

Stone Canon Ranch Metropolitan District

Douglas County, Colorado

Financial Statements

Year Ended December 31, 2022

with

Independent Auditor's Report

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Board of Directors
Stone Canon Ranch Metropolitan District
Douglas County, Colorado

Independent Auditor’s Report

Opinions

We have audited the accompanying financial statements of the governmental activities and each major fund of Stone Canon Ranch Metropolitan District (the “District”), as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the District’s basic financial statements, as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Stone Canon Ranch Metropolitan District as of December 31, 2022, 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 (GAAS). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP), 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 GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

Exercise professional 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.

Other Matters

Required Supplemental Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States 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 are not affected by this missing information.

Supplemental Information

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

Wipfli LLP

Wipfli LLP
Lakewood, Colorado

July 14, 2023

Stone Canon Ranch Metropolitan District
Balance Sheet/Statement of Net Position
Governmental Funds
December 31, 2022

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Net Position
Assets						
Cash and investments	\$ 73,337	\$ -	\$ -	\$ 73,337	\$ -	\$ 73,337
Cash and investments - restricted	4,665	3,099	30,506	38,270	-	38,270
Receivable from County Treasurer	1,108	1,012	-	2,120	-	2,120
Property taxes receivable - 2023	51,722	54,424	-	106,146	-	106,146
Capital assets, net of accumulated depreciation	-	-	-	-	483,307	483,307
Total assets	<u>\$ 130,832</u>	<u>\$ 58,535</u>	<u>\$ 30,506</u>	<u>\$ 219,873</u>	483,307	703,180
Liabilities						
Accounts payable	\$ 13,612	\$ -	\$ -	\$ 13,612	-	13,612
Accrued expenses	6,765	-	-	6,765	-	6,765
Accrued interest on long-term obligations	-	-	-	-	1,810	1,810
Long-term liabilities:						
Due within one year	-	-	-	-	26,000	26,000
Due within more than one year	-	-	-	-	690,000	690,000
Total liabilities	<u>20,377</u>	<u>-</u>	<u>-</u>	<u>20,377</u>	717,810	738,187
Deferred inflows of resources						
Deferred property taxes	51,722	54,424	-	106,146	-	106,146
Total deferred inflows of resources	<u>51,722</u>	<u>54,424</u>	<u>-</u>	<u>106,146</u>	-	106,146
Fund balances						
Restricted:						
Emergencies	4,665	-	-	4,665	(4,665)	-
Debt service	-	4,111	-	4,111	(4,111)	-
Capital Projects	-	-	30,506	30,506	(30,506)	-
Unassigned	54,068	-	-	54,068	(54,068)	-
Total fund balances	<u>58,733</u>	<u>4,111</u>	<u>30,506</u>	<u>93,350</u>	(93,350)	-
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 130,832</u>	<u>\$ 58,535</u>	<u>\$ 30,506</u>	<u>\$ 219,873</u>		
Net position						
Net investment in capital assets					(232,693)	(232,693)
Restricted for:						
Emergencies					4,665	4,665
Debt Service					2,301	2,301
Capital Projects					30,506	30,506
Unrestricted					54,068	54,068
Total net position (deficit)					<u>\$ (141,153)</u>	<u>\$ (141,153)</u>

Note: the accompanying notes are an integral part of these financial statements.

Stone Canon Ranch Metropolitan District
Statement of Revenues, Expenditures and Changes in Fund Balances/Statement of Activities
Governmental Funds
For the Year Ended December 31, 2022

