming the 2004 IGA is invalid, FHMD1 breached the covenant of good faith and fair dealing, FHMD1 failed to provide an accounting to the District of FHMD1's spending of funds transferred from the District to FHMD1, FHMD1 breached the terms of the 2004 IGA. The District and FHMD3 also stated FHMD1's claims have no merit and demanded the Court place FHMD1 into receivership.

On December 19, 2023, El Paso District Court denied FHMD1's demand to place the District and FHMD3 into receivership and denied the District's and FHMD3's motions to dismiss FHMD1's complaint. The Court has not yet issued a ruling regarding the District's counterclaims against FHMD1 and demand to place FHMD1 into receivership.

Because the litigation process is subject to many uncertainties, and the outcome is not predictable with assurance, the District cannot predict the ultimate outcome of this lawsuit or the impact it may have on the District's financial condition.

## **NOTE 12 – SUBSEQUENT EVENTS**

On January 31, 2024, the District, FHMD3 and FHMD1 participated in mediation regarding claims and crossclaims raised between these entities in El Paso District Court. The parties are currently working on a potential settlement to address all claims and crossclaims but, as of the date these financial statements have been issued, no such settlement has yet been ratified by any of the three parties.

**SUPPLEMENTARY INFORMATION**

**FLYING HORSE METROPOLITAN DISTRICT NO 2**  
**DEBT SERVICE FUND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND**  
**BALANCES - BUDGET AND ACTUAL**  
**12-Month Period Ended**  
**December 31, 2023**

	Original Budget	Actual Amounts	Positive / (Negative) Variance with Original Budget
<b>REVENUES</b>			
Property taxes	\$ 2,545,634	\$ 2,545,615	\$ (19)
Specific ownership taxes	254,563	266,534	11,971
Facilities fees	72,000	32,000	(40,000)
Other revenue	50,000	-	(50,000)
Net investment income	21,200	78,665	57,465
<b>Total Revenues</b>	<u>2,943,397</u>	<u>2,922,814</u>	<u>(20,583)</u>
<b>EXPENDITURES</b>			
Direct collection costs	95,185	45,219	49,966
Debt service			
Interest Expense - Series 2020A Bonds	1,493,350	1,493,350	-
Interest Expense - Series 2020B Bonds	957,117	870,490	86,627
Bond principal – 2018A Series Bonds	470,000	470,000	-
Bond principal – 2017B Series Bonds	-	-	-
<b>Total Expenditures</b>	<u>3,015,652</u>	<u>2,879,059</u>	<u>136,593</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(72,255)</u>	<u>43,755</u>	<u>116,010</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in (out)	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<u>-</u>	<u>-</u>	<u>-</u>
<b>EXCESS OF REVENUES AND OTHER FINANCIAL SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES</b>	<u>(72,255)</u>	<u>43,755</u>	<u>116,010</u>
<b>FUND BALANCE – BEGINNING</b>	<u>72,255</u>	<u>82,334</u>	<u>10,079</u>
<b>FUND BALANCE – END OF YEAR</b>	<u>\$ -</u>	<u>\$ 126,089</u>	<u>\$ 126,089</u>

These financial statements should be read only in connection with  
the accompanying notes to the financial statements.

**FLYING HORSE METROPOLITAN DISTRICT NO 2**  
**DEBT SERVICE FUND**  
**COLLECTION COST DETAILS - BUDGET AND ACTUAL**  
**12-Month Period Ended**  
**December 31, 2023**

	Original Budget	Actual Amounts	Positive / (Negative) Variance with Original Budget
<b>DIRECT AND INDIRECT COLLECTION COSTS</b>			
Collection fees – County Treasurer	\$ 38,185	\$ 38,219	\$ (34)
Legal fees	-	-	-
Bond paying agent fees	7,000	7,000	-
Miscellaneous	50,000	-	50,000
<b>Total Direct and Indirect Collection Costs</b>	<b><u>\$ 95,185</u></b>	<b><u>\$ 45,219</u></b>	<b><u>\$ 49,966</u></b>

These financial statements should be read only in connection with  
the accompanying notes to the financial statements.

