

THE VILLAS AT EASTLAKE RESERVOIR METROPOLITAN DISTRICT

Financial Statements

Year Ended December 31, 2021

with

Independent Auditor's Report

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Board of Directors
Villas at Eastlake Reservoir Metropolitan District
Adams County, Colorado

Independent Auditor's Report

Opinions

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

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Villas at Eastlake Reservoir Metropolitan District 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 (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 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 opinions on the basic financial statements are not affected by this missing information.

Supplemental Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplemental information as 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 basic 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, such information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Wipfli LLP

Wipfli LLP
Lakewood, Colorado

September 22, 2022

The Villas at Eastlake Reservoir Metropolitan District

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

	<u>General</u>	<u>Debt Service</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
ASSETS					
Cash and investments	\$ 18,608	\$ -	\$ 18,608	\$ -	\$ 18,608
Cash and investments - restricted	1,144	15,903	17,047	-	17,047
Receivable - County Treasurer	234	1,298	1,532	-	1,532
Property taxes receivable	42,563	140,460	183,023	-	183,023
Prepaid expenses	2,286	-	2,286	-	2,286
Capital assets not being depreciated	-	-	-	2,066,570	2,066,570
Total Assets	<u>64,835</u>	<u>157,661</u>	<u>222,496</u>	<u>2,066,570</u>	<u>2,289,066</u>
DEFERRED OUTFLOWS OF RESOURCES					
Deferred loss on refunding	-	-	-	71,246	71,246
Total Deferred Outflows of Resources	-	-	-	71,246	71,246
Total Assets and Deferred Outflows of Resources	<u>\$ 64,835</u>	<u>\$ 157,661</u>	<u>\$ 222,496</u>		
LIABILITIES					
Accounts payable	\$ 4,749	\$ -	\$ 4,749	-	4,749
Accrued interest on bonds	-	-	-	6,202	6,202
Long-term liabilities:					
Due within one year	-	-	-	60,000	60,000
Due in more than one year	-	-	-	2,637,463	2,637,463
Total Liabilities	<u>4,749</u>	<u>-</u>	<u>4,749</u>	<u>2,703,665</u>	<u>2,708,414</u>
DEFERRED INFLOWS OF RESOURCES					
Deferred property taxes	<u>42,563</u>	<u>140,460</u>	<u>183,023</u>	<u>-</u>	<u>183,023</u>
Total Deferred Inflows of Resources	<u>42,563</u>	<u>140,460</u>	<u>183,023</u>	<u>-</u>	<u>183,023</u>
FUND BALANCES/NET POSITION					
Fund Balances:					
Nonspendable:					
Prepays	2,286	-	2,286	(2,286)	-
Restricted:					
Emergencies	1,144	-	1,144	(1,144)	-
Debt service	-	17,201	17,201	(17,201)	-
Unassigned	<u>14,093</u>	<u>-</u>	<u>14,093</u>	<u>(14,093)</u>	<u>-</u>
Total Fund Balances	<u>17,523</u>	<u>17,201</u>	<u>34,724</u>	<u>(34,724)</u>	<u>-</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 64,835</u>	<u>\$ 157,661</u>	<u>\$ 222,496</u>		
Net Position:					
Restricted for:					
Emergencies				1,144	1,144
Debt service				10,999	10,999
Unrestricted				<u>(543,268)</u>	<u>(543,268)</u>
Total Net Position				<u>\$ (531,125)</u>	<u>\$ (531,125)</u>

