

FALLBROOK VILLAS METROPOLITAN DISTRICT

Financial Statements

Year Ended December 31, 2021

with

Independent Auditor's Report

C O N T E N T S

	<u>Page</u>
<u>Independent Auditor's Report</u>	I
<u>Basic Financial Statements</u>	
Balance Sheet/Statement of Net Position - Governmental Funds	1
Statement of Revenues, Expenditures and Changes in Fund Balances/Statement of Activities - Governmental Funds	2
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund	3
Notes to Financial Statements	4
<u>Supplemental Information</u>	
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual – Debt Service Fund	18
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Capital Projects Fund	19
Summary of Assessed Valuation, Mill Levy and Property Taxes Collected	20



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Fallbrook Villas Metropolitan District
Adams County, Colorado

Opinions

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

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of December 31, 2021, and the respective changes in financial position thereof, 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 (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 Responsibility 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 GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if 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 GAAS, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risk 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 judgement, 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 to 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 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.

Supplemental Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplemental information as identified in the table of contents is presented for the purposes of additional analysis and legal compliance 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 supplemental 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 supplemental information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Fiscal Focus Partners, LLC

Greenwood Village, Colorado
October 3, 2022

Fallbrook Villas Metropolitan District

BALANCE SHEET/STATEMENT OF NET POSITION GOVERNMENTAL FUNDS December 31, 2021

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
ASSETS						
Cash and investments	\$ 16,511	\$ -	\$ -	\$ 16,511	\$ -	\$ 16,511
Cash and investments - restricted	3,127	279,373	-	282,500	-	282,500
Receivable - County Treasurer	227	523	-	750	-	750
Property taxes receivable	102,530	236,589	-	339,119	-	339,119
Prepaid expenses	3,321	-	-	3,321	-	3,321
Due from other funds	-	18,969	7,065	26,034	(26,034)	-
Capital assets not being depreciated	-	-	-	-	4,371,790	4,371,790
Total Assets	<u>\$ 125,716</u>	<u>\$ 535,454</u>	<u>\$ 7,065</u>	<u>\$ 668,235</u>	<u>4,345,756</u>	<u>5,013,991</u>
LIABILITIES						
Accounts payable	\$ 15,848	\$ -	\$ -	\$ 15,848	-	15,848
Due to other funds	26,034	-	-	26,034	(26,034)	-
Accrued interest	-	-	-	-	106,832	106,832
Long-term liabilities:						
Due within one year	-	-	-	-	20,000	20,000
Due in more than one year	-	-	-	-	4,890,813	4,890,813
Total Liabilities	<u>41,882</u>	<u>-</u>	<u>-</u>	<u>41,882</u>	<u>4,991,611</u>	<u>5,033,493</u>
DEFERRED INFLOWS OF RESOURCES						
Deferred property taxes	<u>102,530</u>	<u>236,589</u>	<u>-</u>	<u>339,119</u>	<u>-</u>	<u>339,119</u>
Total Deferred Inflows of Resources	<u>102,530</u>	<u>236,589</u>	<u>-</u>	<u>339,119</u>	<u>-</u>	<u>339,119</u>
FUND BALANCES/NET POSITION						
Fund Balances:						
Nonspendable:						
Prepays	3,321	-	-	3,321	(3,321)	-
Restricted:						
Emergencies	3,127	-	-	3,127	(3,127)	-
Debt service	-	298,865	-	298,865	(298,865)	-
Capital projects	-	-	7,065	7,065	(7,065)	-
Unassigned	<u>(25,144)</u>	<u>-</u>	<u>-</u>	<u>(25,144)</u>	<u>25,144</u>	<u>-</u>
Total Fund Balances	<u>(18,696)</u>	<u>298,865</u>	<u>7,065</u>	<u>287,234</u>	<u>(287,234)</u>	<u>-</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 125,716</u>	<u>\$ 535,454</u>	<u>\$ 7,065</u>	<u>\$ 668,235</u>		
Net Position:						
Restricted for:						
Emergencies					3,127	3,127
Debt service					192,033	192,033
Capital projects					7,065	7,065
Unrestricted					<u>(560,846)</u>	<u>(560,846)</u>
Total Net Position					<u>\$ (358,621)</u>	<u>\$ (358,621)</u>

