

RED LEAF METROPOLITAN DISTRICT NO. 2

Financial Statements

Year Ended December 31, 2021

with

Independent Auditors' Report

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Crady, Puca & Associates

Certified Public Accountants & Consultants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
of the Red Leaf Metropolitan District No. 2

Opinions

We have audited the accompanying financial statements of the governmental activities and each major fund of the Red Leaf Metropolitan District No. 2 as of and for the year ended December 31, 2021, and related notes to the financial statements, which collectively comprise Red Leaf Metropolitan District No. 2's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Red Leaf Metropolitan District No. 2 as of December 31, 2021, and the respective changes in financial position and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Red Leaf Metropolitan District No. 2, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Red Leaf Metropolitan District No. 2'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 Red Leaf Metropolitan District No. 2'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 Red Leaf Metropolitan District No. 2'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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages III through VII be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Management is responsible for the other information. The other information comprises Summary of Assessed Valuation, Mill Levy and Property Taxes Collected on page 16 and Assessed and Actual Valuation of Classes of Property in the District on page 17 but 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 financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the 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.

Crady, Puca & Associates

Aurora, Colorado
April 7, 2022

MANAGEMENT'S DISCUSSION AND ANALYSIS

The discussion and analysis is designed to provide an analysis of the District's financial condition and operating results and to inform the reader of the District's financial issues and activities.

The Management's Discussion and Analysis (MD&A) should be read in conjunction with the District's financial statements.

Financial Highlights

- The net position (deficit) of the District increased by \$301,161 in 2021 to \$(2,257,324). A negative net position (deficit) is typical in a metropolitan district, which transfers its capital assets to the controlling government entity (city, town, etc.) after construction is complete but retains the related debt in the district until it is paid off.
- Budgeted revenue exceeded actual revenue by \$1,188 and budgeted expenditures exceeded actual expenditures by \$172,826.
- There were no additions to capital assets in 2021; however, capital assets net of accumulated depreciation decreased by the depreciation expense incurred in 2021 of \$20,134.
- The District maintained its total mill levy of 22.500 in 2021.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the District's assets, liabilities, deferred inflows of resources and deferred outflows of resources, with the difference between the four reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the government-wide financial statements identify functions of the District that are principally to be supported by ad valorem taxes (governmental activities). The governmental activities of the District include the financing of governmental infrastructure including streets, water, sanitation, fire and safety protection, park and recreation improvements and transportation services constructed or acquired by the District.

The government-wide financial statements can be found on pages 1-2 of this report.

Fund financial statements

A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District are governmental funds.

Governmental funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows, outflows and balances of spendable resources. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

All of the District's activities are reported in a single governmental fund, the general fund, which focuses on how money flows in and out of that fund and the balance left at year-end available for spending in future periods.

The District adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for this fund in the basic financial statements to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 1-3 of this report.

Notes to financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to financial statements can be found on pages 4-15 of this report.

Government-wide Financial Analysis

The assets of the District are classified as current assets or capital assets. Cash and investments, receivables, and prepaid expenses are current assets. These assets are available to provide resources for the near-term operations of the District. The majority of the current assets are property taxes receivable, and cash and investments.

Current and noncurrent liabilities are classified based on anticipated liquidation either in the near-term or in the future. Current liabilities include accounts payable and accrued interest. The liquidation of current liabilities is anticipated to be either from current available resources, current assets or new resources that become available during fiscal year 2022.

Deferred outflows of resources represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has one item that qualifies for reporting in this category. It is the deferred loss on refunding reported in the government-wide statement of net position. A deferred loss on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

Deferred inflows of resources represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has one type of item that qualifies for reporting in this category, deferred property taxes.

Current and other assets increased by \$12,893, mainly due to an increase in cash partially offset by a decrease in prepaid bond insurance. In 2021, the District maintained its mill levy at 22.500 and with a valuation increase of \$34,486, this resulted in an increase in property taxes assessed of \$776. For 2022, the District decreased its mill levy from 22.500 to 21.250 and with a valuation increase of \$1,299,990 this resulted in an increase in property taxes receivable at 12/31/21 of \$3,763.

