

**FALCON HIGHLANDS
METROPOLITAN DISTRICT
El Paso County, Colorado**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
YEAR ENDED DECEMBER 31, 2021**

**FALCON HIGHLANDS METROPOLITAN DISTRICT
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Dazzio & Associates, PC

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Falcon Highlands Metropolitan District
El Paso County, Colorado

Qualified and Unmodified Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of the Falcon Highlands 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.

Summary of Opinions

<u>Opinion Unit</u>	<u>Type of Opinion</u>
Governmental Activities	Qualified
Business-type Activities	Unmodified
Governmental Funds	Unmodified
Enterprise Fund	Unmodified

Qualified Opinion on Governmental Activities

In our opinion, because of the significance of the matter discussed in the Basis for Qualified and Unmodified Opinions section of our report, the financial statements referred to above do not present fairly the financial position of the governmental activities of the District, as of December 31, 2021, or the changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions on Business-type Activities and Each Major Fund

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of the District as of December 31, 2021, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Qualified and Unmodified Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the 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 qualified and unmodified audit opinions.

Matter Giving Rise to Qualified Opinion on Governmental Activities

As discussed in Note 5 to the financial statements, management does not have sufficient information to verify certain developer notes recorded in governmental activities and to record accrued interest payable on the notes. Accounting principles generally accepted in the United States of America require that all potential obligations be recorded, which would increase the liabilities and expenses of the governmental activities and decrease net position. The amount by which this departure would affect the assets, net position and expenses of the governmental activities has not been determined.

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 financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Supplementary Information

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

Supplementary Information is 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 included in the annual report. 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 any form of 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.

Dassio & Associates, P.C.

September 20, 2022

BASIC FINANCIAL STATEMENTS

**FALCON HIGHLANDS METROPOLITAN DISTRICT
STATEMENT OF NET POSITION
DECEMBER 31, 2021**

	Governmental Activities	Business- Type Activities	Total
ASSETS			
Cash and Investments	\$ 1,450,350	\$ 438,791	\$ 1,889,141
Cash and Investments - Restricted	995,486	-	995,486
Accounts Receivable	11,951	29,778	41,729
Prepaid Expense	2,408	13,076	15,484
Prepaid Insurance	9,127	13,691	22,818
Receivable from County Treasurer	8,564	-	8,564
Property Taxes Receivable	1,109,419	-	1,109,419
Capital Assets, Not Being Depreciated	1,345,302	402,786	1,748,088
Capital Assets, Net	-	3,186,478	3,186,478
Total Assets	4,932,607	4,084,600	9,017,207
LIABILITIES			
Accounts Payable	13,089	41,647	54,736
Tap Review Fee Escrow	-	71,000	71,000
2007 Bond Interest Escrow	250,000	-	250,000
Bonds Payable	10,787,219	-	10,787,219
Accrued Bond Interest Payable	11,765,241	-	11,765,241
Noncurrent Liabilities:			
Due Within One Year	235,000	-	235,000
Due In More Than One Year	7,571,507	-	7,571,507
Total Liabilities	30,622,056	112,647	30,734,703
DEFERRED INFLOWS OF RESOURCES			
Property Tax Revenue	1,109,419	-	1,109,419
Total Deferred Inflows of Resources	1,109,419	-	1,109,419
NET POSITION			
Net Investments in Capital Assets	1,345,302	3,589,264	4,934,566
Restricted for:			
Emergency Reserves	12,100	-	12,100
Conservation Trust	301	-	301
Unrestricted	(28,156,571)	382,689	(27,773,882)
Total Net Position	\$ (26,798,868)	\$ 3,971,953	\$ (22,826,915)

See accompanying Notes to Basic Financial Statements.

**FALCON HIGHLANDS METROPOLITAN DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2021**

FUNCTIONS/PROGRAMS	Expenses	Program Revenues			Net Revenues (Expenses) and Change in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary Government:							
Governmental Activities:							
General Government	\$ 243,625	\$ 131,718	\$ -	\$ 5,605	\$ (106,302)	\$ -	\$ (106,302)
Interest and Related Costs on Long-Term Debt	1,829,651	-	-	-	(1,829,651)	-	(1,829,651)
Total Governmental Activities	<u>\$ 2,073,276</u>	<u>\$ 131,718</u>	<u>\$ -</u>	<u>\$ 5,605</u>	(1,935,953)	-	(1,935,953)
Business-Type Activities:							
Enterprise	\$ 576,105	\$ 550,845	\$ -	\$ -	-	(25,260)	(25,260)
Total Business-Type Activities	<u>\$ 576,105</u>	<u>\$ 550,845</u>	<u>\$ -</u>	<u>\$ -</u>	-	(25,260)	(25,260)
GENERAL REVENUES AND TRANSFERS							
					890,460	-	890,460
					104,460	-	104,460
					1,309	76	1,385
					31,770	-	31,770
					(56,500)	56,500	-
					<u>971,499</u>	<u>56,576</u>	<u>1,028,075</u>
CHANGE IN NET POSITION					(964,454)	31,316	(933,138)
Net Position - Beginning of Year, As Restated					<u>(25,834,414)</u>	<u>3,940,637</u>	<u>(21,893,777)</u>
NET POSITION - END OF YEAR					<u>\$ (26,798,868)</u>	<u>\$ 3,971,953</u>	<u>\$ (22,826,915)</u>

See accompanying Notes to Basic Financial Statements.

**FALCON HIGHLANDS METROPOLITAN DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2021**

	General	Conservation Trust Fund	Debt Service	Total Governmental Funds
ASSETS				
Cash and Investments	\$ 1,450,350	\$ -	\$ -	\$ 1,450,350
Cash and Investments - Restricted	12,100	301	983,085	995,486
Accounts Receivable	11,951	-	-	11,951
Prepaid Expense	2,408	-	-	2,408
Prepaid Insurance	9,127	-	-	9,127
Receivable from County Treasurer	8,292	-	272	8,564
Property Taxes Receivable	188,186	-	921,233	1,109,419
	\$ 1,682,414	\$ 301	\$ 1,904,590	\$ 3,587,305
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
LIABILITIES				
Accounts Payable	\$ 8,671	\$ -	\$ 4,418	\$ 13,089
2007 Bond Interest Escrow	-	-	250,000	250,000
Total Liabilities	8,671	-	254,418	263,089
DEFERRED INFLOWS OF RESOURCES				
Property Tax Revenue	188,186	-	921,233	1,109,419
Total Deferred Inflows of Resources	188,186	-	921,233	1,109,419
FUND BALANCES				
Nonspendable:				
Prepaid Amounts	11,535	-	-	11,535
Restricted for:				
Emergency Reserves	12,100	-	-	12,100
Debt Service	-	-	728,939	728,939
Conservation Trust	-	301	-	301
Unassigned	1,461,922	-	-	1,461,922
Total Fund Balances	1,485,557	301	728,939	2,214,797
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 1,682,414	\$ 301	\$ 1,904,590	
Amounts reported for governmental activities in the statement of net position are different because:				
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the funds.				
Capital Assets, Net				1,345,302
Long-term liabilities, including developer advances, are not due and payable in the current period and, therefore, are not reported in the funds.				
Bonds and Notes Payable				(13,755,000)
Bond Discount, Net				27,781
Accrued Bond Interest				(11,765,241)
Developer Advances (Related Parties) Payable				(4,866,507)
Net Position of Governmental Activities				\$ (26,798,868)

See accompanying Notes to Basic Financial Statements.

**FALCON HIGHLANDS METROPOLITAN DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2021**

	General	Conservation Trust Fund	Debt Service	Total Governmental Funds
REVENUES				
Property Taxes	\$ 131,655	\$ -	\$ 758,805	\$ 890,460
Specific Ownership Taxes	104,460	-	-	104,460
Conservation Trust Fund Proceeds	-	5,605	-	5,605
Maintenance Fees	131,718	-	-	131,718
Other Income	31,770	-	-	31,770
Net Investment Income	602	3	704	1,309
Total Revenues	<u>400,205</u>	<u>5,608</u>	<u>759,509</u>	<u>1,165,322</u>
EXPENDITURES				
General Government	230,519	-	-	230,519
Conservation Trust Fund	-	13,106	-	13,106
Debt Service	-	-	709,015	709,015
Total Expenditures	<u>230,519</u>	<u>13,106</u>	<u>709,015</u>	<u>952,640</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	169,686	(7,498)	50,494	212,682
OTHER FINANCING SOURCES (USES)				
Transfers In (Out)	(56,500)	-	-	(56,500)
Total Other Financing Sources (Uses)	<u>(56,500)</u>	<u>-</u>	<u>-</u>	<u>(56,500)</u>
NET CHANGE IN FUND BALANCES	113,186	(7,498)	50,494	156,182
Fund Balances - Beginning of Year	<u>1,372,371</u>	<u>7,799</u>	<u>678,445</u>	<u>2,058,615</u>
FUND BALANCES - END OF YEAR	<u><u>\$ 1,485,557</u></u>	<u><u>\$ 301</u></u>	<u><u>\$ 728,939</u></u>	<u><u>\$ 2,214,797</u></u>

See accompanying Notes to Basic Financial Statements.