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

Fallbrook Villas Metropolitan District

STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES/STATEMENT OF ACTIVITIES
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2021

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
EXPENDITURES						
Accounting and audit	\$ 11,585	\$ -	\$ -	\$ 11,585	\$ -	\$ 11,585
Legal	7,753	-	-	7,753	-	7,753
Insurance	3,426	-	-	3,426	-	3,426
Management fees	12,283	-	-	12,283	-	12,283
Landscape maintenance	31,178	-	-	31,178	-	31,178
Snow removal	38,990	-	-	38,990	-	38,990
Utilities	393	-	-	393	-	393
Miscellaneous expenses	154	-	-	154	-	154
Treasurer's fees	987	2,278	-	3,265	-	3,265
Bond interest expense	-	126,263	-	126,263	35,554	161,817
Trustee fees	-	7,000	-	7,000	-	7,000
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total Expenditures	106,749	135,541	-	242,290	35,554	277,844
GENERAL REVENUES						
Property taxes	65,774	151,775	-	217,549	-	217,549
Specific ownership taxes	3,034	7,002	-	10,036	-	10,036
Interest and other income	-	190	-	190	-	190
Miscellaneous income	45	-	-	45	-	45
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total General Revenues	68,853	158,967	-	227,820	-	227,820
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES						
	(37,896)	23,426	-	(14,470)	(35,554)	(50,024)
OTHER FINANCING SOURCES (USES)						
Developer contribution	59,292	-	-	59,292	-	59,292
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total Other Financing Sources (Uses)	59,292	-	-	59,292	-	59,292
NET CHANGES IN FUND BALANCES						
	21,396	23,426	-	44,822	(44,822)	
CHANGE IN NET POSITION						
					9,268	9,268
FUND BALANCES/NET POSITION:						
BEGINNING OF YEAR - Restated	(40,092)	275,439	7,065	242,412	(610,301)	(367,889)
END OF YEAR	<u>\$ (18,696)</u>	<u>\$ 298,865</u>	<u>7,065</u>	<u>\$ 287,234</u>	<u>\$ (645,855)</u>	<u>\$ (358,621)</u>

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

Fallbrook Villas Metropolitan District

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

For the Year Ended December 31, 2021

	<u>Original</u> <u>Budget</u>	<u>Final</u> <u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
REVENUES				
Property taxes	\$ 66,727	\$ 66,727	\$ 65,774	\$ (953)
Specific ownership taxes	4,671	4,671	3,034	(1,637)
Interest and other income	500	500	-	(500)
Miscellaneous income	-	-	45	45
Total Revenues	<u>71,898</u>	<u>71,898</u>	<u>68,853</u>	<u>(3,045)</u>
EXPENDITURES				
Accounting and audit	12,000	12,000	11,585	415
Legal	8,000	8,000	7,753	247
Insurance	4,000	4,000	3,426	574
Management fees	12,000	12,000	12,283	(283)
Landscape maintenance	24,000	30,000	31,178	(1,178)
Snow removal	30,000	40,000	38,990	1,010
Utilities	5,000	5,000	393	4,607
Other maintenance	2,500	2,500	-	2,500
Miscellaneous expenses	1,000	1,000	154	846
Treasurer's fees	1,001	1,001	987	14
Contingency	2,000	1,034	-	1,034
Emergency reserve	2,985	3,465	-	3,465
Total Expenditures	<u>104,486</u>	<u>120,000</u>	<u>106,749</u>	<u>13,251</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(32,588)	(48,102)	(37,896)	10,206
OTHER FINANCING SOURCES (USES)				
Developer contribution	31,571	47,085	59,292	12,207
Total Other Financing Sources (Uses)	<u>31,571</u>	<u>47,085</u>	<u>59,292</u>	<u>12,207</u>
NET CHANGE IN FUND BALANCE	(1,017)	(1,017)	21,396	22,413
FUND BALANCE:				
BEGINNING OF YEAR - Restated	1,017	1,017	(40,092)	(41,109)
END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (18,696)</u>	<u>\$ (18,696)</u>