Capital assets net of accumulated depreciation decreased by the depreciation expense incurred in 2021 of \$20,134.

Current liabilities increased by \$16,485 mainly due to increases in the current portion of the long-term debt partially offset by decreases in accrued interest and accounts payable.

Long-term liabilities decreased by \$347,222 due to the payment of principal on the outstanding bonds and an increase in the short-term debt portion.

As noted earlier, net position may serve over time as a useful indicator of a government's financial position.

Review of Net Position

	December 31,	
	<u>2021</u>	<u>2020</u>
Assets:		
Current and other assets	\$ 625,808	\$ 612,915
Capital assets	911,318	931,452
Total assets	<u>1,537,126</u>	<u>1,544,367</u>
Deferred outflow of resources:		
Deferred loss on refunding	165,603	184,175
Total deferred outflow of resources	<u>165,603</u>	<u>184,175</u>
Liabilities:		
Current liabilities	331,182	314,697
Long-term liabilities	3,195,589	3,542,811
Total liabilities	<u>3,526,771</u>	<u>3,857,508</u>
Deferred inflows of resources:		
Deferred property taxes	433,282	429,519
Total deferred inflows of resources	<u>433,282</u>	<u>429,519</u>
Net position(deficit):		
Net investment in capital assets	(2,438,668)	(2,727,184)
Restricted	112,929	101,045
Unrestricted net position	68,415	67,654
Total net position	<u>\$ (2,257,324)</u>	<u>\$ (2,558,485)</u>

The District's liabilities and deferred inflow of resources exceeded assets and deferred outflows of resources by \$2,257,324 at the close of the most recent fiscal year.

Review of Change in Net Position

	Year Ended December 31,	
	2021	2020
Revenues:		
General revenue:		
Property taxes	\$ 429,511	\$ 428,390
Specific ownership taxes	25,205	23,876
Interest income	238	1,767
Total revenue	454,954	454,033
Expenses:		
Governmental activities:		
General government	47,671	52,103
Interest and other fiscal charges	106,122	113,028
Total expenses	153,793	165,131
Total change in net position	301,161	288,902
Net position - beginning of year	(2,558,485)	(2,847,387)
Net position - end of year	\$ (2,257,324)	\$ (2,558,485)

Total net position increased \$301,161 partially due to steady property tax revenues and a decrease in interest expense and other fiscal charges as the result of the 2016 bond refunding.

Financial Analysis of the Government's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds

The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the District's one governmental fund, the General Fund, reported an ending fund balance of \$175,550.

Unassigned fund balance for the District at the end of the fiscal year was \$53,708.

General Fund Budgetary Highlights

The fund balance for the General Fund increased by \$14,867, resulting in an ending fund balance of \$175,550. Budgeted revenue exceeded actual revenue by \$1,188, principally due to a decrease in interest income partially offset by an increase specific ownership taxes. Actual expenditures were \$172,826 less than budgeted expenditures, principally due to a decrease in legal, accounting and contingency expenditures.

Long-Term Debt

At the end of the current fiscal year, the District had total outstanding general obligation bond indebtedness of \$3,515,589. The District's Series 2016 Bonds are due in 2030 and pay interest at a rate of 3.0%, payable semiannually on June 1 and December 1.

Additional information on the District's long-term debt can be found in note 4 on pages 12-14 of this report.

Next Year's Budgets and Rates

The assessed valuation of the property in the District increased by \$1,299,990 for 2022, interest rates on short term deposits remain at historic lows, debt service (principal and interest) on the Series 2016 Bonds increases slightly each year, and assessed valuations are expected to continue growing due to a strong housing market. Because of these factors, the District was able to impose a lower mill levy for 2022 of 21.250 mills.

