

FOSSIL RIDGE METROPOLITAN DISTRICT NO. 2

Financial Statements

Year Ended December 31, 2012

with

Independent Auditors' Report

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## FOSSIL RIDGE METROPOLITAN DISTRICT NO. 2

### BALANCE SHEET/STATEMENT OF NET POSITION GOVERNMENTAL FUNDS December 31, 2012

	<u>Debt Service</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
<b>ASSETS</b>			
Receivable from county treasurer	\$ 1,767	\$ -	\$ 1,767
Property taxes receivable	<u>350,393</u>	<u>-</u>	<u>350,393</u>
Total Assets	<u>\$ 352,160</u>	<u>-</u>	<u>352,160</u>
<b>LIABILITIES</b>			
Due to District No. 1	<u>\$ 1,767</u>	<u>-</u>	<u>1,767</u>
Total Liabilities	<u>1,767</u>	<u>-</u>	<u>1,767</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred property taxes	<u>350,393</u>	<u>-</u>	<u>350,393</u>
Total Deferred Inflows of Resources	<u>350,393</u>	<u>-</u>	<u>350,393</u>
<b>FUND BALANCE</b>			
Fund balance:			
Restricted:			
Debt service	-	-	-
Unassigned	<u>-</u>	<u>-</u>	<u>-</u>
Total Fund Balances	<u>-</u>	<u>-</u>	<u>-</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balance			
	<u>\$ 352,160</u>		
Net Position:			
Restricted for:			
Debt service		-	-
Unrestricted		<u>-</u>	<u>-</u>
Total Net Position		<u>\$ -</u>	<u>\$ -</u>

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

## FOSSIL RIDGE METROPOLITAN DISTRICT NO. 2

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

For the Year Ended December 31, 2012

	<u>Debt</u> <u>Service</u>	<u>Adjustments</u>	<u>Statement</u> <u>of</u> <u>Activities</u>
<b>EXPENDITURES</b>			
Transfer to District No. 1	\$ 330,017	\$ -	\$ 330,017
Treasurers' fees	<u>4,687</u>	<u>-</u>	<u>4,687</u>
Total Expenditures	<u>334,704</u>	<u>-</u>	<u>334,704</u>
<b>GENERAL REVENUES</b>			
Property taxes	312,188	-	312,188
Specific ownership taxes	22,264	-	22,264
Interest income	<u>252</u>	<u>-</u>	<u>252</u>
Total General Revenues	<u>334,704</u>	<u>-</u>	<u>334,704</u>
<b>NET CHANGE IN FUND BALANCE</b>	-	-	
<b>CHANGE IN NET POSITION</b>		-	-
<b>FUND BALANCE/NET POSITION</b>			
BEGINNING OF YEAR - RESTATED	<u>-</u>	<u>-</u>	<u>-</u>
END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

## FOSSIL RIDGE METROPOLITAN DISTRICT NO. 2

### Notes to Financial Statements December 31, 2012

#### Note 1: Summary of Significant Accounting Policies

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

#### Definition of Reporting Entity

The District was organized October 10, 2006, as a quasi-municipal organization established under the State of Colorado Special District Act. At the time of formation, the Fossil Ridge Metropolitan District No. 1 (“District No. 1”) and the Fossil Ridge Metropolitan District No. 3 (“District No. 3”) were also formed. All three districts are governed by the same Service Plan (as amended by the Second Amended and Restated Service Plan approved by the City of Lakewood on August 27, 2007), which provides that District No. 1 is the “Operating District” and the District and District No. 3 are the “Taxing Districts”. The Taxing Districts are to provide funding to the Operations District for the construction, operation and maintenance of various public improvements and the Operating District is expected to manage such construction, operation and maintenance. The District's primary revenues are property taxes. The District is governed by an elected Board of Directors.

The District follows the 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.

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 has no component units as defined by the GASB, Statement No. 14, *The Financial Reporting Entity* and GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*.

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

The District is not financially accountable for any other organization.