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Activities
Expenditures / expenses						
Accounting and audit	\$ 10,229	\$ -	\$ -	\$ 10,229	\$ -	\$ 10,229
Advertising	75	-	-	75	-	75
Bank Fees	590	-	-	590	-	590
Legal fees	9,233	-	-	9,233	-	9,233
Insurance	1,312	-	-	1,312	-	1,312
Repairs and maintenance	7,208	-	-	7,208	-	7,208
Office expense	12	-	-	12	-	12
Treasurer's fees	802	733	-	1,535	-	1,535
Debt service:						
Principal paid	-	26,000	-	26,000	(26,000)	-
Interest expense	-	22,569	-	22,569	(66)	22,503
Capital improvements	-	-	386,625	386,625	(386,625)	-
Depreciation expense	-	-	-	-	16,276	16,276
Total expenditures/expenses	<u>29,461</u>	<u>49,302</u>	<u>386,625</u>	<u>465,388</u>	<u>(396,415)</u>	<u>68,973</u>
General revenues						
Property taxes	53,168	48,575	-	101,743	-	101,743
Specific ownership taxes	4,702	4,295	-	8,997	-	8,997
Interest income and miscellaneous	309	263	-	572	-	572
Total general revenues	<u>58,179</u>	<u>53,133</u>	<u>-</u>	<u>111,312</u>	<u>-</u>	<u>111,312</u>
Excess (deficiency) of revenues over expenditures and net changes in fund balances	28,718	3,831	(386,625)	(354,076)	354,076	
Change in net position					42,339	42,339
Fund balances / net position						
Beginning of year	30,015	280	417,131	447,426	(630,918)	(183,492)
End of year	<u>\$ 58,733</u>	<u>\$ 4,111</u>	<u>\$ 30,506</u>	<u>\$ 93,350</u>	<u>\$ (234,503)</u>	<u>\$ (141,153)</u>

Note: the accompanying notes are an integral part of these financial statements.

Stone Canon Ranch Metropolitan District
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual
General Fund
For the Year Ended December 31, 2022

	Original and Final Budget	Actual	Variance - Favorable (Unfavorable)
Expenditures			
Accounting and audit	\$ 2,200	\$ 10,229	\$ (8,029)
Advertising	-	75	(75)
Bank fees	-	590	(590)
Legal fees	10,000	9,233	767
Insurance	2,304	1,312	992
Repairs and maintenance	22,644	7,208	15,436
Office expense	347	12	335
Treasurer's fees	-	802	(802)
Total expenditures	<u>37,495</u>	<u>29,461</u>	<u>8,034</u>
General revenues			
Property taxes	53,174	53,168	(6)
Specific ownership taxes	-	4,702	4,702
Interest income and miscellaneous	-	309	309
Total general revenues	<u>53,174</u>	<u>58,179</u>	<u>5,005</u>
Excess (deficiency) of revenues over expenditures and net changes in fund balance			
	15,679	28,718	13,039
Fund balance			
Beginning of year	52,051	30,015	(22,036)
End of year	<u>\$ 67,730</u>	<u>\$ 58,733</u>	<u>\$ (8,997)</u>

Note: the accompanying notes are an integral part of these financial statements.

Stone Canon Ranch Metropolitan District
Notes to the Financial Statements
For the Year Ended December 31, 2022

Note 1 – Definition of Reporting Entity

Definition of Reporting Entity

Stone Canon Ranch Metropolitan District (the “District”), a quasi-municipal corporation and political subdivision of the State of Colorado, was organized on November 24, 2003, and is governed pursuant to provisions of the Colorado Special District Act. The District’s service area is located in Douglas County, Colorado. The District was established to provide essential facilities and services for public use and benefit. The District is governed by an elected Board of Directors.

As required by accounting principles generally accepted in the United States of America (“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 Governmental Accounting Standards Boards (“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 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, nor is the District a component unit of any other primary governmental entity.

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

Note 2 – Summary of Significant Accounting Policies

The accounting policies of the District conform to the accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

The more significant accounting policies of the District are described as follows:

Basis of Presentation

The accompanying financial statements are presented per GASB Statement No. 34, “*Special Purpose Governments*”.

Stone Canon Ranch Metropolitan District
Notes to the Financial Statements
For the Year Ended December 31, 2022

Note 2 – Summary of Significant Accounting Policies (continued)

Basis of Presentation (continued)

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. Governmental activities are normally supported by property taxes and intergovernmental revenues.

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.

For the most part, the effect of interfund activity has been removed from these statements.