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Red Leaf Metropolitan District No. 2
Diane Wheeler
304 Inverness Drive South, Suite 490
Englewood, CO 80112

RED LEAF METROPOLITAN DISTRICT NO. 2

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

	<u>General</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
ASSETS				
Cash and investments	\$ 54,693	\$ 54,693	\$ -	\$ 54,693
Cash and investments - restricted	121,392	121,392	-	121,392
Receivable County Treasurer	1,734	1,734	-	1,734
Property taxes receivable	433,282	433,282	-	433,282
Prepaid expense	450	450	-	450
Prepaid bond insurance	-	-	14,257	14,257
Capital assets not being depreciated	-	-	795,659	795,659
Capital assets, net of depreciation	-	-	115,659	115,659
Total Assets	<u>611,551</u>	<u>611,551</u>	<u>925,575</u>	<u>1,537,126</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred loss on refunding	-	-	165,603	165,603
Total Deferred Outflows of Resources	<u>-</u>	<u>-</u>	<u>165,603</u>	<u>165,603</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 611,551</u>	<u>\$ 611,551</u>		
LIABILITIES				
Accounts payable	\$ 2,719	\$ 2,719	-	2,719
Accrued interest on bonds	-	-	8,463	8,463
Long-term liabilities				
Due within one year	-	-	320,000	320,000
Due in more than one year	-	-	3,195,589	3,195,589
Total Liabilities	<u>2,719</u>	<u>2,719</u>	<u>3,524,052</u>	<u>3,526,771</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred property taxes	433,282	433,282	-	433,282
Total Deferred Inflows of Resources	<u>433,282</u>	<u>433,282</u>	<u>-</u>	<u>433,282</u>
FUND BALANCES/NET POSITION				
Fund Balances:				
Nonspendable:				
Prepays	450	450	(450)	-
Restricted				
Emergencies	1,443	1,443	(1,443)	-
Debt Service	119,949	119,949	(119,949)	-
Unassigned	53,708	53,708	(53,708)	-
Total Fund Balances	<u>175,550</u>	<u>175,550</u>	<u>(175,550)</u>	<u>-</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 611,551</u>	<u>\$ 611,551</u>		
Net Position:				
Net Investment in Capital Assets			(2,438,668)	(2,438,668)
Restricted for:				
Emergencies			1,443	1,443
Debt service			111,486	111,486
Unrestricted			68,415	68,415
Total Net Position			<u>\$ (2,257,324)</u>	<u>\$ (2,257,324)</u>

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

RED LEAF METROPOLITAN DISTRICT NO. 2

STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE/STATEMENT OF ACTIVITIES
GOVERNMENTAL FUNDS

For the Year Ended December 31, 2021

	<u>General</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
EXPENDITURES				
Accounting	\$ 4,609	\$ 4,609	\$ -	\$ 4,609
Audit	3,900	3,900	-	3,900
Insurance	4,571	4,571	-	4,571
Legal	7,942	7,942	-	7,942
Miscellaneous expenses	69	69	-	69
Depreciation	-	-	20,134	20,134
Treasurer's fees	6,446	6,446	-	6,446
Debt Service:				
Bond principal	300,000	300,000	(300,000)	-
Bond interest expense	110,550	110,550	(9,400)	101,150
Bond insurance amortization	-	-	2,972	2,972
Paying agent fees	2,000	2,000	-	2,000
Total Expenditures	<u>440,087</u>	<u>440,087</u>	<u>(286,294)</u>	<u>153,793</u>
GENERAL REVENUES				
Property taxes	429,511	429,511	-	429,511
Specific ownership taxes	25,205	25,205	-	25,205
Interest income	238	238	-	238
Total General Revenues	<u>454,954</u>	<u>454,954</u>	<u>-</u>	<u>454,954</u>
NET CHANGES IN FUND BALANCES	14,867	14,867	(14,867)	
CHANGE IN NET POSITION			301,161	301,161
FUND BALANCE/NET POSITION				
BEGINNING OF YEAR	<u>160,683</u>	<u>160,683</u>	<u>(2,719,168)</u>	<u>(2,558,485)</u>
END OF YEAR	<u>\$ 175,550</u>	<u>\$ 175,550</u>	<u>\$ (2,432,874)</u>	<u>\$ (2,257,324)</u>

