

COTTON RANCH METROPOLITAN DISTRICT
FINANCIAL STATEMENTS AND REPORT OF
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

December 31, 2020

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**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

April 14, 2021

The Board of Directors
Cotton Ranch Metropolitan District

We have audited the accompanying financial statements of the governmental activities, the business-type activity, and each major fund of Cotton Ranch Metropolitan District as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements 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, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activity, and each major fund of Cotton Ranch Metropolitan District, as of December 31, 2020, and the respective changes in financial position, and where applicable, cash flows thereof and the respective budgetary comparison for the



Board of Directors
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General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 be presented to supplement the basic financial statements. Such 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Cotton Ranch Metropolitan District's basic financial statements. The Debt Service Fund and Proprietary Fund budgetary schedules and the property tax statistical schedule are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The budgetary schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The property tax statistical schedule has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Chadwick, Steinkirchner, Davis & Co., P.C.

Chadwick, Steinkirchner, Davis & Co., P.C.

Cotton Ranch Metropolitan District
Management Discussion and Analysis
December 31, 2020

This management's discussion and analysis of the Cotton Ranch Metropolitan District's financial statements provides an overview of the District's financial activities for the fiscal year ended December 31, 2020. The intent of this discussion and analysis is to look at the District's financial performance as a whole; it should be read in conjunction with the basic financial statements and notes to enhance the reader's understanding of the District's overall financial performance.

Using the Basic Financial Statements

This annual report consists of three parts – *management's discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. The basic financial statements include two types of information on the same statement that present different views of the District:

- *Government-wide financial statements* that provide both *long-term* and *short-term* information about the District's *overall* financial status.
- *Fund financial statements* that focus on *individual parts* of the District government, reporting the District's operations *in more detail* than the government-wide statements.

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements. Additional supplemental information has also been included to enhance the reader's understanding of the financial statements.

Government-wide Financial Statements

The government-wide financial statements consist of the Statement of Net Position and the Statement of Activities. These statements report information about the District as a whole and include *all* assets, liabilities, and deferred inflows of resources using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the District's *net position* and changes in net position. The District's net position – the difference between assets, deferred outflows, liabilities, and deferred inflows – is one way to measure the District's financial health, or *financial position*. Over time, *increases or decreases* in the District's net position is one indicator of whether its *financial health* is improving or deteriorating. Other non-financial factors, however, such as changes in the District's property tax base and the condition of the infrastructure, are needed to assess the *overall health* of the District.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's *funds*, focusing on its most significant funds – not the District as a whole. The District's major governmental funds include the General Fund and the Debt Service Fund. Unlike government-wide financial statements, the focus of the fund financial statements is directed to specific activities of the District rather than the District as a whole. Except for the General Fund, a

Cotton Ranch Metropolitan District
Management Discussion and Analysis
December 31, 2020

specific fund is established to satisfy managerial control over resources or to satisfy finance-related legal requirements established by external parties or governmental statutes or regulations.

Governmental funds – The District’s activity is reported as a governmental fund, which focuses on how money flows into and out of those funds and the balances left at year-end that are available for spending in future periods. The funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial* assets that can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term view* of the District’s general government operations and the basic services it provides. Governmental fund information helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the District’s programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Position and the Statement of Activities) and governmental *funds* is provided in reconciliations following the fund financial statements.

Reporting on the District as a Whole

Statement of Net Position

The perspective of the Statement of Net Position is of the District as a whole. Following is a summary of the District’s net position for fiscal years 2020 and 2019.