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied and 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 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 period. The material sources of revenue subject to accrual are property taxes and interest. All other revenue items are considered to be measurable and available only when cash is received by the District. Expenditures, other than interest on long-term obligations, are recorded when the liability is incurred or the long-term obligation is paid.

Stone Canon Ranch Metropolitan District
Notes to the Financial Statements
For the Year Ended December 31, 2022

Note 2 – Summary of Significant Accounting Policies (continued)

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

The District reports the following major governmental funds:

General Fund – The General Fund is the general operating fund of the District. It is used to account for all financial resources not accounted for and reported in another fund.

Debt Service Fund – The Debt Service Fund is used to account for the accumulation of resources that are restricted, committed or assigned to expenditures for principal, interest and other debt related costs.

Capital Projects Fund – The Capital Projects Fund is used to account for all financial resources that are restricted, committed or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other assets.

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.

Budgets

In accordance with the State Budget Law, the District’s Board of Directors holds public hearings 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 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 total 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.

Subsequent to year-end, the District amended its total appropriations in the debt service fund from \$48,569 to \$49,400 for treasurer’s fees related to property tax collections. Additionally, subsequent to year-end, the District amended its total appropriations in the capital projects fund from \$341,899 to \$386,700 primarily due to increased cost of improvements.

Fair Value of Financial Instruments

The District’s financial instruments include cash and investments, accounts receivable and accounts payable. The District estimates that the fair value of all financial instruments at December 31, 2022, 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.

Stone Canon Ranch Metropolitan District
Notes to the Financial Statements
For the Year Ended December 31, 2022

Note 2 – Summary of Significant Accounting Policies (continued)

Deposits and Investments

The District's cash and investments are considered to be cash on hand and short-term investments with maturities of three months or less from the date of acquisition. Investments for the government are reported at net asset value.

The District follows the practice of pooling cash 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.

Deferred Outflows 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.

Deferred Inflows of Resources

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 or are collected.

Capital Assets

Capital assets, which include property and infrastructure assets (e.g. streets 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 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Stone Canon Ranch Metropolitan District

Notes to the Financial Statements

For the Year Ended December 31, 2022

Note 2 – Summary of Significant Accounting Policies (continued)

Capital Assets (continued)

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 that will be conveyed to other governmental entities are classified as construction in progress, are not included in the calculation of net investment in capital assets, and are not depreciated. Land and certain landscaping improvements are not depreciated.

Improvements are capitalized and depreciated over the remaining useful lives of the related capital 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. Depreciation expense has been computed using the straight-line method over the following estimated economic useful lives:

<u>Category</u>	<u>Depreciable Life</u>
Road	7 years

Long-Term Obligations

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

Fund Equity

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

Non-spendable fund balance – The portion of fund balance that cannot be spent because it is either not in spendable form (such as prepaids and inventory) or is legally or contractually required to be maintained intact.

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

Stone Canon Ranch Metropolitan District
Notes to the Financial Statements
For the Year Ended December 31, 2022

Note 2 – Summary of Significant Accounting Policies (continued)

Fund Equity (continued)

Committed fund balance – The portion of fund balance constrained for specific purposes according to limitations imposed by the District’s highest level of decision making authority, the Board of Directors prior to the end of the current fiscal year. 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 above-described criteria.

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

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. Emergency reserves have been provided for as required by Article X, Section 20 of the Constitution of the State of Colorado. At December 31, 2022, \$4,665 of the General Fund balance has been restricted in compliance with this requirement.

The restricted fund balance in the Debt Service Fund in the amount of \$4,111 is restricted for the payment of the debt service costs associated with the Series 2021 Loan (see Note 5). The restricted fund balance in the Capital Projects Fund in the amount of \$30,506 is restricted for the payment of the future capital outlay.

Stone Canon Ranch Metropolitan District
Notes to the Financial Statements
For the Year Ended December 31, 2022

Note 2 – Summary of Significant Accounting Policies (continued)

Net Position

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

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 of 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.