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

RED LEAF METROPOLITAN DISTRICT NO. 2

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

For the Year Ended December 31, 2021

	Original & Final <u>Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
REVENUES			
Property taxes	\$ 429,519	\$ 429,511	\$ (8)
Specific ownership taxes	23,623	25,205	1,582
Interest income	<u>3,000</u>	<u>238</u>	<u>(2,762)</u>
 Total Revenues	 <u>456,142</u>	 <u>454,954</u>	 <u>(1,188)</u>
 EXPENDITURES			
Accounting	7,000	4,609	2,391
Audit	4,200	3,900	300
Insurance	4,900	4,571	329
Legal	12,500	7,942	4,558
Miscellaneous expenses	500	69	431
Treasurer's fees	6,443	6,446	(3)
Contingency	163,694	-	163,694
Emergency reserve	1,126	-	1,126
Debt Service:			
Bond principal	300,000	300,000	-
Bond interest expense	110,550	110,550	-
Paying agent fees	<u>2,000</u>	<u>2,000</u>	<u>-</u>
 Total Expenditures	 <u>612,913</u>	 <u>440,087</u>	 <u>172,826</u>
 CHANGE IN FUND BALANCE	 (156,771)	 14,867	 171,638
 FUND BALANCE - BEGINNING OF YEAR	 <u>156,771</u>	 <u>160,683</u>	 <u>3,912</u>
 FUND BALANCE - END OF YEAR	 <u>\$ -</u>	 <u>\$ 175,550</u>	 <u>\$ 175,550</u>

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

RED LEAF METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2021

Note 1: Summary of Significant Accounting Policies

The accounting policies of the Red Leaf Metropolitan District No. 2 (“the District”), located within the limits of the City and County of Broomfield, Colorado, conform to the accounting principles generally accepted in the United States of America (“GAAP”) as applicable to governmental units. The Governmental Accounting Standards Board (“GASB”) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant policies consistently applied in the preparation of financial statements.

Definition of Reporting Entity

The District was formed in November 2001, as a quasi-municipal organization established under the State of Colorado Special District Act. The District was established for the primary purpose of providing for the acquisition, construction, installation and completion of certain improvements, including streets, parks and recreations, safety protection, transportation, mosquito control, and water and sanitation improvements for the inhabitants of the District. The District's primary revenues are property taxes. The District is governed by an elected Board of Directors.

As required by GAAP, these financial statements present the activities of the District, which is legally separate and financially independent of other state and local governments. The District follows the GASB pronouncements which provide guidance for determining which governmental activities, organizations and functions should be included within the financial reporting entity. GASB sets forth the financial accountability of a governmental organization's elected governing body as the basic criterion for including a possible component governmental organization in a primary government's legal entity. Financial accountability includes, but is not limited to, appointment of a voting majority of the organization's governing body, ability to impose its will on the organization, a potential for the organization to provide specific financial benefits or burdens and fiscal dependency. The pronouncements also require including a possible component unit if it would be misleading to exclude it.

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

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

Basis of Presentation

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

RED LEAF METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2021

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

The statement of activities demonstrates the degree to which the direct and indirect expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Major individual governmental funds are reported as separate columns in the fund financial statements. The District has no fiduciary funds.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are collected.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The material sources of revenue subject to accrual are property taxes and interest. Expenditures, other than interest on long-term obligations, are recorded when the liability is incurred or the long-term obligation is paid.

The District reports the following major governmental fund:

General Fund - The General Fund is the general operating fund of the District. It accounts for all financial resources of the District.

RED LEAF METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2021

Budgetary Accounting

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

Assets, Liabilities and Net Position Fair Value of Financial Instruments

The District's financial instruments include cash and cash equivalents, accounts receivable and accounts payable. The District estimates that the fair value of all financial instruments at December 31, 2021, does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying balance sheet. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

Deposits and Investments

The District's cash and cash equivalents are considered to be cash on hand and short-term investments with maturities of three months or less from the date of acquisition.

Estimates

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

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has one item that qualifies for reporting in this category. It is the deferred loss on refunding reported in the government-wide statement of net position. A deferred loss on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

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

RED LEAF METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2021

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items), are reported in the applicable governmental activities columns in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the life of the asset are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable using the straight-line method. Depreciation on property that will remain assets of the District is reported on the Statement of Activities as a current charge.

The Capital Assets are depreciated using the straight-line method over the following estimated useful lives:

Park and irrigation equipment	5-20 years
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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 taxpayers' election, in February and June. Delinquent taxpayers are notified in July or August and the sales of the resultant tax liens on delinquent properties are generally held in November or December. The County Treasurer remits the taxes collected monthly to the District.