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

FALLBROOK VILLAS METROPOLITAN DISTRICT

Notes to Financial Statements December 31, 2021

Note 1: Summary of Significant Accounting Policies

The accounting policies of the Fallbrook Villas Metropolitan District (“District”), located in the City of Thornton (“the City”) in Adams 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 on November 3, 2015, as a quasi-municipal organization established under the State of Colorado Special District Act. The District operates pursuant to a service plan approved by the City of Thornton (the “City”) on August 11, 2015 (the “Service Plan”). The District was established to provide for the construction and completion of a part or all of the public improvements for the use and benefit of the residents and property owners within the service area. 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 the GASB.

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

Basis of Presentation

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

FALLBROOK VILLAS METROPOLITAN DISTRICT

Notes to Financial Statements December 31, 2021

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 changes in fund balances/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 timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are collected.

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 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-term obligation is paid.

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.

FALLBROOK VILLAS METROPOLITAN DISTRICT

Notes to Financial Statements December 31, 2021

Debt Service Fund – The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

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.

Budgetary Accounting

Budgets are adopted on a non-GAAP basis for the governmental funds. In accordance with the State Budget Law of Colorado, the District's Board of Directors holds public hearings 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 appropriation can only be modified upon completion of notification and publication requirements. The budget includes each fund on its basis of accounting unless otherwise indicated. The appropriation is at the total fund expenditures level and lapses at year end. Subsequent to year end the District amended its total appropriations in the General Fund from \$ 104,486 to \$120,000 primarily as a result of increased snow removal costs.

Assets, Liabilities and Net Position

Fair Value of Financial Instruments

The District's financial instruments include cash and investments, accounts receivable and accounts payable. The District estimates that the fair value of all financial instruments at December 31, 2021, 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 investments are considered to be cash on hand and short-term investments with maturities of three months or less from the date of acquisition.

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.

Estimates

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

FALLBROOK VILLAS METROPOLITAN DISTRICT

Notes to Financial Statements December 31, 2021

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. 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. The District has one item that qualifies for reporting in this category. Deferred property taxes are deferred and recognized as an inflow of resources in the period that the amounts become available.

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 two years. 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 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 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 30 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 District.

FALLBROOK VILLAS METROPOLITAN DISTRICT

Notes to Financial Statements December 31, 2021

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.

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/from other funds”. These amounts are eliminated in the Statement of Net Position.

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:

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 is related to prepaid insurance.

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 \$3,127 of the General Fund balance has been reserved in compliance with this requirement.

The restricted fund balance in the Debt Service Fund in the amount of \$298,865 is restricted for the payment of the debt service costs associated with the Series 2019A Bonds and 2019B Bonds (see Note 4).

The restricted fund balance in the Capital Projects Fund in the amount of \$7,065 is restricted for the payment of the costs for capital improvements within the District.

FALLBROOK VILLAS METROPOLITAN DISTRICT

Notes to Financial Statements December 31, 2021

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.

Unassigned Fund Balance

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

Deficit Fund Balance

The General Fund has a deficit balance at year end, it is anticipated that this will be eliminated in 2022 with the collection of additional revenues.

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 purposes for which both restricted and unrestricted net position are available, the District will use the most restrictive net position first.