Property Taxes

Property taxes are levied by the District 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 who assess the property tax obligation of 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 at the taxpayers' election, in equal installments in February and June. Delinquent taxpayers are notified in 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 revenue in the year they are levied and measurable. The deferred property tax revenues are recorded as revenue in the year they are available or collected.

Stone Canon Ranch Metropolitan District
Notes to the Financial Statements
For the Year Ended December 31, 2022

Note 3 – Cash and Investments

Cash and investments as of December 31, 2022, are classified in the accompanying financial statement as follows:

Statement of net position:

Cash and investments	\$ 73,337
Cash and investments - restricted	<u>38,270</u>
Total	<u>\$ 111,607</u>

Cash and investments as of December 31, 2022, consist of the following:

Deposits with financial institutions	\$ 111,607
Total	<u>\$ 111,607</u>

Cash Deposits

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, 2022, the District’s cash deposits had a bank balance equal to its carrying balance of \$111,607. The District had funds of \$11,729 in trust with the paying agent related to the Series 2021 Loan (see Note 5).

Custodial Credit Risks – Deposits

For deposits, custodial credit risk is the risk that in the event of a bank failure, the District’s deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of December 31, 2022, none of the District’s bank balance was exposed to custodial credit risk.

Stone Canon Ranch Metropolitan District
Notes to the Financial Statements
For the Year Ended December 31, 2022

Note 3 – Cash and Investments (continued)

Investments

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

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 or sinking fund requirements. Colorado State statutes specify investment instruments meeting defined rating and risk criteria in which local governments may invest which include:

- * Obligations of the United States and certain U.S. government agency securities
- Certain international agency securities
- General obligation and revenue bonds of U.S. local government entities
- Bankers' acceptances of certain banks
- Commercial paper
- Written repurchase agreements collateralized by certain authorized securities
- Certain money market mutual funds
- Guaranteed investment contracts
- * Local government investment pools

The District generally limits its concentration of investments to those noted with an asterisk (*) above, 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.

As of December 31, 2022, the District had no investments.

Restricted Cash and Investments

As of December 31, 2022, \$3,099 of cash and investments were restricted for debt service, \$30,506 of cash and investments were restricted for capital projects and \$4,665 restricted for emergency reserves.

Stone Canon Ranch Metropolitan District
Notes to the Financial Statements
For the Year Ended December 31, 2022

Note 4 – Capital Assets

The following is an analysis of changes in capital assets for the year ended December 31, 2022:

<u>Governmental activities</u>	<u>Balance 1/1/2022</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Balance 12/31/2022</u>
Capital assets not being depreciated:				
Land	\$ 11,313	\$ -	\$ -	\$ 11,313
Construction in progress	101,645	-	(101,645)	-
Total capital assets not being depreciated, at cost	112,958	-	(101,645)	11,313
Capital assets being depreciated:				
Road	526,859	488,270	(526,859)	488,270
Total capital assets being depreciated, at cost	526,859	488,270	(526,859)	488,270
Less accumulated depreciation	(526,859)	(16,276)	526,859	(16,276)
Total capital assets being depreciated, net	-	471,994	-	471,994
Total capital assets, net	<u>\$ 112,958</u>	<u>\$ 471,994</u>	<u>\$ (101,645)</u>	<u>\$ 483,307</u>

Depreciation expense in the amount of \$16,276 was charged to the general government function during the year ended December 31, 2022.

Note 5 – Long-Term Obligations

The following is an analysis of changes in long-term obligations for the year ended December 31, 2022:

	<u>Balances 1/1/2022</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balances 12/31/2022</u>	<u>Current Portion</u>
Direct borrowings:					
Series 2021 Loan	\$ 742,000	\$ -	\$ (26,000)	\$ 716,000	\$ 26,000
Total long-term obligations	<u>\$ 742,000</u>	<u>\$ -</u>	<u>\$ (26,000)</u>	<u>\$ 716,000</u>	<u>\$ 26,000</u>

Long-term obligations advances issued for governmental activities are liquidated by the debt service fund. The details of the Districts long-term obligation are as follows:

Stone Canon Ranch Metropolitan District
Notes to the Financial Statements
For the Year Ended December 31, 2022

Note 5 – Long-Term Obligations (continued)

Debt Authorization

The District is limited in the amount of indebtedness pursuant to its service plan to \$900,000.