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

Long-Term Obligations

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

RED LEAF METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2021

Prepaid Bond Insurance, Original Issue Premium, and Loss on Refunding,

Prepaid Bond Insurance and Original issue premiums on the 2016 Bonds are being amortized over the term of the bonds using the effective interest method. Loss on Refunding on the 2016 Bonds is being amortized over the term of the bonds using the straight line method. Accumulated amortization on prepaid bond insurance, original issue premium, and loss on refunding amounted to \$19,106, \$175,010, and \$103,694, respectively, at December 31, 2021.

Fund Equity

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

Nonspendable Fund Balance

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

The nonspendable fund balance in the General Fund in the amount of \$450 represents prepaid expenditures.

Restricted Fund Balance

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

The restricted fund balance in the General Fund represents Emergency Reserves that have been provided as required by Article X, Section 20 of the Constitution of the State of Colorado. A total of \$1,443 of the General Fund balance has been restricted in compliance with this requirement.

The restricted fund balance in the amount of \$119,949 is restricted for the payment of the debt service costs related to the General Obligation Debt (see Note 4).

Committed Fund Balance

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

Assigned Fund Balance

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

RED LEAF METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements
December 31, 2021

Unassigned Fund Balance

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

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

Net Position

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

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

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

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

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

Note 2: Cash and Investments

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

Statement of net position:	
Cash and investments	\$ 54,693
Cash and investments – restricted	<u>121,392</u>
	\$ <u>176,085</u>

RED LEAF METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements
December 31, 2021

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

Deposits with financial institutions	\$ 2,466
Investments – CSAFE	<u>173,619</u>
	\$ <u>176,085</u>

Deposits

Custodial Credit Risk

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

The District does not have a formal policy for deposits. None of the District’s deposits were exposed to custodial credit risk.

Investments

Credit Risk

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

Custodial and Concentration of Credit Risk

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

Interest Rate Risk

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

RED LEAF METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements December 31, 2021

Investment Valuation

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

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

CSAFE

The local government investment pool Colorado Surplus Asset Fund Trust ("CSAFE"), is rated AAAMmf by Fitch Ratings with a weighted average maturity of under 60 days. CSAFE records its investments at amortized cost and the District records its investments in CSAFE using the amortized cost method. CSAFE 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 custodian agreements. 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 custodians' internal records identify the investments owned by CSAFE. At December 31, 2021, the District had \$173,619 invested in CSAFE.

RED LEAF METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements
December 31, 2021

Note 3: Capital Assets

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

	<u>Balance</u> <u>1/1/2021</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/2021</u>
<u>Governmental Type Activities:</u>				
<u>Capital assets not being depreciated:</u>				
Land improvements	\$ 795,659	\$ -	\$ -	\$ 795,659
Total capital assets not being depreciated:	<u>795,659</u>	<u>-</u>	<u>-</u>	<u>795,659</u>
<u>Capital assets being depreciated:</u>				
Parks and irrigation equipment	404,967	-	-	404,967
Total capital assets being depreciated	<u>404,967</u>	<u>-</u>	<u>-</u>	<u>404,967</u>
<u>Accumulated Depreciation:</u>				
Parks and irrigation equipment	(269,174)	(20,134)	-	(289,308)
Total accumulated depreciation	<u>(269,174)</u>	<u>(20,134)</u>	<u>-</u>	<u>(289,308)</u>
Net capital assets being depreciated	<u>135,793</u>	<u>(20,134)</u>	<u>-</u>	<u>115,659</u>
Government type assets, net	<u>\$ 931,452</u>	<u>\$ (20,134)</u>	<u>\$ -</u>	<u>\$ 911,318</u>

Note 4: Long Term Debt

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

\$4,600,000 General Obligation Limited Tax Refunding Bonds, Series 2016

On June 7, 2016, the District issued \$4,600,000 of General Obligation Limited Tax Refunding Bonds, Series 2016, (“Series 2016 Bonds”) dated June 7, 2016, for the purpose of advance refunding the District’s Limited Tax General Obligation Bonds, Series 2007, maturing on and after December 1, 2018, in the amount of \$4,495,000, and paying the costs of the issuance of the Bonds and the costs of the refunding of the 2007 Bonds. The 2016 Bonds bear interest at the rate of 3%, payable semiannually on each June 1 and December 1, commencing on December 1, 2016, and mature on December 1, 2030. The Bonds are subject to early redemption at the option of the District commencing December 1, 2026, without redemption premium. The 2016 Bonds are secured by Pledged Revenues including the Required Mill Levy, the portion of Specific Ownership Tax related to the Required Mill Levy and any other moneys determined by the District.