	2020			2019		
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total
Assets:						
Current assets	1,017,901	197,759	1,215,660	1,041,285	210,492	1,251,777
Capital and non-current assets	0	582,643	582,643	0	559,596	559,596
Total Assets	1,017,901	780,402	1,798,303	1,041,285	770,088	1,811,373
Deferred Outflow of Resources: 2017 Note	49,849	0	49,849	54,003	0	54,003
Total Deferred Outflows of Resources	49,849	0	49,849	54,003	0	54,003
Liabilities:						
Current liabilities	38,446	17,080	55,526	44,486	14,580	59,066
Long-term liabilities (including current portion)	8,967,297	0	8,967,297	9,375,740	0	9,375,740
Total Liabilities	9,005,743	17,080	9,022,823	9,420,226	14,580	9,434,806
Deferred Inflow of Resources: Property Taxes	693,935	0	693,935	664,744	0	664,744
Total Deferred Inflows of Resources	693,935	0	693,935	664,744	0	664,744
Net Position:						
Net investment in capital assets	0	582,643	582,643	0	559,596	559,596
Restricted for emergencies	656	0	656	638	0	638
Restricted for conservation trust activities	45,378	0	45,378	37,090	0	37,090
Restricted for debt service	171,178	0	171,178	232,898	0	232,898
Unrestricted	(8,849,140)	180,679	(8,668,461)	(9,260,308)	195,912	(9,064,396)
Total Net Position	(8,631,928)	763,322	(7,868,606)	(8,989,682)	755,508	(8,234,174)

The District shows a substantial negative balance in net position. This deficit balance is the result of the District issuing bonds to pay for infrastructure and then conveying that infrastructure to the Town of Gypsum for the Town’s ongoing operation and maintenance for the benefit of the District’s and Town’s constituents. The most significant items on the statement of net position are the long-term liabilities and these are described in more depth in *Note C*.

Cotton Ranch Metropolitan District
Management Discussion and Analysis
December 31, 2020

Statement of Activities

The perspective of the Statement of Activities is of the District as a whole. The statement of activities reflects the cost of program services and the charges for services and sales, grants and contributions offsetting those services. The following detail reflects the total cost of services supported by program revenues and general property taxes, as well as other general revenues, resulting in the overall change in net position for the fiscal years 2020 and 2019.

	2020			2019		
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total
REVENUES:						
Program revenues:						
Charges for services	0	139,481	139,481	0	125,741	125,741
Grants and contributions	8,288	21,750	30,038	8,982	16,100	25,082
General revenues:						
Taxes	697,702	0	697,702	620,306	0	620,306
Interest and other revenue	5,111	1,154	6,265	14,543	3,890	18,433
Total revenues	711,101	162,385	873,486	643,831	145,731	789,562
EXPENSES:						
General Government	52,133	0	52,133	58,019	0	58,019
Water Activity operations	0	154,571	154,571	0	135,379	135,379
Interest on General Long Term Debt	282,481	0	282,481	315,519	0	315,519
Debt Issuance Costs	18,733		18,733	22,403		22,403
Total expenses	353,347	154,571	507,918	395,941	135,379	531,320
Increase in net position before transfers	357,754	7,814	365,568	247,890	10,352	258,242
Transfers	0	0	0	0	0	0
Change in net position	357,754	7,814	365,568	247,890	10,352	258,242
Net position January 1	(8,989,682)	755,508	(8,234,174)	(9,237,572)	745,156	(8,492,416)
Net position December 31	(8,631,928)	763,322	(7,868,606)	(8,989,682)	755,508	(8,234,174)

The District's primary source of revenues is property taxes, while secondary revenue sources are water user fees (which are reflected as charges for services) and tap fees (which are reflected as capital grants and contributions). These revenues are used to pay the cost of the general government, the cost of the irrigation water activity expenses, and to pay the District's debt service.

The District operated at a surplus of revenues over expenses in 2020. This surplus is primarily the result of levying property taxes that are used to repay debt service principal which is not treated as an expense and results in a surplus of revenues over expenses. Some of the District's bond agreements require the District to pay the debt service principal and interest annually and all mandatory bond payments have been made. The District's other bond agreements only require the District to pay the debt service principal and interest as the District has the funds available from property taxes generated by the District. The unpaid interest expense has been accrued and will be paid at such time that the District has the funds available or if funds are not available to make these

Cotton Ranch Metropolitan District
Management Discussion and Analysis
December 31, 2020

payments by certain future dates, then the obligation to pay the debt service is cancelled. *Note C* explains these provisions of the District's long-term debt obligations in greater detail.

The District's Funds

The fund level financial statements focus on how services were financed in the short-term as well as what remains for future spending. The fund level financial statements are reported on the modified accrual basis of accounting.