FLYING HORSE METROPOLITAN DISTRICT NO. 2  
**SCHEDULE OF DEBT SERVICE REQUIREMENTS TO MATURITY**  
 December 31, 2023

The District's repayment schedule for its general obligation bonds is as follows:

<b>\$36,595,000 General Obligation Limited Tax Refunding Bonds Series 2020A Interest Rate 4.00% to 5.00% Interest Due June 1<sup>st</sup> and December 1<sup>st</sup> Principal due December 1<sup>st</sup></b>			
Year Ended Dec. 31,	Principal	Interest	Total
2024	\$ 525,000	\$ 1,474,550	\$ 1,999,550
2025	545,000	1,453,550	1,998,550
2026	605,000	1,431,750	2,036,750
2027	635,000	1,401,500	2,036,500
2028	705,000	1,369,750	2,074,750
2029	740,000	1,334,500	2,074,500
2030	815,000	1,297,500	2,112,500
2031	855,000	1,256,750	2,111,750
2032	935,000	1,214,000	2,149,000
2033	985,000	1,167,250	2,152,250
2034	1,070,000	1,118,000	2,188,000
2035	1,115,000	1,075,200	2,190,200
2036	1,200,000	1,030,600	2,230,600
2037	1,250,000	982,600	2,232,600
2038	1,340,000	932,600	2,272,600
2039	1,395,000	879,000	2,274,000
2040	1,490,000	823,200	2,313,200
2041	1,550,000	763,600	2,313,600
2042	1,655,000	701,600	2,356,600
2043	1,725,000	635,400	2,360,400
2044	1,790,000	566,400	2,356,400
2045	1,865,000	494,800	2,359,800
2046	1,940,000	420,200	2,360,200
2047	2,015,000	342,600	2,357,600
2048	2,100,000	262,000	2,362,000
2049	2,180,000	178,000	2,358,000
2050	2,270,000	90,800	2,360,800
	<b>\$ 35,295,000</b>	<b>\$ 24,697,700</b>	<b>\$ 59,992,700</b>

Interest on the 2020A Senior Bonds is payable each year on June 1<sup>st</sup> and December 1<sup>st</sup>, and principal payments are due each year on December 1<sup>st</sup>.

FLYING HORSE METROPOLITAN DISTRICT NO. 2  
**SUMMARY OF ASSESSED VALUATION,  
MILL LEVY AND PROPERTY TAXES COLLECTED**  
December 31, 2023

Year Ended December 31,	Prior Year Assessed Valuation for Current Year tax Levy	Mills Levied		Total Property Taxes		Percent Collected to Levied
		Operations	Debt	Levied	Collected (Note A)	
2018	\$ 48,153,720	10.461	32.763	\$2,081,400	\$2,080,235	99.9%
2019	\$ 52,796,370	10.462	32.775	\$2,282,800	2,283,076	100.0%
2020	\$ 60,846,650	10.520	33.124	\$2,654,800	2,654,842	100.0%
2021	\$ 66,095,910	10.520	33.124	\$2,884,700	2,884,738	100.0%
2022	\$ 72,482,910	11.132	33.398	\$3,227,700	3,227,953	100.0%
2023	\$ 74,540,550	11.383	34.151	\$3,394,100	3,394,104	100.0%
2024	\$ 94,247,340	11.807	35.424	\$4,451,400	[TBD]	[TBD]

**NOTE A:** Property taxes collected in any one year may include collection of delinquent property taxes levied in prior years.

## **OTHER SUPPLEMENTARY INFORMATION**

FLYING HORSE METROPOLITAN DISTRICT NO. 2  
**CHANGE IN TOTAL OVERLAPPING MILL LEVY**  
 December 31, 2023

	2022 Mill Levy *	2023 Mill Levy **	Change
Flying Horse Metropolitan District No. 2	45.534	47.231	1.697
El Paso County	8.062	7.192	(0.870)
City of Colorado Springs	3.929	3.579	(0.350)
Academy School District #20	53.030	47.867	(5.163)
Pikes Peak Library District	3.512	3.061	(0.451)
South eastern Colo Water Conservancy District	0.887	0.888	0.001
<b>Total Mill Levy</b>	<b>114.954</b>	<b>109.818</b>	<b>(5.136)</b>

\* -- For property tax collections in 2023

\*\* -- For property tax collections in 2024

FLYING HORSE METROPOLITAN DISTRICT NO. 2  
**HISTORICAL DEBT RATIOS**  
 December 31, 2023

	2019	2020	2021	2022	2023
<b>General obligation bonds</b>	\$ 22,375,000	\$ 52,000,000	\$ 51,620,000	\$ 51,170,000	\$ 50,700,000
<b>Accrued, unpaid interest - Bonds</b>	81,572	281,190	738,655	1,024,630	1,336,266
<b>Restricted cash</b>	( 2,086,161)	( 44,961)	( 111,469)	( 52,752)	( 111,357)
<b>Combined assessed property values within the District</b>	60,846,650	66,095,910	72,482,910	74,540,550	94,247,340
<b>Ratio of debt to assessed property values</b>	33.5%	79.0%	72.1%	70.0%	55.1%