FALLBROOK VILLAS METROPOLITAN DISTRICT

Notes to Financial Statements
December 31, 2021

Note 2: Cash and investments

As of December 31, 2021, cash is classified in the accompanying financial statements as follows:

Statement of Net Position:

Cash and investments	\$ 16,511
Cash and investments – restricted	<u>282,500</u>
Total	<u>\$ 299,011</u>

Cash and investments as of December 31, 2021, consist of the following:

Deposits with financial institutions	\$ 1,469
Investments - COLOTRUST	<u>297,542</u>
	<u>\$ 299,011</u>

Deposits

Custodial Credit 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.

Investments

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.

FALLBROOK VILLAS METROPOLITAN DISTRICT

Notes to Financial Statements December 31, 2021

Interest Rate Risk

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

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 investment are not required to be categorized within the fair value hierarchy. The District's investment value is calculated using the net asset value method (NAV) per share.

As of December 31, 2021, the District had the following investment:

COLOTRUST

The local government investment pool, Colorado Local Government Liquid Asset Trust ("COLOTRUST PLUS+"), is rated AAAM by Standard & Poor's with a weighted average maturity of under 60 days. COLOTRUST is 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 the Trust. COLOTRUST records its investments at fair value and the District records its investment in COLOTRUST using the net asset value method. COLOTRUST operates similarly to a money market fund with each share maintaining a value of \$1.00. The COLOTRUST offers shares in three portfolios, one of which is COLOTRUST PLUS+. COLOTRUST PLUS+ may invest in U.S. Treasuries, government agencies, the highest-rated commercial paper, certain corporate securities, certain money market funds, and certain repurchase agreements, and limits its investments to those allowed by State statutes. Purchases and redemptions are available daily at a net asset value (NAV) of \$1.00. A designated custodial bank provides safekeeping and depository services to COLOTRUST in connection with the direct investment and withdrawal function of COLOTRUST. The custodian's internal records identify the investments owned by participating governments. There are no unfunded commitments and there is no redemption notice period. On December 31, 2021, the District had \$297,542 invested in COLOTRUST Plus+.

FALLBROOK VILLAS METROPOLITAN DISTRICT

Notes to Financial Statements
December 31, 2021

Note 3: Capital Assets

An analysis of the changes in capital assets for the year ended December 31, 2021, follows:

<u>Governmental Type Activities:</u>	<u>Balance 1/1/2021</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12/31/2021</u>
<u>Capital assets not being depreciated:</u>				
Construction in progress	\$4,371,790	\$ -	\$ -	\$ 4,371,790
Total capital assets not being depreciated	4,371,790	-	-	4,371,790
Government type assets, net	<u>\$4,371,790</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,371,790</u>

Pursuant to the Service Plan, all public improvements are to be owned and maintained by the City upon their completion and acceptance by the City, except for park and recreation improvements, which the District is obligated to continue to own and operate.

Note 4: Long Term Debt

A description of the long-term obligations as of December 31, 2021, is as follows:

\$2,405,000 General Obligation (Limited Tax Convertible to Unlimited Tax) Bonds, Series 2019A and \$398,000 Subordinate General Obligation Limited Tax Bonds, Series 2019B

On February 7, 2019, the District issued \$2,405,000 General Obligation (Limited Tax Convertible to Unlimited Tax) Bonds, Series 2019A (“Series 2019A Bonds”) and \$398,000 Subordinate General Obligation Limited Tax Bonds, Series 2019B (“Series 2019B Bonds”). The Series 2019A Bonds were issued for the purpose of financing public improvements related to a residential development in the City of Thornton, Colorado, (“the Development”) paying capitalized interest on the 2019A Bonds, funding a deposit to the Senior Reserve Fund and paying other costs in connection with the issuance of the Series 2019A Bonds. The Series 2019B Bonds were issued for purpose of funding additional public improvements related to the Development and paying other costs in connection with the issuance of the Series 2019B Bonds. The Series 2019A Bonds bear interest at the rate of 5.250%, payable semiannually on each June 1 and December 1, commencing on June 1, 2019, and mature on December 1, 2049. The Series 2019B Bonds bear interest at the rate of 7.750%, payable annually on December 15, commencing on December 15, 2019, to the extent that Subordinate Pledged Revenue is available, and mature on December 15, 2049. The Series 2019A Bonds are subject to a mandatory sinking fund redemption commencing on December 1, 2022 and are subject to redemption prior to maturity, at the option of the District, as a whole or in integral multiples of \$1,000, in any order of maturity and in whole or partial maturities, commencing on December 1, 2023, upon payment of par, accrued interest, and a redemption premium that ranges between 0% and 3%.