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

The Villas at Eastlake Reservoir Metropolitan District

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

	<u>General</u>	<u>Debt Service</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
EXPENDITURES					
Accounting & Audit	\$ 10,283	\$ -	\$ 10,283	\$ -	\$ 10,283
Insurance	2,824	-	2,824	-	2,824
Legal	23,888	-	23,888	-	23,888
Miscellaneous expenses	4,000	-	4,000	-	4,000
Treasurer's fees	570	3,175	3,745	-	3,745
Bond principal	-	50,000	50,000	(50,000)	-
Bond interest expense	-	94,465	94,465	50,167	144,632
Bond issuance costs	-	155,100	155,100	-	155,100
Trustee fees	-	5,500	5,500	-	5,500
Developer advances - interest	-	-	-	4,362	4,362
Total Expenditures	<u>41,565</u>	<u>308,240</u>	<u>349,805</u>	<u>4,529</u>	<u>354,334</u>
GENERAL REVENUES					
Property taxes	38,015	211,609	249,624	-	249,624
Specific ownership taxes	3,123	17,382	20,505	-	20,505
Interest income	<u>42</u>	<u>71</u>	<u>113</u>	<u>-</u>	<u>113</u>
Total General Revenues	<u>41,180</u>	<u>229,062</u>	<u>270,242</u>	<u>-</u>	<u>270,242</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES					
	<u>(385)</u>	<u>(79,178)</u>	<u>(79,563)</u>	<u>(4,529)</u>	<u>(84,092)</u>
OTHER FINANCING SOURCES (USES)					
Loan proceeds		2,680,000	2,680,000	(2,680,000)	-
Payment to escrow agent	<u>-</u>	<u>(2,810,573)</u>	<u>(2,810,573)</u>	<u>2,810,573</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>-</u>	<u>(130,573)</u>	<u>(130,573)</u>	<u>130,573</u>	<u>-</u>
NET CHANGES IN FUND BALANCES					
	(385)	(209,751)	(210,136)	210,136	
CHANGE IN NET POSITION					
				(84,092)	(84,092)
FUND BALANCES/NET POSITION:					
BEGINNING OF YEAR	<u>17,908</u>	<u>226,952</u>	<u>244,860</u>	<u>(691,893)</u>	<u>(447,033)</u>
END OF YEAR	<u>\$ 17,523</u>	<u>\$ 17,201</u>	<u>\$ 34,724</u>	<u>\$ (565,849)</u>	<u>\$ (531,125)</u>

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

The Villas at Eastlake Reservoir Metropolitan District

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	\$ 38,015	\$ 38,015	\$ -
Specific ownership taxes	3,041	3,123	82
Interest income	<u>500</u>	<u>42</u>	<u>(458)</u>
Total Revenues	<u>41,556</u>	<u>41,180</u>	<u>(376)</u>
EXPENDITURES			
Accounting & Audit	10,500	10,283	217
Insurance	3,000	2,824	176
Legal	18,000	23,888	(5,888)
Miscellaneous expenses	1,000	4,000	(3,000)
Treasurer's fees	570	570	-
Contingency	21,344	-	21,344
Emergency reserve	<u>992</u>	<u>-</u>	<u>992</u>
Total Expenditures	<u>55,406</u>	<u>41,565</u>	<u>13,841</u>
NET CHANGE IN FUND BALANCE	(13,850)	(385)	13,465
FUND BALANCE:			
BEGINNING OF YEAR	<u>13,850</u>	<u>17,908</u>	<u>4,058</u>
END OF YEAR	<u>\$ -</u>	<u>\$ 17,523</u>	<u>\$ 17,523</u>

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

THE VILLAS AT EASTLAKE RESERVOIR METROPOLITAN DISTRICT

Notes to Financial Statements December 31, 2021

Note 1: Summary of Significant Accounting Policies

The accounting policies of The Villas at Eastlake Reservoir Metropolitan District (“the District”), located in the City of Thornton, Adams County, Colorado, conform to the accounting principles generally accepted in the United States of America (“GAAP”) as applicable to governmental units. The Governmental Accounting Standards Board (“GASB”) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant policies consistently applied in the preparation of financial statements.

Definition of Reporting Entity

The District was organized on November 4, 2008, as a quasi-municipal organization established under the State of Colorado Special District Act. The District was established to provide for the planning, design, acquisition, construction, installation, relocation, redevelopment and financing of water, sanitation/storm sewer, street, safety protection, parks and recreation, transportation limited television relay and translation facilities, mosquito control, and limited fire protection services within the boundaries of the District to serve the future taxpayers and inhabitants of the District.

The District is to convey the completed public improvements, other than park and recreation improvements, to the City of Thornton (“City”) or other appropriate jurisdiction or owners association for ongoing operation and maintenance. With the exception of park and recreation improvements, the District is not authorized to operate and maintain public improvements unless set forth in a separate agreement with the City.

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 VILLAS AT EASTLAKE RESERVOIR METROPOLITAN DISTRICT

Notes to Financial Statements December 31, 2021

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.

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

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

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

THE VILLAS AT EASTLAKE RESERVOIR METROPOLITAN DISTRICT

Notes to Financial Statements December 31, 2021

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

The District reports the following major governmental funds:

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

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

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. During 2021, the District amended its total appropriations in the Debt Service Fund from \$148,099 to \$3,125,998 as a result of the issuance of the 2021 Promissory Note and the refunding of the prior debt.

Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position

Fair Value of Financial Instruments

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

Deposits and Investments

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

THE VILLAS AT EASTLAKE RESERVOIR METROPOLITAN DISTRICT

Notes to Financial Statements December 31, 2021

The District follows the practice of pooling cash and investments of all funds to maximize investment earnings. Except when required by trust or other agreements, all cash is deposited to and disbursed from a minimum number of bank accounts. Cash in excess of immediate operating requirements is pooled for deposit and investment flexibility. Investment earnings are allocated periodically to the participating funds based upon each fund's average equity balance in the total cash.

Estimates

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

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has no items that qualify for reporting in this category.

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

Capital Assets

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

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the life of the asset are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related 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. Improvements that will be conveyed to other governmental entities are classified as construction in progress and are not depreciated. Land and certain landscaping improvements are not depreciated. As of December 31, 2021, all of the District's assets are construction in progress, and no depreciation expense was recorded in 2021.

THE VILLAS AT EASTLAKE RESERVOIR METROPOLITAN DISTRICT

Notes to Financial Statements December 31, 2021

Property Taxes

Property taxes are levied by the District's Board of Directors. The levy is based on assessed valuations determined by the County Assessor generally as of January 1 of each year. The levy is normally set by December 15 by certification to the County Commissioners to put the tax lien on the individual properties as of January 1 of the following year. The County Treasurer collects the determined taxes during the ensuing calendar year. The taxes are payable by April 30 or if in equal installments, at the taxpayers' election, in February and June. Delinquent taxpayers are notified in July or August and the sales of the resultant tax liens on delinquent properties are generally held in November or December. The County Treasurer remits the taxes collected monthly to the District.

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.

Original Issue Premium

The original issue premium from the Series 2016A Bonds is being amortized over the life of the bonds using the effective interest method. As a result of the refunding of the Series 2016A Bonds, the balance of the original issue premium was fully amortized.

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 \$2,286 represents prepaid expenditures.

THE VILLAS AT EASTLAKE RESERVOIR METROPOLITAN DISTRICT

Notes to Financial Statements December 31, 2021

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 \$1,144 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 \$17,201 is restricted for the payment of the debt service costs associated with the 2021 Promissory Note. (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.

Unassigned Fund Balance

Unassigned fund balance includes amounts that are available for any purpose. Positive amounts are reported only in the General Fund, all other funds can report negative amounts.

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.

THE VILLAS AT EASTLAKE RESERVOIR METROPOLITAN DISTRICT

Notes to Financial Statements
December 31, 2021

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	\$ 18,608
Cash and investments – Restricted	<u>17,407</u>
Total	\$ <u>35,655</u>

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

Deposits with financial institutions	\$ 32,112
Investments - COLOTRUST	<u>3,543</u>
	\$ <u>35,655</u>

Deposits

Custodial Credit Risk

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

The District follows state statutes for deposits. None of the District’s deposits were exposed to custodial credit risk.

THE VILLAS AT EASTLAKE RESERVOIR METROPOLITAN DISTRICT

Notes to Financial Statements December 31, 2021

Investments

Investment Valuation

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The District's investment is not required to be categorized within the fair value hierarchy. This investment's value is calculated using the net asset value (NAV) per share.

Credit Risk

The District's investment policy requires that the District follow state statutes for 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.

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

COLOTRUST

The local government investment pool, Colorado Local Government Liquid Asset Trust ("COLOTRUST") is rated AAAM by Standard & Poor's with a weighted average maturity of under 60 days. COLOTRUST is an investment trust/joint venture established for local government entities in Colorado to pool surplus funds. The State Securities Commissioner administers and enforces all State statutes governing COLOTRUST. COLOTRUST records its investments at fair value and the District records its investment in COLOTRUST using the net asset value method. COLOTRUST operates similarly to a money market fund with each share maintaining a value of \$1.00. COLOTRUST offers shares in two portfolios, COLOTRUST PRIME and COLOTRUST PLUS+. Both investments consist of U.S. Treasury bills and notes and repurchase agreements collateralized by U.S. Treasury securities.