RED LEAF METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements
December 31, 2021

As a result of the issuance of the Series 2016 Bonds, the refunded bonds are considered to be defeased at the issuance with the exception of the bonds payable on December 1, 2017 in the amount of \$195,000 which were paid in full on December 1, 2017. The reacquisition price of the old debt exceeded the net carrying amount by \$269,297. This amount is recorded as a deferred outflow and is being amortized over the life of the 2016 Bonds. The refunding resulted in an economic gain of \$674,456 due to the average interest rate of the Series 2016 Bonds being lower than the refunded bonds.

Events of Default as defined in the Series 2016 Bond Indenture are 1) the failure of the District to impose the Required Mill levy, or to apply the Pledged Revenue as required by the Indenture, 2) the default by the District in the performance or observance of any other of the covenants, agreements, or conditions of the Indenture or the Bond Resolution, and failure to remedy the same after notice thereof pursuant to the Indenture, and 3) the filing of a petition under the federal bankruptcy laws or other applicable laws seeking to adjust the obligations represented by the Bonds. Failure to pay the principal of or interest on the Series 2016 Bonds when due shall not, of itself, constitute an Event of Default under the Indenture. Remedies available in the Event of Default include 1) receivership, 2) suit for judgment, and 3) other suits. Acceleration of the Series 2016 Bonds is not an available remedy for an Event of Default.

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

	Balance			Balance	Current
	<u>12/31/2020</u>	<u>Additions</u>	<u>Deletions</u>	<u>12/31/2021</u>	<u>Portion</u>
<i>General Obligation Bonds:</i>					
GO Bonds - Series 2016	\$ 3,685,000	\$ -	\$ 300,000	\$ 3,385,000	\$ 320,000
Bond Premium -					
GO Bonds - Series 2016	<u>157,811</u>	<u>-</u>	<u>27,222</u>	<u>130,589</u>	<u>-</u>
Total	<u>\$ 3,842,811</u>	<u>\$ -</u>	<u>\$ 327,222</u>	<u>\$ 3,515,589</u>	<u>\$ 320,000</u>

RED LEAF METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements
December 31, 2021

The following is a summary of the annual long-term debt principal and interest requirements.

	Principal	Interest	Total
2022	\$ 320,000	\$ 101,550	\$ 421,550
2023	330,000	91,950	421,950
2024	345,000	82,050	427,050
2025	355,000	71,700	426,700
2026	375,000	61,050	436,050
2027-2030	1,660,000	126,900	1,786,900
	\$ 3,385,000	\$ 535,200	\$ 3,920,200

As of December 31, 2021, the District had remaining voted debt authorization of approximately \$2,665,000. The Service Plan limits the issuance of indebtedness by the District to \$7,500,000. The District did not budget to issue any new debt in 2022.

Note 5: Tax, Spending and Debt Limitations

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

Spending and revenue limits are determined based on the prior year’s Fiscal Year Spending adjusted for allowable increases based upon inflation and local growth. Fiscal Year Spending is generally defined as expenditures plus reserve increases with certain exceptions. Revenue in excess of the Fiscal Year Spending limit must be refunded unless the voters approve retention of such revenue.

TABOR requires local governments to establish Emergency Reserves. These reserves must be at least 3% of Fiscal Year Spending (excluding bonded debt service). Local governments are not allowed to use the emergency reserves to compensate for economic conditions, revenue shortfalls, or salary or benefit increases.

The District’s management believes it is in compliance with the provisions of TABOR. However, TABOR is complex and subject to interpretation. Many of the provisions, including the interpretation of how to calculate Fiscal Year Spending limits will require judicial interpretation.