FALLBROOK VILLAS METROPOLITAN DISTRICT

Notes to Financial Statements
December 31, 2021

The Series 2019A Bonds are secured by the Senior Required Mill Levy, the portion of the Specific Ownership Tax which is collected as a result of the Senior Required Mill Levy, Capital Fees, and any other legally available moneys as determined by the District. The Series 2019A Bonds are also secured by the Senior Reserve Fund in the initial amount of \$192,825. The Series 2019B Bonds are secured by the Subordinate Required Mill Levy, the portion of the Specific Ownership Tax which is collected as a result of the Subordinate Required Mill Levy, the amount in the Senior Surplus Fund after the termination of such fund pursuant to the Senior Indenture, Subordinate Capital Fee Revenue, and any other legally available moneys as determined by the District.

The 2019B bonds are “cash flow” bonds meaning that no regularly scheduled principal payments are due prior to the maturity date, and interest not paid will accrue and compound until there is sufficient Subordinate Pledged Revenue for payment. In the event any amounts due and owing on the 2019B Bonds remain outstanding on December 15, 2057, such amounts shall be deemed discharged and shall no longer be due and outstanding.

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

	Balance <u>1/1/2021</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>12/31/2021</u>	Current <u>Portion</u>
<u>Bonds Payable</u>					
General Obligation Bonds 2019A	\$2,405,000	\$ -	\$ -	\$ 2,405,000	\$ 20,000
General Obligation Bonds 2019B	398,000	-	-	398,000	-
<u>Other Debt</u>					
Developer advance - Capital	<u>2,107,813</u>	<u>-</u>	<u>-</u>	<u>2,107,813</u>	<u>-</u>
Total	<u>\$4,910,813</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,910,813</u>	<u>\$ 20,000</u>

Debt Authorization

On November 3, 2015 a majority of the qualified electors of the District authorized the issuance of indebtedness in the amount not to exceed \$50,000,000. As of December 31, 2021, \$47,197,000 of this authorization remains unissued. The Service Plan provides that the District shall not issue bonds or other debt in excess of \$5,000,000. At December 31, 2021, \$2,197,000 of this authorization remains unissued.

FALLBROOK VILLAS METROPOLITAN DISTRICT

Notes to Financial Statements
December 31, 2021

The following is a summary of the annual long-term debt principal and interest requirements for the Series 2019A Bonds.

	Principal	Interest	Total
2022	\$ 20,000	\$ 126,263	\$ 146,263
2023	20,000	125,213	145,213
2024	25,000	124,163	149,163
2025	30,000	122,850	152,850
2026	30,000	121,275	151,275
2027-2031	210,000	578,288	788,288
2032-2036	315,000	512,925	827,925
2037-2041	445,000	417,113	862,113
2042-2046	630,000	282,450	912,450
2047-2049	680,000	82,685	762,685
	<u>\$ 2,405,000</u>	<u>\$ 2,493,225</u>	<u>\$ 4,898,225</u>

Because of the uncertainty of the timing of the principal and interest payment on the Series 2019B Bonds, no schedule of principal and interest payments is presented.