THE VILLAS AT EASTLAKE RESERVOIR METROPOLITAN DISTRICT

Notes to Financial Statements
December 31, 2021

COLOTRUST PLUS+ may also invest in certain obligations of U.S. government agencies, highest rated commercial paper and repurchase agreements collateralized by certain obligations of U.S. government agencies. Designated custodian banks provide safekeeping and depository services to COLOTRUST. Substantially all securities owned by COLOTRUST are held by the Federal Reserve Bank in the accounts maintained for the custodian banks. The custodians' internal records identify the investments owned by COLOTRUST. At December 31, 2021, the District had \$3,543 invested in COLOTRUST.

Note 3: Capital Assets

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

<u>Governmental Type Activities:</u>	<u>Balance 1/1/2021</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12/31/2021</u>
<u>Capital assets not being depreciated:</u>				
Construction in Progress	\$2,066,570	\$ -	\$ -	\$2,066,570
Total capital assets not being depreciated	<u>2,066,570</u>	<u>-</u>	<u>-</u>	<u>2,066,570</u>
Government type assets, net	<u>\$2,066,570</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$2,066,570</u>

Note 4: Long-Term Debt

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

\$2,680,000 Taxable (Convertible to Tax-Exempt) Promissory Note, Series 2021

On August 26, 2021, the District entered into a Loan Agreement with NBH Bank, (the "Bank") whereby the Bank agreed to loan the District \$2,680,000, ("2021 Promissory Note") for the purpose of fully refunding the Series 2016A Bonds and the Series 2016B Bonds. The 2021 Loan bear interest initially at the rate of 3.50% until September 16, 2021 when the rate becomes 2.83%. The interest rate resets on December 1, 2041 and on each time there is a change in the One-Year Treasury Rate. The 2021 Loan may be prepaid at its option upon two Business Days' prior written notice to the Bank in whole or in minimum \$250,000 increments on any interest payment date. The District may be required to pay Prepayment Fee as defined in the agreement. The 2021 Promissory Note is secured by the Required Mill Levy, the portion of the Specific Ownership Tax which is collected as a result of the Required Mill Levy, and any other legally available moneys as determined by the District.

THE VILLAS AT EASTLAKE RESERVOIR METROPOLITAN DISTRICT

Notes to Financial Statements
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The 2021 Promissory Note was issued to provide resources to purchase securities to be placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of the Series 2016A & 2016B Bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the governmental activities column of the statement of net position. The net carrying amount of the old debt exceeded the reacquisition price by \$72,528. This amount is recorded as a deferred outflow and is being amortized over the remaining life of the new debt issued. This advance refunding was undertaken to obtain a more favorable interest rate and resulted in a present value savings of approximately \$843,592.

The following is a summary of the annual long-term debt principal and interest requirements for the 2021 Promissory Note.

	Principal	Interest	Total
2022	\$ 60,000	\$ 74,429	\$ 134,429
2023	65,000	72,731	137,731
2024	65,000	70,892	135,892
2025	70,000	69,052	139,052
2026	75,000	67,071	142,071
2027-2031	420,000	302,103	722,103
2032-2036	520,000	237,154	757,154
2037-2041	625,000	171,485	796,485
2042-2046	730,000	102,600	832,600
	<u>\$ 2,630,000</u>	<u>\$ 1,167,517</u>	<u>\$ 3,797,517</u>

\$2,145,000 General Obligation (Limited Tax Convertible to Unlimited Tax) Bonds, Series 2016A and \$355,000 Subordinate General Obligation Limited Tax Bonds, Series 2016B

On December 22, 2016, the District issued \$2,145,000 of General Obligation (Limited Tax Convertible to Unlimited Tax) Bonds, Series 2016A (“Series 2016A Bonds”), and \$355,000 of Subordinate General Obligation Limited Tax Bonds, Series 2016B (“Series 2016B Bonds”), dated December 22, 2016, for the purpose of funding and reimbursing a portion of the costs of certain public infrastructure, paying the costs of issuance of the Bonds, and, with respect to the Series 2016A Bonds only, funding a portion of interest to accrue on the Series 2016A Bonds. The Series 2016A Bonds bore interest at the rate of 6.5%, payable semiannually on each June 1 and December 1, commencing on June 1, 2017, and maturing on December 1, 2046. The Series 2016B Bonds bore interest at the rate of 8%, payable annually on December 15, commencing on December 15, 2017, to the extent that Pledged Revenue is available, and mature on December 15, 2046.