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

Net Change in Fund Balances - Governmental Funds	\$ 156,182
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Amounts reported for governmental activities in the statement of activities are different because:

The issuance of long-term debt (e.g., bonds and developer advances), 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 Payment	220,000
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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 Bond Interest Payable - Change in Liability	(1,337,366)
Amortization of Original Issue Discount	(3,270)

Change in Net Position of Governmental Activities	<u>\$ (964,454)</u>
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**FALCON HIGHLANDS METROPOLITAN DISTRICT
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL
YEAR ENDED DECEMBER 31, 2021**

	Original and Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Property Taxes	\$ 131,515	\$ 131,655	\$ 140
Specific Ownership Taxes	88,951	104,460	15,509
Maintenance Fees	131,000	131,718	718
Other Income	-	31,770	31,770
Net Investment Income	6,600	602	(5,998)
Total Revenues	<u>358,066</u>	<u>400,205</u>	<u>42,139</u>
EXPENDITURES			
Accounting	40,000	16,536	23,464
Audit	8,700	8,500	200
County Treasurer's Fees	1,973	1,976	(3)
District Management	50,000	42,937	7,063
Directors Fees	3,000	1,600	1,400
Utilities	30,000	14,387	15,613
Professional Services	5,000	-	5,000
Equipment Expense	10,000	-	10,000
Fuel	2,000	-	2,000
Insurance	10,000	9,438	562
Landscape Maintenance	5,000	-	5,000
Legal	45,000	59,078	(14,078)
Operating Expense	500	-	500
Payroll - Wages and Taxes	230	145	85
Repairs and Maintenance	10,000	-	10,000
Miscellaneous	5,000	428	4,572
General Improvement	12,000	-	12,000
Park Improvements	55,000	75,494	(20,494)
Storm Drainage	10,000	-	10,000
Trail Maintenance	10,000	-	10,000
Contingency	13,597	-	13,597
Total Expenditures	<u>327,000</u>	<u>230,519</u>	<u>96,481</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	31,066	169,686	138,620
OTHER FINANCING SOURCES (USES)			
Transfer (to) / from Other Funds	<u>(50,000)</u>	<u>(56,500)</u>	<u>(6,500)</u>
Total Other Financing Sources (Uses)	<u>(50,000)</u>	<u>(56,500)</u>	<u>(6,500)</u>
NET CHANGE IN FUND BALANCE	(18,934)	113,186	132,120
Fund Balance - Beginning of Year	<u>1,333,305</u>	<u>1,372,371</u>	<u>39,066</u>
FUND BALANCE - END OF YEAR	<u>\$ 1,314,371</u>	<u>\$ 1,485,557</u>	<u>\$ 171,186</u>

See accompanying Notes to Basic Financial Statements.

**FALCON HIGHLANDS METROPOLITAN DISTRICT
 CONSERVATION TRUST FUND
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
 BUDGET AND ACTUAL
 YEAR ENDED DECEMBER 31, 2021**

	Original and Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Conservation Trust Fund Proceeds	\$ 5,000	\$ 5,605	\$ 605
Net Investment Income	25	3	(22)
Total Revenues	<u>5,025</u>	<u>5,608</u>	<u>583</u>
EXPENDITURES			
Repairs and Maintenance	<u>13,106</u>	<u>13,106</u>	-
Total Expenditures	<u>13,106</u>	<u>13,106</u>	-
NET CHANGE IN FUND BALANCE	(8,081)	(7,498)	583
Fund Balance - Beginning of Year	<u>8,081</u>	<u>7,799</u>	<u>(282)</u>
FUND BALANCE - END OF YEAR	<u>\$ -</u>	<u>\$ 301</u>	<u>\$ 301</u>

See accompanying Notes to Basic Financial Statements.

**FALCON HIGHLANDS METROPOLITAN DISTRICT
ENTERPRISE FUND
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEAR ENDED DECEMBER 31, 2021**

OPERATING REVENUES

Water Usage Fees	\$ 236,068
Water Treatment Fees	116,508
Administrative Fees	82,870
Penalties	3,820
Facility Fees	29,126
Meter Fees	1,461
O&M Fees	813
Inspection Fees	90
Water Tap Fees	80,000
Other Income	89
Total Operating Revenues	550,845

OPERATING EXPENSES

Facility Operations:	
Repairs and Maintenance	4,100
Operating Expense	18,429
Security	5,668
Supplies - Treatment Facility	12,121
Woodman Hills Contract	48,012
Utilities	93,614
Utility Billing	40,986
Depreciation	141,955
Administration and General Expenses:	
Accounting	20,670
Dues and Subscriptions	1,149
District Management	55,818
Professional Services	37,101
Legal	78,771
Insurance	14,157
Telephone	888
Utility Locates	644
Capital Outlay	1,023
Miscellaneous Expense	999
Total Operating Expenses	576,105

OPERATING INCOME (LOSS) (25,260)

NONOPERATING REVENUES (EXPENSES)

Net Investment Income	76
Total Nonoperating Revenues (Expenses)	76

INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS (25,184)

Transfers In	56,500
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CHANGE IN NET POSITION 31,316

Total Net Position - Beginning of Year	3,940,637
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TOTAL NET POSITION - END OF YEAR \$ 3,971,953

See accompanying Notes to Basic Financial Statements.

**FALCON HIGHLANDS METROPOLITAN DISTRICT
ENTERPRISE FUND
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2021**

CASH FLOWS FROM OPERATING ACTIVITIES

Cash Received from Customers	\$ 424,496
Cash Payments to Suppliers for Goods and Services	(433,573)
Water Tap Fees	80,000
Other Cash Received	35,399
Net Cash Provided by Operating Activities	106,322

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Transfers from Other Funds	56,500
Net Cash Provided by Noncapital Financing Activities	56,500

CASH FLOWS FROM INVESTING ACTIVITIES

Net Investment Income	76
Net Cash Provided by Investing Activities	76

NET INCREASE IN CASH AND CASH EQUIVALENTS

162,898

Cash and Cash Equivalents - Beginning of Year

275,893

CASH AND CASH EQUIVALENTS - END OF YEAR

\$ 438,791

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Operating Income (Loss)	\$ (25,260)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities	
Depreciation	141,955
Decrease (Increase) in Accounts Receivable	4,050
Decrease (Increase) in Prepaid Expenses	(2,403)
Increase (Decrease) in Accounts Payable	2,980
Increase (Decrease) in Tap Review Fee Escrow	(15,000)
Net Cash Provided by Operating Activities	\$ 106,322

**FALCON HIGHLANDS METROPOLITAN DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 1 DEFINITION OF REPORTING ENTITY

Falcon Highlands Metropolitan District (the District), a quasi-municipal corporation and political subdivision of the State of Colorado, was organized by order and decree of the District Court of El Paso County, Colorado on November 14, 2002, and is governed pursuant to provisions of the Colorado Special District Act (Title 32, Article 1, Colorado Revised Statutes). The District operates under a Service Plan approved by El Paso County Commissioners on July 25, 2002. The District's boundaries and service area is located in unincorporated El Paso County, Colorado. The District was established to provide water, sanitary sewage, drainage, landscaping, public transportation, street improvements, traffic and safety controls, parks and recreation facilities, mosquito control and television relay and translation systems.

The District follows the Governmental Accounting Standards Board (GASB) accounting pronouncements which provide guidance for determining which governmental activities, organizations and functions should be included within the financial reporting entity. GASB pronouncements set forth the financial accountability of a governmental organization's elected governing body as the basic criterion for including a possible component governmental organization in a primary government's legal entity. Financial accountability includes, but is not limited to, appointment of a voting majority of the organization's governing body, ability to impose its will on the organization, 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 more significant accounting policies of the District are described 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. Both statements distinguish between governmental activities, which normally are supported by taxes and intergovernmental revenues, and business-type activities, which rely to a significant extent on fees and charges for support.