Note 5: Other Agreements

Advance, Acquisition and Reimbursement Agreement

On January 1, 2019, the District entered into an Advance, Acquisition and Reimbursement Agreement with Calatlantic Group, Inc., a Colorado limited liability company (the “Developer”) (the “Reimbursement Agreement”). The Reimbursement Agreement replaces a terminated Funding and Reimbursement Agreement dated June 1, 2016. The Reimbursement Agreement requires the Developer to construct and install all Public Improvements in accordance with City standards and specifications and warranty such improvements for the period required by the City upon the transfer to the District, the City or other applicable jurisdiction. The reimbursable cost of any Public Improvement transferred to the District, the City or other applicable jurisdiction is required to be determined based upon actual costs verified by the Developer, which costs may be verified by an independent public accountant, professional engineer or valuation consultant reasonably acceptable to the District based upon “as built” drawings and other construction documentation available and applicable to such Public Improvements. Reimbursements for Public Improvements may be made from appropriated legally available revenue not otherwise appropriated, obligated, pledged or reserved for any current or future purpose in any year. Reimbursements may also be made from the proceeds of tax-exempt bonds, subject to applicable law.

FALLBROOK VILLAS METROPOLITAN DISTRICT

Notes to Financial Statements December 31, 2021

Intergovernmental Agreement Regarding the Service Plan

On January 7, 2016, the District and the City entered into an Intergovernmental Agreement Regarding the Service Plan for the District (“the IGA”) which requires the District to convey all Public Improvements to the City or other appropriate jurisdiction except for park and recreation improvements, which the District is obligated to continue to own and operate. The IGA, with minor exceptions, also generally prohibits the District from constructing, acquiring or operating any fire protection, television relay and television and telecommunication facilities. The IGA further requires all Public Improvements to generally be constructed in accordance with City standards and specifications and be subject to City zoning and land use requirements. Finally, the IGA limited any District debt to \$5,000,000, prohibits the imposition of any fee for debt that is payable by an end user of taxable property subsequent to the issuance of a certificate of occupancy, imposes a maximum debt service mill levy that is consistent with the District’s definitions of Senior Required Mill Levy and Subordinate Required Mill Levy contained in the Indentures, and imposes a maximum debt service mill levy imposition term that is consistent with the discharge dates described herein.

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.

On November 3, 2015, 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.

FALLBROOK VILLAS METROPOLITAN DISTRICT

Notes to Financial Statements December 31, 2021

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. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

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.

Note 8: Related Party

For the year ended December 31, 2021, all of the Board of Directors are employees, owners or are otherwise associated with the Developer and may have conflicts of interest in dealing with the District. Management believes that all potential conflicts, if any, have been disclosed to the Board.

Note 9: Reconciliation of Government-Wide Financial Statements and 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, developer advances payable and accrued interest on bonds and developer advances are not due and payable in the current period and, therefore, are not in the funds.

FALLBROOK VILLAS METROPOLITAN DISTRICT

Notes to Financial Statements
December 31, 2021

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

- 1) 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,
- 2) governmental funds report developer advances and/or bond proceeds as revenue and report interest as expenditures; however, these are reported as changes to long-term liabilities on the government-wide financial statements.

Note 10: Prior Period Adjustment

It has been determined that a review of the District’s Advance, Acquisition and Reimbursement Agreement dated 1/1/2019 is silent as to operating advances (which had been contained in the 6/1/2016 Agreement), and operating advances are not contained in the “Reimbursable Costs” which are specifically defined as the costs of the Public Improvements. So, as discussed, it does appear that the District has no continuing obligation to pay/repay operating advances, and that the 1/1/2019 Agreement only requires repayment of capital advances, subject to annual appropriation, until such time as the Reimbursable Costs have been paid in full or 1/1/2059, whichever occurs first. As reflected below, the beginning Statement of Activities has been restated for the removal of the Operating advances owed and the General Fund balance has been restated for the removal of the Developer receivable.