## FOSSIL RIDGE METROPOLITAN DISTRICT NO. 2

### Notes to Financial Statements December 31, 2012

#### Recently Issued and Adopted Accounting Pronouncements

In May 2009, the GASB issued Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. GASB 54 required the use of new fund balance classifications and clarifies existing governmental fund type definitions. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2010. The District adopted GASB 54 in fiscal year 2011.

In June 2011, the GASB issued Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. GASB 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures. The statement of net assets is renamed the statement of net position and includes four components, which are, assets, deferred outflows of resources, liabilities and deferred inflows of resources. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2011. The District adopted GASB Statement 63 in fiscal year 2012.

In March 2012, the GASB issued Statement 65, *Items Previously Reported as Assets and Liabilities*. GASB 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognize, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The statements also limits the use of the term deferred to items reported as deferred outflows of resources or deferred inflows of resources. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012 although the District elected to early implement GASB Statement 65 in fiscal year 2012.

#### Recently Issued Accounting Pronouncements

In November 2010, the GASB issued Statement 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34*. GASB 61 provides additional criteria for classifying entities as component units to better assess the accountability of elected officials by ensuring that the financial reporting entity includes only organizations for which the elected officials are financially accountable or that are determined by the government to be misleading to exclude. This statement is effective for periods beginning after June 15, 2012. The District has not adopted Statement 61.

#### Basis of Presentation

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

## FOSSIL RIDGE METROPOLITAN DISTRICT NO. 2

### Notes to Financial Statements December 31, 2012

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

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

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

#### Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

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

## FOSSIL RIDGE METROPOLITAN DISTRICT NO. 2

### Notes to Financial Statements December 31, 2012

The District reports the following major governmental fund:

Debt Service Fund – The Debt Service Fund is used to account for all the financial resources that are restricted, committed or assigned to expenditures for principal, interest and other debt related costs. The resources are transferred to District No. 1 for payment to the bondholders.

#### Budgetary Accounting

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

#### Assets, Liabilities and Net Position

##### 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 no items that qualify for reporting in this category.

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

## FOSSIL RIDGE METROPOLITAN DISTRICT NO. 2

### Notes to Financial Statements December 31, 2012

#### 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.

#### Fund Equity

Beginning with fiscal year ending December 31, 2011, the District implemented GASB Statement 54 "Fund Balance Reporting and Governmental Fund Type Definitions". This statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent.

#### 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.

## FOSSIL RIDGE METROPOLITAN DISTRICT NO. 2

### Notes to Financial Statements December 31, 2012

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.

Due to the implementation of GASB 65, the District has restated the prior year's net assets equal to the net position as of the beginning of the year.

#### Note 2: Long-Term Debt

##### Debt Authorization

As of December 31, 2012, the District had remaining voted debt authorization of approximately \$712,325,000. The District has not budgeted to issue any new debt during 2013. District No. 1 issued \$7,000,000 of Series 2009 Tax-Supported Revenue Bonds and subsequently refunded those bonds with an issue of \$8,350,000 Series 2010 Tax-Supported Revenue Refunding Bonds. Per the Service Plan, District No. 1 can not issue debt in excess of \$70,000,000.

#### Note 3: District Agreements

##### Master Intergovernmental Agreement

On January 8, 2008, the District entered into a Master Intergovernmental Agreement with District No. 1 and District No. 3. Per the agreement, District No. 1 is to construct, own, maintain and operate the facilities benefiting the District and District No. 3, which may include the borrowing of funds or issuance of revenue bonds. The District and District No. 3 are to pay all costs related to the construction, operation, and maintenance of such facilities, including the payment of amounts owing in connection with bonds issued to finance such facilities. Such financial obligations are to be paid from the District's annual certification of a mill levy, subject to the limitations of the Service Plan and not to exceed 50 mills. The IGA also sets forth certain provisions pertaining to the processes for payment of capital, operations and maintenance costs, review of budgets and project plans, execution of construction contracts, administrative management, establishment of user fees, and the transfers of funds between districts.

##### Joint Funding Agreement

On September 1, 2009, the District entered into a Joint Funding Agreement with District No. 1 and District No. 3 to provide for the payment to the trustee of certain property taxes and specific ownership taxes collected by the District and District No. 3 for the purpose of paying debt service on any bonds.