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

**FALCON HIGHLANDS METROPOLITAN DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government-Wide and Fund Financial Statements (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is 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 the governmental funds and proprietary funds. Major individual governmental and enterprise 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 government 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. The District determined that Developer advances are not considered as revenue susceptible to accrual. 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 Special Revenue - Conservation Trust Fund – This fund is used to account for conservation trust revenues that are restricted for the acquisition, development and maintenance of new conservation sites or for capital improvements or maintenance of recreational purposes on any public site.

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.

**FALCON HIGHLANDS METROPOLITAN DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation
(Continued)**

The District reports the following major proprietary funds:

The Enterprise Fund accounts for the water and sanitary sewage operations that are financed and operated in a manner where the intent of the District is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are other charges between the District's water and sanitary sewage function and various other functions of the District. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include: 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating revenues consist of charges to customers for service provided. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses or capital contributions.

Budgets

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

**FALCON HIGHLANDS METROPOLITAN DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Cash Equivalents

For purposes of the statement of cash flows, the District considers cash deposits and highly liquid investments (including restricted assets) with a maturity of three months or less when purchased, to be cash equivalents.

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.

Capital Assets

Capital assets, which include property, water rights, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, water and sanitary sewage facilities, and similar items), are reported in the applicable governmental or business-type 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. 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.

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

The costs of normal maintenance and repairs that do not add to the value of the asset 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.

**FALCON HIGHLANDS METROPOLITAN DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets (Continued)

Depreciation expense has been computed using the straight-line method over the following estimated economic useful lives:

Water and Sanitary Sewage Facilities	30 – 40 Years
Machinery, Equipment, and Vehicles	5 – 10 Years

Tap Fees and Contributed Lines

Tap fees are recorded as capital contributions when received. Lines contributed to the District by developers are recorded as capital contributions and additions to the systems at estimated fair value when received.

Water Rights

The cost of water rights includes acquisition cost, legal and engineering costs related to the development and augmentation of those rights. Since the rights have a perpetual life, they are not amortized. All other costs, including costs incurred for the protection of those rights, are expensed.

Amortization

Original Issue Discount/Premium

In the government-wide financial statements, bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

Deferred Inflows of Resources

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period 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. Accordingly, the item, *property tax revenue*, is deferred and recognized as an inflow of resources in the period that the amount becomes available.

Equity

Net Position

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

**FALCON HIGHLANDS METROPOLITAN DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Equity (Continued)

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: nonspendable, restricted, committed, assigned, and unassigned. Because circumstances differ among governments, not every government or every governmental fund will present all of these components. The following classifications describe the relative strength of the spending constraints:

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

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

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

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

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

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

NOTE 3 CASH AND INVESTMENTS

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

Statement of Net Position:

Cash and Investments	\$ 1,889,141
Cash and Investments - Restricted	995,486
Total Cash and Investments	<u>\$ 2,884,627</u>

**FALCON HIGHLANDS METROPOLITAN DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 3 CASH AND INVESTMENTS (CONTINUED)

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

Deposits with Financial Institutions	\$	877,251
Investments		<u>2,007,376</u>
Total Cash and Investments	<u>\$</u>	<u>2,884,627</u>

Deposits with Financial Institutions

The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulators. Amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is determined by the PDPA. 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.

At December 31, 2021, the District's cash deposits had a bank balance of \$875,656 and a carrying balance of \$877,251.

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 noted with an asterisk (*) 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 or 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.

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 securities of 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

**FALCON HIGHLANDS METROPOLITAN DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 3 CASH AND INVESTMENTS (CONTINUED)

Investments (Continued)

- . Commercial paper
- . Written repurchase agreements and certain reverse repurchase agreements collateralized by certain authorized securities
- . Certain money market funds
- . Guaranteed investment contracts
- . Local government investment pools

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

<u>Investment</u>	<u>Maturity</u>	<u>Amount</u>
Colorado Surplus Asset Fund Trust (CSAFE)	Weighted-Average Under 60 Days	\$ 2,007,376

CSAFE

The District invested in the Colorado Surplus Asset Fund Trust (CSAFE) (the Trust), 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 the Trust. The Trust is similar to a money market fund, with each share valued at \$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. 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. CSAFE is rated AAAM by Standard & Poor's. CSAFE records its investments at amortized cost and the District records its investments in CSAFE at net asset value as determined by amortized cost. There are no unfunded commitments, the redemption frequency is daily and there is no redemption notice period.

**FALCON HIGHLANDS METROPOLITAN DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 4 CAPITAL ASSETS

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

	Balance at December 31, 2020	Increases	Decreases	Balance at December 31, 2021
Governmental Activities:				
Capital Assets, not Being Depreciated:				
Land	\$ 1,345,302	\$ -	\$ -	\$ 1,345,302
Total Capital Assets, not Being Depreciated	1,345,302	-	-	1,345,302
Capital Assets, Being Depreciated:				
Equipment and Systems	7,804	-	-	7,804
Less Accumulated Depreciation for:				
Equipment and Systems	7,804	-	-	7,804
Total Capital Assets, Being Depreciated, Net	-	-	-	-
Governmental Activities Capital Assets, Net	<u>\$ 1,345,302</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,345,302</u>
Business-Type Activities:				
Capital Assets, Not Being Depreciated:				
Water Rights	\$ 402,786	\$ -	\$ -	\$ 402,786
Total Capital Assets, not Being Depreciated	402,786	-	-	402,786
Capital Assets, Being Depreciated:				
Equipment and Systems	6,222,027	-	-	6,222,027
Vehicles	40,659	-	-	40,659
Total Capital Assets, Being Depreciated:	6,262,686	-	-	6,262,686
Less Accumulated Depreciation for:				
Equipment and Systems	2,893,804	141,745	-	3,035,549
Vehicles	40,449	210	-	40,659
Total Accumulated Depreciation	2,934,253	141,955	-	3,076,208
Total Capital Assets, Being Depreciated, Net	3,328,433	(141,955)	-	3,186,478
Business-Type Activities Capital Assets, Net	<u>\$ 3,731,219</u>	<u>\$ (141,955)</u>	<u>\$ -</u>	<u>\$ 3,589,264</u>

**FALCON HIGHLANDS METROPOLITAN DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 5 LONG-TERM OBLIGATIONS

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

	Balance at December 31, 2020	Additions	Reductions	Balance at December 31, 2021	Due Within One Year
Governmental Activities:					
Bonds Payable:					
G.O. Limited Tax Senior					
Series 2004A (1)	\$ 6,100,000	\$ -	\$ 220,000	\$ 5,880,000	\$ 235,000
Original Issue Discount					
Series 2004A (1)	31,051	-	3,270	27,781	-
Series 2004A Accrued Interest	19,380	464,426	465,125	18,681	-
G.O. Limited Tax Subordinate					
Series 2007 (1)	4,935,000	-	-	4,935,000	-
Series 2007 Accrued Interest	8,616,616	1,176,365	-	9,792,981	-
Bonds Payable Subtotal	<u>19,639,945</u>	<u>1,640,791</u>	<u>681,855</u>	<u>20,598,881</u>	<u>235,000</u>
Loans/Notes from Direct					
Borrowings/Direct Placements:					
Series 2004 B-1 Subordinate Notes	1,000,000	-	-	1,000,000	-
Series 2004 B-1 Accrued Interest	654,500	55,000	-	709,500	-
Series 2006 B-2 Subordinate Notes	1,500,000	-	-	1,500,000	-
Series 2006 B-2 Accrued Interest	879,417	82,500	-	961,917	-
Series 2006 B-3 Subordinate Notes	440,000	-	-	440,000	-
Series 2006 B-3 Accrued Interest	257,962	24,200	-	282,162	-
Cygnet, LLC - Note Payable	4,025,291	-	-	4,025,291	-
RDS, LLC - Note Payable	128,682	-	-	128,682	-
Tamlin Ventures, LLC -					
Note Payable	447,534	-	-	447,534	-
Cygnet, LLC - Letter of Credit	265,000	-	-	265,000	-
Loans/Notes Payable Subtotal	<u>9,598,386</u>	<u>161,700</u>	<u>-</u>	<u>9,760,086</u>	<u>-</u>
Total Long-Term Liabilities	<u>\$ 29,238,331</u>	<u>\$ 1,802,491</u>	<u>\$ 681,855</u>	<u>\$ 30,358,967</u>	<u>\$ 235,000</u>

(1) Based on failure to make water tap and infrastructure improvement fees as identified in Note 5, the District may be in default on various bond obligations and therefore they are shown as current liabilities in the statement of net position.