	<u>Statement of Activities</u>	<u>General Fund</u>
Beginning Balance:	\$ (542,287)	\$ -
Remove developer receivable		(40,092)
Remove developer advances - Operating	<u>174,398</u>	<u>-</u>
Restated Beginning Balance:	<u>\$ (367,889)</u>	<u>\$ (40,092)</u>

Note 11: Noncompliance with Colorado Revised Statutes

Colorado Revised Statutes require that local governments submit audited financial statements for the calendar year-end by July 31 or September 30 if granted an extension of the following year. The District was not in compliance with this statutory requirement for the year ended December 31, 2021.

SUPPLEMENTAL INFORMATION

Fallbrook Villas Metropolitan District

SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL -
DEBT SERVICE FUND
For the Year Ended December 31, 2021

	Original & Final <u>Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
REVENUES			
Property taxes	\$ 153,974	\$ 151,775	\$ (2,199)
Specific ownership taxes	10,778	7,002	(3,776)
Interest and other income	<u>5,500</u>	<u>190</u>	<u>(5,310)</u>
Total Revenues	<u>170,252</u>	<u>158,967</u>	<u>(11,285)</u>
EXPENDITURES			
Bond interest expense	126,263	126,263	-
Paying agent fees	7,000	7,000	-
Treasurer's fees	<u>2,310</u>	<u>2,278</u>	<u>32</u>
Total Expenditures	<u>135,573</u>	<u>135,541</u>	<u>32</u>
NET CHANGE IN FUND BALANCE	34,679	23,426	(11,253)
FUND BALANCE:			
BEGINNING OF YEAR	<u>277,304</u>	<u>275,439</u>	<u>(1,865)</u>
END OF YEAR	<u><u>\$ 311,983</u></u>	<u><u>\$ 298,865</u></u>	<u><u>\$ (13,118)</u></u>

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

Fallbrook Villas Metropolitan District

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

For the Year Ended December 31, 2021

	Original & Final <u>Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
REVENUES			
Interest and other income	\$ -	\$ -	\$ -
Total Revenues	<u>-</u>	<u>-</u>	<u>-</u>
EXPENDITURES			
Contingency	<u>7,069</u>	<u>-</u>	<u>7,069</u>
Total Expenditures	<u>7,069</u>	<u>-</u>	<u>7,069</u>
NET CHANGE IN FUND BALANCE	(7,069)	-	7,069
FUND BALANCE:			
BEGINNING OF YEAR	<u>7,069</u>	<u>7,065</u>	<u>(4)</u>
END OF YEAR	<u>\$ -</u>	<u>\$ 7,065</u>	<u>\$ 7,065</u>

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

Fallbrook Villas Metropolitan District

SUMMARY OF ASSESSED VALUATION, MILL LEVY AND PROPERTY TAXES COLLECTED

December 31, 2021

<u>Collection year</u>	<u>Net Assessed Value</u>	<u>Mills Levied</u>		<u>Total Property Tax</u>		<u>Percent Collected to Levied</u>
		<u>General Fund</u>	<u>Debt Service</u>	<u>Levied</u>	<u>Collected</u>	
2017	\$ 1,330	0.000	0.000	\$ -	\$ -	0.00%
2018	\$ 412,730	11.056	55.277	\$ 27,378	\$ 27,377	100.00%
2019	\$ 970,670	11.056	55.277	\$ 64,387	\$ 64,388	100.00%
2020	\$ 1,802,080	11.132	55.664	\$ 120,372	\$ 119,612	99.37%
2021	\$ 2,766,130	24.123	55.664	\$ 220,701	\$ 217,549	98.57%
Estimated for year ending December 31, 2022	\$ 4,250,300	24.123	55.664	\$ 339,119		

NOTE

Property taxes collected in any one year include collection of delinquent property taxes levied and/or abatements or valuations in prior years. Information received from the County Treasurer does not permit identification of specific year assessment.