Series 2004 General Obligation Bonds

On May 20, 2004, the District issued \$725,000 General Obligation Bonds (“Series 2004 Bonds”). The Series 2004 Bonds funded capital expenditures for the construction of roads and other public improvements within the District and pay the costs of issuance on the bond issuance.

The Series 2004 Bonds bore interest at the fixed rate of 5.15% per annum. Principal and interest were due annually on July 1 beginning on July 1, 2005 through the bonds’ maturity date, July 1, 2024. The Series 2004 Bonds were subject to redemption prior to the maturity date at the option of the District, in whole but not in part, upon payment of the then current loan balance and accrued unpaid interest, without prepayment fee, premium or penalty.

The Series 2004 Bonds were defeased with the issuance of the Series 2021 Loan.

Limited Tax General Obligation Refunding and Improvement Loan Series 2021

On April 20, 2021, the District issued a \$764,000 General Obligation Refunding and Improvement Loan (“Series 2021 Loan”). The Series 2021 Loan funded capital expenditures for public improvements within the District, fully refunded and defeased all of the outstanding Series 2004 Bonds, and paid the costs of issuance on the loan. The Series 2021 Loan is secured by Pledged Revenue and funds held in trust by the escrow agent.

The Series 2021 loan bears interest at the fixed rate of 3.0% per annum. Interest is due semi-annually on June 1 and December 1 beginning on June 1, 2021, with principal payments due on December 1 annually beginning in 2021 through the loan’s maturity date, December 1, 2040.

The District has the option to pre-pay amounts owed under the Series 2021 Loan subject to a prepayment penalty of 1% of the loan balance on any date prior to December 1, 2024; provided, however, that no prepayment fee shall be imposed if the payment is from excess annual mill levy revenue. Commencing on December 2, 2024 and continuing thereafter, the Series 2021 Loan may be prepaid in whole or in part, upon payment of the then current loan balance and accrued unpaid interest, without prepayment fee, premium or penalty.

Stone Canon Ranch Metropolitan District
Notes to the Financial Statements
For the Year Ended December 31, 2022

Note 5 – Long-Term Obligations (continued)

Limited Tax General Obligation Refunding and Improvement Loan Series 2021 (continued)

The occurrence/existence of any of the following constitutes an Event of Default: (a) the District fails to pay or cause to be paid when due any principal or interest in connection with the loan or any other amount due under the loan agreement or the note; or (b) the District fails or refuses to impose the Required Mill Levy or to remit the Pledged Revenue to the lender as required by the loan agreement; (c) the District fails to observe or perform any other of the material covenants, agreements, duties or conditions on the part of the District in the loan agreement, the note or the other financing documents to which it is a party and such failure either (i) is not remedied to the satisfaction of the Lender within 30 days after the District receives written notice from the Lender of the occurrence of such failure or (ii) results in the interest borne by the Note to be taxable to the holder thereof for federal income tax purposes; or (d) (i) the District shall commence any case, proceeding or other action: (A) under any existing or future law of any jurisdiction relating to bankruptcy, insolvency, reorganization or relief of debtors, seeking to have an order for relief entered with respect to it or seeking to adjudicate it insolvent or a bankrupt or seeking reorganization, arrangement, adjustment, winding-up, liquidation, dissolution, composition or other relief with respect to it or its debts; or (B) seeking appointment of a receiver, trustee, custodian or other similar official for itself or for any substantial part of its property, or the District shall make a general assignment for the benefit of its creditors; or (ii) there shall be commenced against the District any case, proceeding or other action of a nature referred to in clause (i) above and the same shall remain undismissed; or (iii) there shall be commenced against the District any case, proceeding or other action seeking issuance of a warrant of attachment, execution, distraint or similar process against all or any substantial part of its property which results in the entry of an order for any such relief which shall not have been vacated, discharged or stayed or bonded pending appeal, within 60 days from the entry thereof; or (iv) the District shall take action in furtherance of, or indicating its consent to, approval of or acquiescence in, any of the acts set forth in clauses (i), (ii) or (iii) above; or (v) the District shall generally not, or shall be unable to, or shall admit in writing its inability to, pay its debts as they become due. Due to the limited nature of the Pledged Revenue, the failure to pay the principal of or interest on the Note when due shall not, of itself, constitute an Event of Default.