**FALCON HIGHLANDS METROPOLITAN DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 5 LONG-TERM OBLIGATIONS (CONTINUED)

Accrued interest payable for the Cygnet, LLC, RDS, LLC and Tamlin Ventures, LLC notes payable has not been allocated due to the District not having documentation regarding these obligations to substantiate an interest amount.

The details of the District's long-term obligations are as follows:

General Obligation Bonds and Notes

On June 16, 2004, the District issued and authorized the following Bonds and Notes: 1) \$9,465,000 General Obligation Limited Tax Bonds, Series 2004A (the Bonds), 2) \$1,000,000 General Obligation Limited Tax Notes, Series 2004 B-1 (the Series 2004 B-1 Notes); and authorized the issuance of the 3) \$1,500,000 General Obligation Limited Tax Notes, Series 2006B-2 (the Series 2006 B-2 Notes), 4) \$440,000 Subordinate General Obligation Limited Tax Notes, Series 2006 B-3 (the Series 2006 B-3 Notes) upon fulfillment of certain conditions and authorization by the Board of Directors of the District. The Series 2006 B 2 and the Series 2006 B-3 Notes were issued during 2006. The Series 2004 B-1 Notes, the Series 2006 B-2 Notes and the Series 2006 B-3 Notes (collectively the Notes) and the Bonds, were issued for the purposes of: (i) constructing certain infrastructure improvements within the District; (ii) reimbursing the Developer for funds expended by the Developer for organizational costs of the District and construction of certain infrastructure improvements completed by the Developer within the District; (iii) funding the Reserve Account for the Bonds, which Reserve Account is available to pay debt service on the Bonds under certain circumstances; (iv) paying approximately one and one-fourth year's capitalized interest on the bonds; and (v) paying the issuance expenses and Underwriter's fees with respect to the Bonds and Notes.

General Obligation Limited Tax Bonds, Series 2004A

The Bonds bear interest at 7.625%, calculated on the basis of a 360-day year of twelve 30-day months, payable semi-annually on June 15 and December 15, beginning on December 15, 2004. Annual mandatory sinking fund principal payments are due on December 15, beginning on December 15, 2005. The Bonds mature on December 15, 2034. The Bonds are subject to redemption prior to maturity at the option of the District beginning June 15, 2014, at a premium of 102%; which premium reduces to zero after June 15, 2016.

\$4,935,000 General Obligation Limited Tax Subordinate Bonds, Series 2007

On February 26, 2007, the District issued the \$4,935,000 General Obligation Limited Tax Subordinate Bonds, Series 2007 (the Series 2007 Bonds). The Series 2007 Bonds were issued for the following purposes: (i) to construct certain infrastructure improvements within the District; (ii) to reimburse the Developer for construction of certain infrastructure improvements completed, (iii) to pay a portion of approximately 20 months of capitalized interest on the Series 2007 Bonds; and (iv) to pay the issuance expenses and underwriter's fees with respect to the Series 2007 Bonds.

**FALCON HIGHLANDS METROPOLITAN DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 5 LONG-TERM OBLIGATIONS (CONTINUED)

\$4,935,000 General Obligation Limited Tax Subordinate Bonds, Series 2007 (Continued)

The Series 2007 Bonds bear interest at 8.500%, payable semi-annually on June 15 and December 15, beginning on June 15, 2007. To the extent interest on the Series 2007 Bonds is not paid when due, such interest compounds semi-annually on June 15 and December 15 at the rate of the bonds. The Series 2007 Bonds are subject to optional and extraordinary redemption. The Series 2007 Bonds are subordinate in all respects to the District's 2004A Bonds but senior to the payment of debt service on the Notes. Principal of, and interest on the Series 2007 Bonds payable on any interest payment date will be made only to the extent that the District has revenue in excess of debt service requirements of the Series 2004A Bonds or from sources not pledged to the payment of the Series 2004A Bonds. Unpaid principal and interest on the Series 2007 Bonds due on any date will accrue until such time as the Series 2004A Bonds are no longer outstanding or the District's revenues exceed then current debt service on the Series 2004A Bonds. Furthermore, owners of the Series 2007 Bonds have no power to exercise, or to direct the Trustee to exercise, any remedy upon default or otherwise while the Series 2004A Bonds are outstanding.

The Series 2007 Bonds share the same pledged revenue sources as the 2004A Bonds and the Notes. In addition to said pledged revenue, the Series 2007 Bonds and the Notes are also payable from drainage and other credits (if, and to the extent received by the District, the Credits) paid to the District by El Paso County, Colorado, which Credits are not pledged to the payment of debt service on the Series 2004A Bonds.

General Obligation Limited Tax Notes, Series 2004 B-1, Series 2006 B-2 and Series 2006 B-3

The Notes bear interest at 2.000% - 8.000%, calculated on the basis of a 360-day year of twelve 30-day months, payable annually on December 15, to the extent funds are available for payment. The Notes shall bear interest at the rates established from the date of issuance until paid and shall mature, unless paid sooner, as to the Series 2004 B-1 Notes, on December 15, 2035, and, as to the Series 2006 B-2 and Series 2006 B-3 Notes, on December 15, 2037.

During 2011, the 2006 B-2 Notes were assigned to Enterprise Bank & Trust Co. in a civil case, No. 11-CV-00026-CV-W-DW, pursuant to a Commercial Pledge Agreement executed by Cygnet Land, LLC.

The Bonds and the Notes constitute limited tax obligations of the District. The principal of, premium if any, and interest on or in connection with the Bonds, and the principal of and interest on or in connection with the Notes, are payable solely from and to the extent of the revenues of the District pledged to the payment of the Bonds and the Notes. Pledged revenues, consisting of monies derived from the District from: (i) its Limited Mill Levy, except for that portion thereof levied for operations and maintenance expense of the District, (ii) Infrastructure Improvement Fees, (iii) Facility Fees, (iv) Water Tap Fees and (v) with respect to the Notes only, any monies received from the District not pledged to the payment of the Bonds or operations and maintenance expenses of the District, are pledged to the payment of the Bonds and the Notes. The Pledged Revenues are first applied to the Bond Accounts then to the Note Accounts as monies are available.

**FALCON HIGHLANDS METROPOLITAN DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 5 LONG-TERM OBLIGATIONS (CONTINUED)

Water Tap Fee and Infrastructure Improvement Fee Resolutions

Pursuant to the Trust Indenture dated June 1, 2004, related to the District's: 1) Series 2004A Bonds, (ii) its Series 2004B-1 Notes, (iii) its Series 2006B-2 Notes, (iv) its Series 2006B 3 Notes, and also related to the Supplemental Trust Indenture dated February 15, 2007, issued in connection with the (v) Series 2007 Bonds, by and among the District, Cygnet Land, LLC (the Developer), and U.S. Bank National Association, as successor to SunTrust Bank (the Trustee), it was agreed that the District would pledge certain fee revenue to the repayment of the bonds as adopted with the June 16, 2004, Water Tap Fee Resolution imposing water tap fees (the Water Tap Fees) on single-family and multi-family residences to be constructed within the District and the District also adopted an Infrastructure Improvement Fee Resolution imposing infrastructure improvement fees (the Infrastructure Improvement Fees) on such residences to be constructed in the District and also imposing facility fees (the Facility Fees) on office, commercial and light industrial buildings to be constructed within the District, (collectively the Resolutions).

Water Tap Fee and Infrastructure Improvement Fee Agreement

On June 24, 2004, the District entered into the Water Tap Fee and Infrastructure Improvement Fee Agreement (Fee Agreement) with Cygnet Land, LLC (the Developer) and Falcon Highlands, LLC (the Primary Property Owner). This Fee Agreement was amended on May 15, 2009 (see Note 5 - Amendment No. 1 to Water Tap Fee and Infrastructure Fee Agreement and the Amendment No. 1 to Trust Indenture). This information is included for historical purposes. Pursuant to the Resolutions, Water Tap Fees and Infrastructure Improvement Fees are to be paid by builders prior to the issuance of a building permit for a residential unit. To the extent that the number of Water Tap Fees and Infrastructure Improvement Fees paid in each semi-annual period (commencing May 1 and November 1) during the years 2005 to and including 2016 is less than the number of Water Tap Fees and Infrastructure Improvement Fees specified for such semi-annual period, as detailed below, the Primary Property Owner or, under certain circumstances, the Developer, agree to pay the remaining number of Water Tap Fees and Infrastructure Improvement Fees for such semi-annual period.