THE VILLAS AT EASTLAKE RESERVOIR METROPOLITAN DISTRICT

Notes to Financial Statements
December 31, 2021

The Series 2016A Bonds were subject to a mandatory sinking fund redemption commencing on December 1, 2024 and were subject to redemption prior to maturity, at the option of the District, as a whole or in integral multiples of \$1,000, in any order of maturity and in whole or partial maturities, commencing on December 1, 2021, upon payment of par, accrued interest, and a redemption premium that ranges between 0% and 3%. The Series 2016B Bonds were subject to redemption prior to maturity, at the option of the District, as a whole or in integral multiples of \$1,000, in any order of maturity and in whole or partial maturities, commencing on December 15, 2021, upon payment of par, accrued interest, and a redemption premium that ranges between 0% and 3%. The Series 2016B Bonds were also subject to mandatory redemption from Subordinate Pledged Revenue, if any, on deposit in the Subordinate Bond Fund.

The Series 2016A Bonds were secured by the Senior Required Mill Levy, the Capital Fees, if any, the portion of the Specific Ownership Tax which was collected as a result of the Senior Required Mill Levy, and any other legally available moneys as determined by the District. The Series 2016A Bonds were also secured by the Senior Surplus Fund. The Series 2016B Bonds were secured by the Subordinate Required Mill Levy, the Subordinate Capital Fee Revenue, if any, the portion of the Specific Ownership Tax which was collected as a result of the Subordinate Required Mill Levy, any amount remaining in the Senior Surplus Fund after termination of the fund and any other legally available moneys as determined by the District.

On August 26, 2021, with the issuance of the 2021 Promissory Note, the Series 2016A and the 2016B Bonds fully defeased.

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

	Balance 1/1/2021	Additions	Deletions	Balance 12/31/2021	Current Portion
<u>General Obligation Bonds</u>					
Series 2016A Bonds	\$2,145,000	\$ -	\$2,145,000	\$ -	\$ -
Series 2016B Bonds	355,000		355,000	-	-
<u>Other Debt</u>				-	
2021 Promisory Note		2,680,000	50,000	2,630,000	60,000
Developer reimbursement	51,182	-	-	51,182	-
Developer reimbursement - interest	11,919	4,362	-	16,281	-
Total	<u>2,563,101</u>	<u>2,684,362</u>	<u>2,550,000</u>	<u>2,697,463</u>	<u>\$ 60,000</u>
Original issue premium 2016A	54,857	-	54,857	-	
	<u>\$2,617,958</u>	<u>\$ 2,684,362</u>	<u>\$2,604,857</u>	<u>\$ 2,697,463</u>	

THE VILLAS AT EASTLAKE RESERVOIR METROPOLITAN DISTRICT

Notes to Financial Statements December 31, 2021

Debt Authorization

As of December 31, 2021, the District had remaining voted debt authorization of approximately \$33,000,000. The District has not budgeted to issue any new debt during 2022. Per the District's Service Plan, the District can not issue debt in excess of \$2,500,000. After the issuance of the Series 2016A Bonds and Series 2016B Bonds the District has issued the maximum amount of debt allowed under the Service Plan.

Note 5: Other Agreements

Intergovernmental Agreement with City of Thornton

On April 21, 2009, the District entered into the Intergovernmental Agreement with the City which restates provisions of the Service Plan regarding the Limitations on the District's exercise of powers and generally functions as a contractual obligation of the District to abide by the limitations imposed on it by the City in the Service Plan.

Administrative, Operations and Maintenance Advance and Reimbursement Agreement

On October 14, 2015, BC Encore Eastlake, LLC (the "Developer") and the District entered into an Administrative, Operations and Maintenance Advance and Reimbursement Agreement pursuant to which the Developer agreed to advance reasonable funds as requested from time to time by the District to pay the District's operating, maintenance, and general administrative expenses up to a maximum of \$25,000, however as of December 31, 2021, the Developer has advanced \$51,182 with accrued interest of \$16,281.

Funding, Acquisition and Reimbursement Agreement

On October 14, 2015, the Developer and the District entered into a Funding, Acquisition and Reimbursement Agreement pursuant to which the Developer agreed to advance funds to the District for construction of District Infrastructure and/or construct Public Infrastructure for acquisition by the District. The District agreed to reimburse the Developer for all District eligible costs for which the District receives advances, to acquire any District Infrastructure constructed for the benefit of the District from the Developer that is not being dedicated to other government entities (including any related costs), and to reimburse the Developer for any costs incurred by the Developer for District Infrastructure that is being dedicated to third parties. The District agrees to repay the Developer for such advances and to pay interest at the rate of 8.5% from the date of the advance. As of December 31, 2021, the balance due under this agreement is \$0.