Upon the occurrence and during the continuance of any event of default, the lender has the option to (a) declare the Default Rate to be applicable to the Loan; and/or (b) proceed to protect and enforce the lender's rights under the loan agreement, the related note and the other financing documents and any provision of law by mandamus or any other suit, action or proceeding at law or in equity as the lender shall deem appropriate. Acceleration of the payments due upon the occurrence and during the continuance of an Event of Default is not a remedy of the Lender.

Stone Canon Ranch Metropolitan District
Notes to the Financial Statements
For the Year Ended December 31, 2022

Note 5 – Long-Term Obligations (continued)

Limited Tax General Obligation Refunding and Improvement Loan Series 2021 (continued)

The District’s Series 2021 Loan will mature as follows after December 31, 2022:

Year Ending December 31,	Principal	Interest	Total
2023	\$ 26,000	\$ 21,778	\$ 47,778
2024	28,000	21,045	49,045
2025	29,000	20,136	49,136
2026	31,000	19,254	50,254
2027	32,000	18,311	50,311
2028 - 2032	184,000	76,033	260,033
2033 - 2037	226,000	45,555	271,555
2038 - 2040	160,000	9,890	169,890
Total	<u>\$ 716,000</u>	<u>\$ 232,002</u>	<u>\$ 948,002</u>

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, 2022, the District had net investment in capital assets calculated as follows:

Net investment in capital assets:	
Capital assets, net	\$ 483,307
Long-term obligations	<u>(716,000)</u>
Net investment in capital assets	<u>\$ (232,693)</u>

Stone Canon Ranch Metropolitan District
Notes to the Financial Statements
For the Year Ended December 31, 2022

Note 6 – Net Position (continued)

The restricted component of net position includes assets that are restricted for use either externally by creditors, grantors, contributors, or laws and regulations of other governments, or imposed by law through constitutional provisions or enabling legislation. The District had a restricted net position at December 31, 2022, as follows:

Restricted net position:		
Emergency reserves	\$	4,665
Debt service		2,301
Capital projects		<u>30,506</u>
Total restricted net position	\$	<u><u>37,472</u></u>

The unrestricted net position of \$54,068 includes all other net position that does not meet the definition of the above two components and is available for general use by the District

Note 7 – Related Parties

The members of the Board of Directors of the District are owners of property within the District, and may have conflicts of interest in dealing with the District. Any potential conflicts have been filed in accordance with Colorado Law.

Note 8 – Risk Management

The District is exposed to various risks of loss related to 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 (the “Pool”) as of December 31, 2022. 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 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.

Stone Canon Ranch Metropolitan District

Notes to the Financial Statements

For the Year Ended December 31, 2022

Note 9 – 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 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.

TABOR requires, with certain exceptions, voter approval prior to imposing new taxes, increasing a tax rate, increasing a mill levy above that for the prior year, extending an expiring tax, or implementing a tax policy change directly causing a net tax revenue gain to any local government.

Except for bond refinancing at lower interest rates or adding employees to existing pension plans, TABOR specifically prohibits the creation of multiple-fiscal year debt or other financial obligations without voter approval or without irrevocably pledging present cash reserves for all future payments.

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.