The amount of the Water Tap Fee for each single-family unit is \$5,000 and the amount for each multi-family unit is \$1,250, as established in the Water Tap Fee Resolution. The amount of the Infrastructure Improvement Fee for each single-family unit is \$2,500 and the amount for each multi-family unit is \$625, as established in the Infrastructure Improvement Fee Resolution; provided, however, the amount of the Water Tap Fee and the Infrastructure Improvement Fees, collectively, shall increase 25% each five years, commencing in 2009.

In order to secure the Developer's obligation to pay Water Tap Fees and Infrastructure Improvement Fees, the Developer provided to the District an irrevocable, stand-by letter of credit (the First Community Bank Irrevocable Letter of Credit No. 1987, Letter of Credit) in the aggregate amount of \$500,000. Such Letter of Credit permitted the Trustee on behalf of the District, to draw on the Letter of Credit, up to the full amount. Pursuant to the May 15, 2009, Amendment No. 1 to the Water Tap Fee and Infrastructure Improvement Fee Agreement and the Amendment No. 1 to the Trust Indenture, the Letter of Credit expired on June 1, 2009.

**FALCON HIGHLANDS METROPOLITAN DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 5 LONG-TERM OBLIGATIONS (CONTINUED)

Water Tap Fee and Infrastructure Improvement Fee Agreement (Continued)

The Fee Agreement was filed in the real property records of El Paso County, Colorado, at Reception No. 204105260, as a lien upon the properties identified in the Fee Agreement and can be foreclosed upon, at the option of the bondholders, in the event the Developer defaults in its obligations surrounding the Letter of Credit. The Trustee, on behalf of the District may take any other remedies available to it against the Primary Property Owner and the Developer.

Once the number of Water Tap Fees and Infrastructure Improvement Fees have been reduced to a point that the amount to be received by the District is less than \$500,000, the Developer was to be allowed to reduce the amount available under the Letter of Credit to a corresponding level and continue reducing such amount available as additional Water Tap Fees and Infrastructure Improvement Fees are paid. When all Water Tap Fees and Infrastructure Improvement Fees to be paid under this Fee Agreement have been paid, any remaining property of the Developer pledged under this Fee Agreement will be released from the lien thereon and the Letter of Credit would be terminated. To the extent the Primary Property Owner or the Developer continues to own property within the District, the Primary Property Owner or the Developer (as the case may be) shall be liable for any and all taxes, assessments, rates, fees, tolls, penalties, and charges of the District, as applicable to other property owners in the District, as determined under the District's rules and regulations.

Any Water Tap Fees and Infrastructure Improvement Fees which are not paid as scheduled are subject to 12.000% simple interest thereon from the date due, per annum (Delinquency Interest). Any Delinquency Interest not paid to the District by the Primary Property Owner or the Developer on or before the next interest payment date shall, at the end of such period, be aggregated with such delinquent Water Tap Fees and Infrastructure Improvement Fees, and such delinquent Water Tap Fees, Infrastructure Improvement Fees and accumulated Delinquency Interest shall all be subject to simple interest thereon at 12.000% interest per annum. The District may also exercise any other remedies available to it under the Fee Agreement or as a matter of law.

Upon the Developer's default in its obligation to pay Water Tap Fees and Infrastructure Improvement Fees when due, the Letter of Credit was to be drawn upon by the Trustee, on behalf of the District, to the extent of unpaid Water Tap Fees and Infrastructure Improvement Fees. To the extent Letter of Credit would have been fully drawn, or upon bankruptcy of the Primary Property Owner or the Developer, or upon failure of the Primary Property Owner or the Developer to comply with its covenants herein, the District and the Trustee shall have the right and remedy, by any appropriate legal proceedings, to foreclose upon the lien created by the Fee Agreement and to enforce any covenant or agreement contained herein by specific performance or any other legal or equitable remedy for the recovery of damages caused by the breach of the Agreement, including attorneys' fees and all other costs and expenses incurred as a result thereof.

**FALCON HIGHLANDS METROPOLITAN DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 5 LONG-TERM OBLIGATIONS (CONTINUED)

Water Tap Fee and Infrastructure Improvement Fee Agreement (Continued)

Minimum Water Tap Fee and Infrastructure Improvement Fee Payment Schedule (as presented in the Fee Agreement) actual payments or obligations made by the Developer are unknown at this time.

Period Ending	Single-Family Residential Units \$7,500 per Unit	Multi-Family Units \$1,875 per Unit	Total Fee
04/30/05	18	-	\$ 135,000
10/31/05	35	-	262,500
04/30/06	48	-	360,000
10/31/06	97	-	727,500
04/30/07	51	-	382,500
10/31/07	101	-	757,500
04/30/08	43	-	322,500
10/31/08	87	-	652,500
04/30/09	19	-	178,125
10/31/09	38	24	412,506
04/30/10	9	-	84,375
10/31/10	17	24	215,631
04/30/12	3	-	28,125
10/31/12	5	-	46,875
04/30/12	3	-	28,125
10/31/12	5	-	46,875
04/30/13	3	-	28,125
10/31/13	6	24	112,506
04/30/14	3	-	35,157
10/31/14	6	24	140,634
04/30/15	3	-	35,157
10/31/15	6	-	70,314
04/30/16	3	-	35,157
10/31/16	7	-	82,033
Total	<u>616</u>	<u>96</u>	<u>\$ 5,179,720</u>

* The amount of the Water Tap Fee for each single-family unit is \$5,000 and the amount for each multi-family unit is \$1,250, as established in the Water Tap Fee Resolution. The amount of the Infrastructure Improvement Fee for each single-family unit is \$2,500 and the amount for each multi-family unit is \$625, as established in the Infrastructure Improvement Fee Resolution provided, however, the amount of the Water Tap Fee and the Infrastructure Improvement Fees, collectively, shall increase 25% each five years, commencing in 2009.

**FALCON HIGHLANDS METROPOLITAN DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 5 LONG-TERM OBLIGATIONS (CONTINUED)

Amendment No. 1 to Water Tap Fee and Infrastructure Improvement Fee Agreement and the Amendment No. 1 to Trust Indenture

On May 15, 2009, the District, the Developer and the Primary Property Owner amended the Water Tap Fee and Infrastructure Improvement Fee Agreement dated June 24, 2004. On May 15, 2009, the District, the Developer and the Trustee amended the Trust Indenture dated as of June 1, 2004, and as supplemented by the Supplemental Trust Indenture dated February 15, 2007. The purpose of the amended Fee Agreement and Trust Indenture was to restructure certain unmet obligations as set forth in those agreements such as, the Trustee did not receive sufficient Water Tap Fees and Infrastructure Improvement Fees, such that monies in the Bond Fund were not sufficient to make the debt service payment on the Series 2004A Bonds on December 15, 2008, and such that, pursuant to the Fee Agreement, the Developer was obligated to pay the shortfall. The Developer and the Primary Property Owner asked Allstate Insurance Company as the beneficial holder of 100% of the Bonds outstanding (the Bondholder), as an accommodation to those entities, to direct the Trustee to pay the shortfall amount from the Reserve Account to make the debt service payment and not to draw on the Letter of Credit as the Trustee would otherwise have the right to do. The Trustee ultimately withdrew the amount of \$251,180.09 from the Reserve Account.

If the Letter of Credit had been drawn upon and the Bank not reimbursed, and the Trustee notified, the Trustee would have had the right to draw upon the remaining amount under the Letter of Credit and also to foreclose upon and sell the Fee Agreement Properties. The Developer and/or the Primary Property Owner caused the District to deposit the amount of \$250,000 with the Trustee prior to December 31, 2008, and such funds were deposited to partially replenish the Reserve Account, and are property of the trust estate held by the Trustee under the Trust Indenture; further, although such amount may be considered a partial payment of the amount due under the Fee Agreement on or about October 31, 2008, the Trustee's receipt of such amount has no effect on amounts due under the Fee Agreement subsequent to October 31, 2009, and has no effect on any amounts due or to become due under the Promissory Note (defined below).