RED LEAF METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements
December 31, 2021

Note 6: Risk Management

Except as provided in the Colorado Governmental Immunity Act, 24-10-101, et seq., CRS, the District may be exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets; errors or omissions; injuries to agents; and natural disasters. The Colorado Special Districts Property and Liability Pool (“the Pool”) is an organization created by intergovernmental agreement to provide common liability and casualty insurance coverage to its members at a cost that is considered economically appropriate. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

The District pays annual premiums to the Pool for auto, public official’s liability, and property and general liability coverage. In the event aggregated losses incurred by the Pool exceed its amounts recoverable from reinsurance contracts and its accumulated reserves, the District may be called upon to make additional contributions to the Pool on the basis proportionate to other members. Any excess funds which the Pool determines are not needed for purposes of the Pool may be returned to the members pursuant to a distribution formula.

Note 7: Reconciliation of Government-Wide Financial Statements and Fund Financial Statements

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

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

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

- 1) Governmental funds report capital outlays as expenditures, however, in the statement of activities, the costs of those assets are held as construction in process pending transfer to other governmental entities or depreciated over their useful lives;
- 2) governmental funds report interest expense on the modified accrual basis; however, interest expense is reported on the full accrual method on the Statement of Activities, including amortization of the bond premium and,
- 3) governmental funds report principal payments on debt as expenses; however, they are recorded as a reduction in debt on the Statement of Activities.

OTHER INFORMATION

RED LEAF METROPOLITAN DISTRICT NO. 2

SUMMARY OF ASSESSED VALUATION, MILL LEVY
AND PROPERTY TAXES COLLECTED

December 31, 2021

(Unaudited)

<u>Year Ended</u> <u>December 31,</u>	<u>Prior</u> <u>Year Assessed</u> <u>Valuation</u> <u>for Current</u> <u>Year Property</u>	<u>Mills Levied</u>		<u>Total Property Tax</u>		<u>Percent</u> <u>Collected</u> <u>to Levied</u>
		<u>General Fund</u>	<u>Bond Fund</u>	<u>Levied</u>	<u>Collected</u>	
2008	\$ 12,663,390	2.800	29.604	\$ 410,344	\$ 410,611	100.06%
2009	13,310,590	2.860	28.100	412,096	412,286	100.05%
2010	13,730,000	0.000	28.450	390,619	391,940	100.34%
2011	13,721,290	0.700	28.810	404,915	407,007	100.52%
2012	13,538,200	0.100	29.000	393,962	393,574	99.90%
2013	13,635,250	2.500	28.800	426,783	427,170	100.09%
2014	14,263,980	2.500	28.800	446,463	446,462	100.00%
2015	14,276,651	2.500	28.800	446,859	446,859	100.00%
2016	16,555,470	2.000	25.000	446,998	446,984	100.00%
2017	16,559,020	2.000	23.000	413,976	413,976	100.00%
2018	18,269,340	1.250	21.250	411,060	410,918	99.97%
2019	18,285,809	1.250	21.250	411,431	411,430	100.00%
2020	19,055,244	1.250	21.250	428,743	428,390	99.92%
2021	19,089,730	1.250	21.250	429,519	429,511	100.00%
Estimated for year ending December 31, 2022	20,389,720	1.500	19.750	433,282		

NOTE

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

RED LEAF METROPOLITAN DISTRICT NO. 2

ASSESSED AND ACTUAL VALUATION OF CLASSES OF PROPERTY IN THE DISTRICT

December 31, 2021

(Unaudited)

<u>Class</u>	<u>2021 Assessed Valuation</u>	<u>Percent of Assessed Valuation</u>	<u>2021 Actual Valuation</u>	<u>Percent of Actual Valuation</u>
Residential	\$ 19,996,980	98.07%	\$ 279,680,170	99.52%
State Assessed	392,740	1.93%	1,354,280	0.48%
Total	<u>\$ 20,389,720</u>	<u>100.00%</u>	<u>\$ 281,034,450</u>	<u>100.00%</u>

NOTE

Percentage is based on a 2021 certified assessed valuation of \$20,389,720.