Note 10 – Reconciliation of Government-Wide and Fund Financial Statements

Explanation of differences between the governmental fund Balance Sheet and the government-wide Statement of Net Position

The governmental fund Balance Sheet and the government-wide Statement of Net Position includes a reconciling column. Explanation of the adjustments included in the reconciling column is as follows:

Capital assets	\$ 483,307
Loan payable	(716,000)
Accrued interest on long-term obligations	<u>(1,810)</u>
Total	<u><u>\$ (234,503)</u></u>

Stone Canon Ranch Metropolitan District
Notes to the Financial Statements
For the Year Ended December 31, 2022

Note 10 – Reconciliation of Government-Wide and Fund Financial Statements (continued)

Explanation of differences between the governmental fund Balance Sheet and the government-wide Statement of Net Position (continued)

- Capital assets used in government activities are not financial resources and therefore are not reported in the funds.
- Long-term liabilities such as loans and bonds payable and accrued interest on loans and bonds are not due and payable in the current period and, therefore, are not in the funds.
- Loans and bonds payable and the related accrued interest amounts are reflected on the Statement of Net Position.
- Governmental funds report capital improvements as expenditures; however, in the government-wide financial statements, capital expenditures are reflected as capital assets.

Explanation of differences between the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balances and the government-wide Statement of Activities

The governmental fund Statement of Revenues, Expenditures and Changes in Fund Balances and the government-wide statement of activities include a reconciling column. Explanation of the adjustments included in the reconciling column is as follows:

Capital improvements	\$ (386,625)
Depreciation expense	16,276
Debt principal payments	(26,000)
Interest expense	(66)
Total	<u>\$ (396,415)</u>

- Governmental funds report loan proceeds as other financing sources and repayments as expenditures. However, the long-term obligations are reflected as a liability in the government-wide financial statements, and proceeds/repayments are reported as changes to the liability.
- Governmental funds report interest expense on the modified accrual basis; however, interest expense is reported on the full accrual method in the government-wide Statement of Activities.
- Governmental funds report capital improvements as expenditures; however, in the government-wide financial statements, capital expenditures are reflected as capital assets.
- Depreciation is recorded in the Statement of Activities and the net change in equipment represents the equipment capitalized on the Statement of Net Position.

Supplemental Information

Stone Canon Ranch Metropolitan District
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual
Debt Service Fund
For the Year Ended December 31, 2022

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance - Favorable (Unfavorable)
Expenditures				
Treasurer's fees	\$ -	\$ 831	\$ 733	\$ 98
Debt service:				
Principal paid	26,000	26,000	26,000	-
Interest expense	<u>22,569</u>	<u>22,569</u>	<u>22,569</u>	<u>-</u>
Total expenditures	48,569	49,400	49,302	98
General revenues				
Property taxes	48,569	48,569	48,575	6
Specific ownership taxes	-	-	4,295	4,295
Interest income and miscellaneous	<u>-</u>	<u>-</u>	<u>263</u>	<u>263</u>
Total revenues	48,569	48,569	53,133	4,564
Excess (deficiency) of revenues over expenditures and net changes in fund balance	-	(831)	3,831	4,662
Fund balance				
Beginning of year	38,297	38,297	280	(38,017)
End of year	<u>\$ 38,297</u>	<u>\$ 37,466</u>	<u>\$ 4,111</u>	<u>\$ (33,355)</u>

Note: The accompanying notes are an integral part of these financial statements.

Stone Canon Ranch Metropolitan District
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual
Capital Projects Fund
For the Year Ended December 31, 2022

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance - Favorable (Unfavorable)
Expenditures				
Capital improvements	\$ 341,899	\$ 386,700	\$ 386,625	\$ 75
Total expenditures	341,899	386,700	386,625	75
Excess (deficiency) of revenues over expenditures and net changes in fund balance	(341,899)	(386,700)	(386,625)	75
Fund balance				
Beginning of year	398,354	398,354	417,131	18,777
End of year	<u>\$ 56,455</u>	<u>\$ 11,654</u>	<u>\$ 30,506</u>	<u>\$ 18,852</u>

Note: The accompanying notes are an integral part of these financial statements.