The Letter of Credit expired on June 1, 2009, which triggered the Developer's obligation, under the Trust Indenture and the Fee Agreement, to provide a substitute facility meeting the requirements of the Trust Indenture; and, since the Developer had not timely met this obligation, an Event of Default may have existed pursuant to Section 7.01(c) of the Indenture and the Trustee may have had the right to draw the full remaining amount of the Letter of Credit and also to foreclose upon and sell the Fee Agreement Properties.

**FALCON HIGHLANDS METROPOLITAN DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 5 LONG-TERM OBLIGATIONS (CONTINUED)

Amendment No. 1 to Water Tap Fee and Infrastructure Improvement Fee Agreement and the Amendment No. 1 to Trust Indenture (Continued)

The Developer had asked the Bondholder for certain concessions, as identified below, pertaining to the Trustee's rights and the Developer's obligations with regard to, without limitation, the Bonds, the Trust Indenture, the Letter of Credit, and the Fee Agreement. The Bondholder had directed the Trustee accordingly, provided that the certain conditions (partially described below) were met by the District, the Developer and the Primary Property Owner as agreed upon.

- A. The Amendment fully executed no later than May 15, 2009.
- B. The Developer shall be released from its obligation to maintain the Letter of Credit; that the Developer shall execute the Deed of Trust (described below); and that the obligation to the Trustee under the Fee Agreement shall be secured by the Deed of Trust.
- C. The Developer shall execute the Deed of Trust, Assignment of Rents and Leases, Security Agreement and Fixture Filing to the Public Trustee of the County of El Paso, State of Colorado for the benefit of the Trustee, securing all obligations payable to the Trustee, whether directly or indirectly, under the Fee Agreement, including without limitation all Water Tap Fees and all Infrastructure Improvement Fees as scheduled in the Fee Agreement. The Deed of Trust shall be a first and sole deed of trust upon all property pledged, including without limitation the real property described in Exhibit A of the Fee Agreement as the Greg Timm North Parcel and as containing 31.69 acres, more or less (the Deed of Trust Property).
- D. The Developer shall execute a promissory note to the Trustee corresponding to the Deed of Trust (the Promissory Note).
- E. The District shall deposit \$250,000 with the Trustee on or before May 15, 2009. Such amount shall be in addition to the \$250,000 deposited with the Trustee prior to December 31, 2008. The Trustee shall hold such amount (as well as the amount deposited with the Trustee prior to December 31, 2008) as property of the trust estate and under the Trust Indenture. This amount shall have no effect on amounts due under the Fee Agreement subsequent to October 31, 2009, and shall have no effect on any amounts due or to become due under the Promissory Note.

Upon full execution of the conditions of the Amendment of the Fee Agreement the Letter of Credit was terminated and the Developer had no obligation to provide a replacement or substitute letter of credit facility. All references in the Fee Agreement to any obligation to the Trustee being payable through a draw on the Letter of Credit shall be read as such obligation being secured by the Deed of Trust (as well as by the Fee Agreement Properties). Each of the District, the Developer and the Primary Property Owner shall remain obligated to pay Water Tap Fees and Infrastructure Improvement Fees and all other amounts due to the Trustee pursuant to the Fee Agreement or the Trust Indenture.

**FALCON HIGHLANDS METROPOLITAN DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 5 LONG-TERM OBLIGATIONS (CONTINUED)

Amendment No. 1 to Water Tap Fee and Infrastructure Improvement Fee Agreement and the Amendment No. 1 to Trust Indenture (Continued)

Upon any default or Event of Default in the Fee Agreement and/or the Trust Indenture, the Trustee may, without limitation, (i) exercise any and all of its rights under the Deed of Trust, including without limitation foreclosure upon and sale of the Deed of Trust Property, (ii) pursue any available remedy provided in the Fee Agreement to the District, as assignee of the District and for the benefit of the Owners, including suits at law in equity, to enforce the payment of the Water Tap Fees and Infrastructure Improvement Fees and all other amounts due under the Fee Agreement, and foreclosure and sale of the Fee Agreement Properties, and (iii) call and redeem Bonds to the extent of the proceeds of the foreclosure sale of the Deed of Trust Property or the Fee Agreement Properties. Without limitation, any and every failure to make payment of all Water Tap Fees and Infrastructure Improvement Fees due to the Trustee in the amounts and on the dates due shall be a default and Event of Default under the Fee Agreement.

The District has computed preliminary calculations related to the obligations of the Developer pursuant to this agreement as of December 31, 2021. There is a principal obligation of \$870,795 and accrued interest of \$1,065,279 related to the obligations that are owed for the years of 2009 through 2021. The District is currently evaluating the process for which to proceed with the collection of this obligation to and from the responsible party or parties. As such, these amounts have not been recorded in the District's financial statements at this time.

The annual requirement to amortize the District's bonds is as follows:

<u>Year Ending December 31,</u>	<u>Governmental Activities</u>		
	<u>Bonded Debt</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 235,000	\$ 448,350	\$ 683,350
2023	255,000	430,431	685,431
2024	270,000	410,988	680,988
2025	295,000	390,400	685,400
2026	315,000	367,906	682,906
2027-2031	1,980,000	1,439,601	3,419,601
2032-2034	2,530,000	463,982	2,993,982
Total	<u>\$ 5,880,000</u>	<u>\$ 3,951,658</u>	<u>\$ 9,831,658</u>

* This debt maturity schedule only represents senior general obligations of the District. See Note 5 for more information regarding the long-term obligations of the District.

**FALCON HIGHLANDS METROPOLITAN DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 5 LONG-TERM OBLIGATIONS (CONTINUED)

Authorized Debt

On November 5, 2002, a majority of the qualified electors of the District authorized the issuance of indebtedness in an amount not to exceed \$40,750,000 at an interest rate not to exceed 16% per annum. At December 31, 2021, the District had authorized but unissued indebtedness in the following amounts allocated for the following purposes:

	Authorized on November 5, 2002	Series 2004A Senior G.O. Bonds	Series 2004 and 2006 Subordinate G.O. Notes	Series 2007 Subordinate G.O. Bonds	Authorized but Unissued
Streets	\$ 6,000,000	\$ -	\$ -	\$ -	\$ 6,000,000
Water Supply	5,000,000	-	-	-	5,000,000
Storm and Sanitation	5,000,000	-	-	-	5,000,000
Traffic and Safety Controls	1,000,000	-	-	-	1,000,000
Parks and Recreation Facilities	1,000,000	-	-	-	1,000,000
Mosquito Control	1,000,000	-	-	-	1,000,000
Television Relay	1,000,000	-	-	-	1,000,000
Public Transportation	250,000	-	-	-	250,000
Operations and Maintenance	500,000	-	-	-	500,000
Debt Refunding	20,000,000	-	-	-	20,000,000
General Obligation Issuances	-	9,465,000	2,940,000	4,935,000	(17,340,000)
Total	<u>\$ 40,750,000</u>	<u>\$ 9,465,000</u>	<u>\$ 2,940,000</u>	<u>\$ 4,935,000</u>	<u>\$ 23,410,000</u>

This table does not include detailed information related to authorized indebtedness, as allocated by District purpose (i.e., streets, water supply, etc.) for the various debt issuances. Information by category is unavailable at this time. The developer notes payable are not reflected in the above presentation of authorized debt usage.

Pursuant to the Service Plan, the District is permitted to issue bonded indebtedness of up to \$25,000,000. The Mill Levy is limited to 35.000 per the Service Plan.

Developer Advances

The District has entered into Funding and Reimbursement Agreement(s) with the Developer as follows:

Capital Funding and Reimbursement Agreement

On June 15, 2005, the District entered into a Capital Funding and Reimbursement Agreement with Cygnet Land, LLC (Developer) to repay advances made by the Developer for capital infrastructure costs. The District agreed to repay the Developer for such capital advances plus accrued interest at the rate of 8.0%. The maximum capital loan amount shall not exceed the aggregate total of \$750,000 and is subject to annual renewal by the Developer. As of December 31, 2021, the current status of the Reimbursement Agreement, the balance of any outstanding advances and any accrued interest is unavailable.

**FALCON HIGHLANDS METROPOLITAN DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 6 NET POSITION

The District has net position consisting of three components – net investment in capital assets, restricted, and unrestricted.

Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. As of December 31, 2021, the District had net investment in capital assets calculated as follows:

	Governmental Activities	Business- Type Activities
Net Investment in Capital Assets		
Capital Assets, Net	\$ 1,345,302	\$ 3,589,264
Net Investment in Capital Assets	\$ 1,345,302	\$ 3,589,264

Restricted net position includes assets that are restricted for use either externally imposed by creditors, grantors, contributors, or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The District had restricted net position as of December 31, 2021, as follows:

	Governmental Activities
Restricted Net Position:	
Emergencies	\$ 12,100
Conservation Trust	301
Total Restricted Net Position	\$ 12,401

The District has a deficit in the unrestricted net position under Governmental Activities. The deficit is a result of the District being responsible for the repayment of bonds issued for public improvements which were conveyed to other governmental entities and which costs were removed from the District's financial records.

NOTE 7 RELATED PARTY

The Developers of the property which constitute the District are Cygnet Land, LLC, Tamlin Ventures, LLC, RDS, LLC and Falcon Highlands, LLC and Foursome Development, LLC. In the past, a majority of the members of the Board of Directors and employees of the District were employees, owners or otherwise associated with the Developers, and may have had conflicts of interest in dealing with the District (see Note 5).

As of the date of the audit report, all three board members are homeowners within the District.

**FALCON HIGHLANDS METROPOLITAN DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 8 INTERGOVERNMENTAL AGREEMENTS

Woodmen Hills Intergovernmental Agreement

On April 17, 2003, the District entered into an Intergovernmental Agreement with Woodmen Hills Metropolitan District (Woodmen Hills) for the purpose of engaging the services of Woodmen Hills to assist in the delivery of wastewater services for the District. Woodmen Hills has agreed to serve 754 SFE (Single Family Equivalent) on approximately 341 acres within the District. The District is required to charge the users within the District, a sewer tap fee, and pay to Woodmen Hills, based on the Woodmen Hills In-District Tap Rate. Following the one-year warranty period, Woodmen Hills shall provide at its expense all normal maintenance and repair to the infrastructure; however, the District shall be responsible for the replacement, upgrade, and improvements to this infrastructure. The District will pay for the cost of enlarging the Woodmen Hills system if such enlargement becomes necessary because of any increase in the number of units (SFEs) served.

The District agreed to pay a connection fee to Woodmen Hills in the amount of \$654,472, which was made up of charges for the aid in construction, line extension fee and a plant investment fee. This agreement is in perpetuity and may not be terminated by the District so long as Woodmen Hills is providing the services contemplated within the agreement.

During April 2012, the District entered into the First Addendum to the Intergovernmental Agreement with Woodmen Hills. The purpose of the addendum is to acknowledge the following: the remaining 380 residential and 92 nonresidential sewer SFEs as of January 1, 2011, to which the 2003 Intergovernmental Agreement apply, payment of the connection fee to Woodmen Hills, the amount of the payment to Woodmen Hills for connection to the wastewater system of \$5,500, and a credit of \$19,667.59 owed to Falcon Highlands by Woodmen Hills for payments made in excess of the designated sewer tap fee rate (which was fully applied in 2011).

Woodmen Hills Operating Agreement

On May 13, 2019, the District entered into an Intergovernmental Agreement with Woodmen Hills Metropolitan District (Woodmen Hills) for the purpose of engaging Woodmen Hills to provide operations and maintenance services for the Falcon water source of supply, water treatment, storage, and distribution system and provide landscape maintenance services to the Falcon-owned properties. The District will continue to be responsible for all administration and utility billing functions and for capital-related improvements to be made.

The District agreed to pay Woodmen Hills for basic services not to exceed in aggregate the sum of \$5,000 per month without prior approval of the District. If additional services or emergency services are provided under this agreement, compensation for performance shall be based on the agreed upon rate schedule. Direct costs, including materials, supplies chemicals, lab fees, and replacement equipment parts, purchased for Falcon in the performance of the services, shall be reimbursable at costs with no markup, with supporting documentation for such items. Indirect costs incurred by Woodmen Hills not tied directly to the performance of the services, including rent, utilities, general office expenses, employees' salaries, payroll costs, professional expenses, insurance and other overhead costs, shall be the responsibility of Woodmen Hills.

**FALCON HIGHLANDS METROPOLITAN DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 8 INTERGOVERNMENTAL AGREEMENTS (CONTINUED)

Emergency Interconnect Agreement

On November 29, 2018, the District entered into an Intergovernmental Agreement with Woodmen Hills for the purpose of funding construction of an interconnection to reduce the risk of interruptions of water service and fire protection to its customers during such times when an emergency water condition may exist.

NOTE 9 COMMITMENTS AND CONTINGENCIES

The District has not been provided with all supporting documentation of the District transactions, including those related to the expenditures of the subordinate bond proceeds. Therefore, the District may not be in compliance with covenants and other requirements as required under the Trust Indenture for tax-exempt governmental bonds.

The County has provided the District with a punch list for improvements to roads and/or streets in Filing No. 2 within the District. The costs for these improvements are estimated at approximately \$1,500,000. The District disagrees with the assertions that it is obligated for the costs associated with the necessary repairs.

NOTE 10 INTERFUND TRANSFERS

The transfer from the General Fund to the Enterprise Fund was to pay for certain enterprise and capital expenditures.

NOTE 11 RISK MANAGEMENT

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

The District is a member of the Colorado Special Districts Property and Liability Pool (Pool). 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, workers compensation and public officials' liability coverage. In the event aggregated losses incurred by the Pool exceed amounts recoverable from reinsurance contracts and funds accumulated by the Pool, the Pool may require additional contributions from the Pool members. Any excess funds which the Pool determines are not needed for purposes of the Pool may be returned to the members pursuant to a distribution formula.

**FALCON HIGHLANDS METROPOLITAN DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 12 TAX, SPENDING, AND DEBT LIMITATIONS

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

Enterprises, defined as government-owned businesses authorized to issue revenue bonds and receiving less than 10% of annual revenue in grants from all state and local governments combined, are excluded from the provisions of TABOR. The District's management believes a significant portion of its operations qualifies for this exclusion.

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 is unable to determine the District's compliance with the provisions of TABOR due to lack of documentation. The financial impact of TABOR is not currently determinable. TABOR is complex and subject to interpretation. Many of the provisions, including the interpretation of how to calculate Fiscal Year Spending limits and qualification as an Enterprise will require judicial interpretation.

On November 5, 2002, a majority of the District's electors authorized the District to collect, retain, and spend any and all amounts annually from any revenue sources other than ad valorem taxes, including but not limited to tap fees, facility fees, services charges, inspection charges, administration charges, grants, or any other fee, rate, toll, penalty, income or charge imposed, collected, or authorized by law to be imposed or collected by the District, and shall such revenues be collected and spent by the District as a voter-approved revenue change without regard to any spending, revenue-raising, or other limitation contained within Article, Section 20 of the Colorado Constitution, and without limiting in any year the amount of other revenues that may be collected and spent by the District.

On November 5, 2002, a majority of the District's electors also authorized the District to increase property taxes by \$450,000 annually to pay for the District's operations and maintenance functions. The authorization also allows the retention of all investment earnings, without limiting the amount of other revenues that may be collected, retained and spent by the District.

**FALCON HIGHLANDS METROPOLITAN DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 13 LITIGATION

The District is a defendant in a case captioned BLH#1, LLC, a Colorado limited liability company, and BLH#3, LLC, a Colorado limited liability company, v. Falcon Highlands Metropolitan District, a Colorado special district, and all other persons who hold an interest in the Falcon Highlands Metropolitan District General Obligation Limited Tax Bonds, Series 2004A, and the Falcon Highlands Metropolitan District General Obligation Limited Tax Subordinate Bonds, Series 2007, El Paso County District Court case No. 2019CV031830, pursuant to a complaint filed on August 8, 2019. The Plaintiff alleges that the District cannot serve the Plaintiff's property and thus it should not have to pay the District's mill levy. The Plaintiff is seeking declaratory relief and an injunction against the District.

A settlement was reached in July 2021. In this settlement, the parties have determined that it is their best interest to exclude the Property from the District and: (i) discharge and release the entirety of the 2004B-1 Note, the 2006B-2 Note and the 2006B-3 Note; (ii) refinance the 2004A Bonds; and (iii) amend the terms of the 2007 Bonds to modify the revenue pledged by the District for repayment and to include a discharge date.

NOTE 14 PRIOR PERIOD ADJUSTMENT

Series 2007 Bonds

A prior period adjustment was made to adjust the accrued interest related to the Series 2007 Bonds. This adjustment decreased the accrued interest by \$1,605,479, restating net position as of December 31, 2020 from deficit (\$27,439,893) to deficit (\$25,834,414). This prior period adjustment had no impact to the fund balances as of December 31, 2020.