## FOSSIL RIDGE METROPOLITAN DISTRICT NO. 2

### Notes to Financial Statements December 31, 2012

#### Reimbursement of Developer Loan and Public Infrastructure Acquisition Agreement

On May 13, 2008, District No. 1 entered into a Reimbursement of Developer Loan and Public Infrastructure Acquisition Agreement with **Brookfield Residential (Colorado), LLC**, formerly Carma (Colorado), Inc., (“Developer”). The agreement provides for the advancement by the Developer of certain moneys for capital improvements, and operating and maintenance costs for an amount not to exceed \$91,000,000. The agreement also provides for the repayment of these advances using bond proceeds and or with any legally available funds. These advances shall bear interest at a rate of 6% per annum from the date of the advance. The agreement also provides for the District No. 1 to acquire any public improvements constructed by the Developer upon receipt of the proper engineer’s certificate as to district eligibility. The repayment obligations by District No. 1 constitute a multiple fiscal year financial obligation and are not subject to annual appropriation. The agreement states that it is between District No. 1 and the Developer. However given the provisions of the Master IGA, the District and District No. 3 are impacted from certain covenants contained therein.

#### Note 4: Related Party

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

#### Note 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 has no General Fund as all operating costs are paid by District No. 1 and therefore has no 3% reserve.

## FOSSIL RIDGE METROPOLITAN DISTRICT NO. 2

### Notes to Financial Statements December 31, 2012

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

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

#### Note 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 District has elected to participate in the Colorado Special Districts Property and Liability Pool ("Pool") which is an organization created by intergovernmental agreement to provide common liability and casualty insurance coverage to its members at a cost that is considered economically appropriate. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

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

## SUPPLEMENTAL INFORMATION

## FOSSIL RIDGE METROPOLITAN DISTRICT NO. 2

### SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - DEBT SERVICE FUND

For the Year Ended December 31, 2012

	Original & Final <u>Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
<b>REVENUES</b>			
Property taxes	\$ 313,069	\$ 312,188	\$ (881)
Specific ownership taxes	25,046	22,264	(2,782)
Interest income	<u>1,885</u>	<u>252</u>	<u>(1,633)</u>
 Total Revenues	 <u>340,000</u>	 <u>334,704</u>	 <u>(5,296)</u>
 <b>EXPENDITURES</b>			
Transfer to District No. 1	333,338	330,017	3,321
Miscellaneous expense	1,966	-	1,966
Treasurers' fees	<u>4,696</u>	<u>4,687</u>	<u>9</u>
 Total Expenditures	 <u>340,000</u>	 <u>334,704</u>	 <u>5,296</u>
 NET CHANGE IN FUND BALANCE	 -	 -	 -
 <b>FUND BALANCE:</b>			
BEGINNING OF YEAR	<u>-</u>	<u>-</u>	<u>-</u>
 END OF YEAR	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$ -</u>

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

## FOSSIL RIDGE METROPOLITAN DISTRICT NO. 2

### SUMMARY OF ASSESSED VALUATION, MILL LEVY AND PROPERTY TAXES COLLECTED

December 31, 2012

<u>Year Ended December 31,</u>	<b>Prior Year Assessed Valuation for Current Year Property Tax Levy</b>	<u>Mills Levied General</u>	<u>Mills Levied Debt Service</u>	<u>Total Property Tax</u>		<u>Percent Collected to Levied</u>
				<u>Levied</u>	<u>Collected</u>	
2008	\$ 2,440,570	30.000	0.000	\$ 73,217	\$ 73,296	100.11%
2009	\$ 3,895,030	0.000	30.000	\$ 116,851	\$ 121,571	104.04%
2010	\$ 6,656,870	0.000	30.000	\$ 199,706	\$ 195,884	98.09%
2011	\$ 7,395,640	0.000	30.000	\$ 221,869	\$ 204,065	91.98%
2012	\$ 10,435,617	0.000	30.000	\$ 313,069	\$ 312,188	99.72%
Estimated for year ending December 31, 2013	\$ 11,679,755	0.000	30.000	\$ 350,393		

**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.