Note 6: Tax, Spending and Debt Limitations

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

THE VILLAS AT EASTLAKE RESERVOIR METROPOLITAN DISTRICT

Notes to Financial Statements December 31, 2021

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.

During 2008, 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 7: Risk Management

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

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

THE VILLAS AT EASTLAKE RESERVOIR METROPOLITAN DISTRICT

Notes to Financial Statements
December 31, 2021

Note 8: Reconciliation of Government-Wide Financial Statements and Fund Financial Statements

The Governmental 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 and accrued bond interest payable are not due and payable in the current period and, therefore, are not in the funds.

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

- 1) governmental funds report interest expense on the modified accrual basis; however, interest expense is reported on the full accrual method on the Statement of Activities; and,
- 2) governmental funds report developer advances and/or bond proceeds as revenue.

SUPPLEMENTAL INFORMATION

The Villas at Eastlake Reservoir Metropolitan District

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

For the Year Ended December 31, 2021

	<u>Original</u> <u>Budget</u>	<u>Final</u> <u>Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
REVENUES				
Property taxes	\$ 211,609	\$ 211,609	\$ 211,609	\$ -
Specific ownership taxes	21,161	21,161	17,382	(3,779)
Interest income	<u>2,000</u>	<u>2,000</u>	<u>71</u>	<u>(1,929)</u>
Total Revenues	<u>234,770</u>	<u>234,770</u>	<u>229,062</u>	<u>(5,708)</u>
EXPENDITURES				
Bond principal	-	50,000	50,000	-
Bond interest expense	139,425	95,724	94,465	1,259
Bond issuance costs	-	157,920	155,100	2,820
Trustee fees	5,500	5,500	5,500	-
Treasurer's fees	<u>3,174</u>	<u>3,174</u>	<u>3,175</u>	<u>(1)</u>
Total Expenditures	<u>148,099</u>	<u>312,318</u>	<u>308,240</u>	<u>4,078</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>86,671</u>	<u>(77,548)</u>	<u>(79,178)</u>	<u>(1,630)</u>
OTHER FINANCING SOURCES				
Loan proceeds	-	2,680,000	2,680,000	-
Payment to escrow agent	<u>-</u>	<u>(2,813,680)</u>	<u>(2,810,573)</u>	<u>3,107</u>
Total Other Financing Sources	<u>-</u>	<u>(133,680)</u>	<u>(130,573)</u>	<u>3,107</u>
NET CHANGE IN FUND BALANCE	86,671	(211,228)	(209,751)	1,477
FUND BALANCE:				
BEGINNING OF YEAR	<u>226,427</u>	<u>226,952</u>	<u>226,952</u>	<u>-</u>
END OF YEAR	<u>\$ 313,098</u>	<u>\$ 15,724</u>	<u>\$ 17,201</u>	<u>\$ 1,477</u>

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

The Villas at Eastlake Reservoir Metropolitan District

SUMMARY OF ASSESSED VALUATION, MILL LEVY
AND PROPERTY TAXES COLLECTED

December 31, 2021

Collection Year Ended <u>December 31,</u>	Prior Year Assessed Valuation for Current Year Property <u>Tax Levy</u>	Mills Levied		Total Property Tax		Percent Collected to Levied
		<u>General Fund</u>	<u>Debt Service</u>	<u>Levied</u>	<u>Collected</u>	
2016	\$ 339,860	50.000	0.000	\$ 16,993	\$ 16,993	100.00%
2017	\$ 338,700	10.000	50.000	\$ 20,322	\$ 20,322	100.00%
2018	\$ 1,570,560	10.000	55.277	\$ 102,521	\$ 102,521	100.00%
2019	\$ 2,479,520	10.000	55.277	\$ 161,856	\$ 157,231	97.14%
2020	\$ 3,745,260	10.000	55.277	\$ 244,479	\$ 245,716	100.51%
2021	\$ 3,801,540	10.000	55.664	\$ 249,624	\$ 249,624	100.00%
Estimated for year ending December 31, 2022	\$ 4,256,350	10.000	33.000	\$ 183,023		

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.