NOTE 15 SUBSEQUENT EVENTS

Series 2022 Senior Bonds

The District expects to issue the Series 2022 Senior Bonds on September 30, 2022, in the amount of \$5,880,000. Proceeds from the sale of the Series 2022 Senior Bonds will be used to refund the 2004A Senior Bonds. The Series 2022 Senior Bonds will bear interest at 5.00%, payable semi-annually on June 1 and December 1, beginning on December 1, 2022. Annual mandatory fund principal payments are due on December 1, beginning on December 1, 2022. The Series 2022 Senior Bonds mature on December 1, 2052. To the extent the principal of any Senior Bond is not paid when due, such principal shall remain outstanding until paid and shall continue to bear interest at the rate borne by the Series 2022 Senior Bond. To the extent interest on any Series 2022 Senior Bond is not paid when due, such interest shall compound on each Interest Payment Date, at the rate then borne by the Series 2022 Senior Bond. All of Series 2022 Senior Bonds and interest thereon are to be deemed to be paid and discharged on December 2, 2061 (the "Termination Date"), regardless of the amount of principal and interest paid prior to the Termination Date.

SUPPLEMENTARY INFORMATION

**FALCON HIGHLANDS METROPOLITAN DISTRICT
DEBT SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL
YEAR ENDED DECEMBER 31, 2021**

	Original and Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Property Taxes	\$ 757,996	\$ 758,805	\$ 809
Net Investment Income	3,600	704	(2,896)
Total Revenues	<u>761,596</u>	<u>759,509</u>	<u>(2,087)</u>
EXPENDITURES			
Debt Service:			
County Treasurer's Fees	11,564	11,391	173
Bond Interest	465,125	465,125	-
Bond Principal	220,000	220,000	-
Paying Agent/Trustee Fees	12,000	8,081	3,919
Bond Issue Costs	-	4,418	(4,418)
Contingency	5,311	-	5,311
Total Expenditures	<u>714,000</u>	<u>709,015</u>	<u>4,985</u>
NET CHANGE IN FUND BALANCE	47,596	50,494	2,898
Fund Balance - Beginning of Year	<u>714,468</u>	<u>678,445</u>	<u>(36,023)</u>
FUND BALANCE - END OF YEAR	<u><u>\$ 762,064</u></u>	<u><u>\$ 728,939</u></u>	<u><u>\$ (33,125)</u></u>

**FALCON HIGHLANDS METROPOLITAN DISTRICT
ENTERPRISE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUNDS AVAILABLE –
BUDGET AND ACTUAL
YEAR ENDED DECEMBER 31, 2021**

	Original and Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Water Usage Fees	\$ 260,000	\$ 236,068	\$ (23,932)
Water Treatment Fees	117,000	116,508	(492)
Administrative Fees	81,500	82,870	1,370
Net Investment Income	750	76	(674)
Penalties	7,000	3,820	(3,180)
Water Tap Fees	-	80,000	80,000
Facility Fees	-	29,126	29,126
Meter Fees	-	1,461	1,461
O&M Fees	-	813	813
Inspection Fees	-	90	90
Other Revenue	-	89	89
Total Revenues	<u>466,250</u>	<u>550,921</u>	<u>84,671</u>
EXPENDITURES			
General and Operations:			
Accounting	50,000	20,670	29,330
Contingency	5,000	-	5,000
District Management	65,000	55,818	9,182
Dues and Subscriptions	1,000	1,149	(149)
Professional Services	50,000	37,101	12,899
Equipment Expense	500	-	500
Fuel	2,000	-	2,000
Insurance	15,000	14,157	843
Legal	60,000	78,771	(18,771)
Miscellaneous	2,500	999	1,501
Operating Expense	15,000	18,429	(3,429)
Woodman Hills Contract	50,000	48,012	1,988
Permits - Fees	1,000	-	1,000
SCADA System Inspection	2,500	-	2,500
Repairs and Maintenance	25,000	4,100	20,900
Security	7,500	5,668	1,832
Small Tools and Supplies	1,500	-	1,500
Supplies - Treatment Facility	10,000	12,121	(2,121)
Telephone	3,000	888	2,112
Utilities	130,000	93,614	36,386
Utility Billing	38,000	40,986	(2,986)
Utility Locates	500	644	(144)
Capital Projects:			
Capital Outlay	75,000	1,023	73,977
Total Expenditures	<u>610,000</u>	<u>434,150</u>	<u>175,850</u>
OTHER FINANCING SOURCES (USES)			
Transfer (to) / from Other Funds	50,000	56,500	6,500
Total Other Financing Sources (Uses)	<u>50,000</u>	<u>56,500</u>	<u>6,500</u>
NET CHANGE IN FUND AVAILABLE	(93,750)	173,271	267,021
Funds Available - Beginning of Year	<u>214,545</u>	<u>209,418</u>	<u>(5,127)</u>
FUNDS AVAILABLE - END OF YEAR	<u><u>\$ 120,795</u></u>	<u><u>\$ 382,689</u></u>	<u><u>\$ 261,894</u></u>

**FALCON HIGHLANDS METROPOLITAN DISTRICT
ENTERPRISE FUND
RECONCILIATION OF BUDGETARY BASIS (ACTUAL) TO
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEAR ENDED DECEMBER 31, 2021**

Revenues	\$ 550,921	
Other Financing Sources	<u>56,500</u>	
Total Revenues and Other Financing Sources - Budgetary Basis	<u>607,421</u>	
Total Revenues per Statement of Revenues, Expenses, and Changes in Net Position		\$ 607,421
Expenditures	<u>434,150</u>	
Total Expenditures and Other Financing Sources - Budgetary Basis	434,150	
Depreciation Expense	<u>141,955</u>	
Total Expenses per Statement of Revenues, Expenses, and Changes in Net Position		<u>576,105</u>
Change in Net Position per Statement of Revenues, Expenses, and Changes in Net Position		<u><u>\$ 31,316</u></u>

OTHER INFORMATION

**FALCON HIGHLANDS METROPOLITAN DISTRICT
SCHEDULE OF ASSESSED VALUATION, MILL LEVY, AND PROPERTY TAXES COLLECTED
DECEMBER 31, 2021**

Year Ended December 31,	Prior Year Assessed Valuation for Current Year Property Tax Levy	Mills Levied	Mills Levied	Mills Levied	Total Property Taxes		Percentage Collected to Levied
		General Fund	Debt Service Fund	Refunds/ Abatements	Levied	Collected	
2017	\$ 18,217,780	5.000	30.000	-	\$ 637,622	\$ 638,455	100.13 %
2018	19,104,790	5.674	34.046	-	758,842	756,676	99.71
2019	19,341,810	5.674	34.046	0.082	769,785	762,691	99.08
2020	20,725,350	6.140	36.839	0.103	892,890	856,958	95.98
2021	20,552,480	6.147	36.881	0.252	889,511	890,460	100.11
Estimated for Calendar Year December 31, 2022	\$ 23,278,750	6.596	39.574	1.488	\$ 1,109,419		

NOTE: Property taxes shown as collected in any one year include collection of delinquent property taxes or abatements of property taxes assessed in prior years. Information received from the County Treasurer does not permit identification of specific year of levy if delinquent taxes are collected.

**FALCON HIGHLANDS METROPOLITAN DISTRICT
SCHEDULE OF DEBT SERVICE REQUIREMENTS TO MATURITY
DECEMBER 31, 2021**

\$9,465,000 General Obligation
Limited Tax Bonds
Series 2004A
Dated June 1, 2004
Interest Rate 7.625%
Principal Due December 15
Interest Payable June 15 and December 15

<u>Year Ended December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 235,000	\$ 448,350	\$ 683,350
2023	255,000	430,431	685,431
2024	270,000	410,988	680,988
2025	295,000	390,400	685,400
2026	315,000	367,906	682,906
2027	340,000	343,888	683,888
2028	365,000	317,963	682,963
2029	395,000	290,131	685,131
2030	425,000	260,013	685,013
2031	455,000	227,606	682,606
2032	490,000	192,913	682,913
2033	525,000	155,550	680,550
2034	1,515,000	115,519	1,630,519
Total	<u>\$ 5,880,000</u>	<u>\$ 3,951,658</u>	<u>\$ 9,831,658</u>

* This debt maturity schedule only represents senior general obligations of the District. See Note 5 for more information regarding long-term obligations of the District.