At the fund level, under the modified accrual basis of accounting, depreciable assets and their related depreciation expense are not reflected as they are not a current period financial resource or use. In addition, at the fund level, inflows from operating loans are presented as a source of funds while outflows for capital outlay and debt service payments are presented as an expenditure item, as these items represent current period financial resources and uses.

The General Fund experienced a moderate increase in fund balances in the Governmental Funds because revenues during the year exceeded expenditures. The Debt Service Fund experienced a decrease in the fund balance, netting an overall decrease in the Governmental Funds. The District experienced a moderate increase in Proprietary Funds for 2020 due to revenues exceeding expenditures. This surplus will be set aside in a reserve to be used for future years' expenditures.

General Fund Budgetary Highlights

The District's procedures in establishing budgetary data reflected in the financial statements are summarized in *Note A* of the financial statements. Details of the General Fund budget can be seen on Page 14 of the financial statements.

General Fund Resources (Inflows)

The District's final General Fund actual revenues and other financing sources in the amount of \$30,332 were \$1,915 less than the final budget of \$32,247.

General Fund Charges to Appropriations (Outflows)

The District's final budgetary expenditures and other financing uses of \$15,980 were \$4,029 less than the final appropriated balance of \$20,009.

Capital Assets

At the end of 2020, the District didn't have any funds invested in governmental activities capital assets and had \$582,643 invested in business-type activities capital assets. See *Note D, Capital Assets*.

Debt Administration

In 2020 the District issued \$730,000 in bonds to refund a portion of the subordinate bonds that converted to unlimited tax general obligation bonds during 2020 as a result of the increase in the District's assessed value during 2020. This bond refunding reduced the District's debt service payments over the next 16 years by \$198,625 resulting in a present value savings \$160,792.

Cotton Ranch Metropolitan District
Management Discussion and Analysis
December 31, 2020

At December 31, 2020, the District had \$8,967,296 of long-term obligations outstanding. See *Note C, Long-term Debt* for a detail of the terms and annual requirements to amortize the District's long-term debt.

Economic Factors and Next Year's Budget

During 2020 there was a worldwide pandemic from the Coronavirus. It is anticipated COVID-19 will have impacts on the economy as a whole which will include financial impacts to the District, however the extent of such impact is unknown at this time.

Contacting the District's Financial Management

This financial report is designed to provide our residents, customers, taxpayers, investors, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have any questions regarding this report or need additional financial information, please contact the:

Cotton Ranch Metropolitan District Manager
C/o Marchetti & Weaver, LLC
28 Second Street, Suite 213
Edwards, CO 81632
Tel: (970) 926-6060
Fax: (970) 926-6040

Cotton Ranch Metropolitan District

STATEMENT OF NET POSITION

December 31, 2020

	Governmental Activities	Business-type Activities	Total
ASSETS			
Equity in pooled cash and investments	\$ 316,625	\$ 164,647	\$ 481,272
Receivables			
Property taxes receivable	693,935	-	693,935
Water fees receivable	-	7,339	7,339
Tap fees receivable	-	3,600	3,600
Other receivables	2,664	5,093	7,757
Prepaid expenses	4,677	-	4,677
Restricted cash	-	17,080	17,080
Capital assets (net of accumulated depreciation)			
Non-potable water system, net	-	268,608	268,608
Water rights	-	314,035	314,035
Total Assets	<u>1,017,901</u>	<u>780,402</u>	<u>1,798,303</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred amount on refunding - 2017 Note	49,849	-	49,849
Total Deferred Outflows of Resources	<u>49,849</u>	<u>-</u>	<u>49,849</u>
Total Assets and Deferred Outflows of Resources	<u>1,067,750</u>	<u>780,402</u>	<u>1,848,152</u>
LIABILITIES			
Accounts payable	20,530	17,080	37,610
Accrued interest payable	17,916	-	17,916
Non-current liabilities, due within one year			
Bonds and note payable	400,000	-	400,000
Non-current liabilities			
Bonds and note payable	8,567,297	-	8,567,297
Total Liabilities	<u>9,005,743</u>	<u>17,080</u>	<u>9,022,823</u>
DEFERRED INFLOWS OF RESOURCES			
Property taxes	693,935	-	693,935
Total Deferred Inflows of Resources	<u>693,935</u>	<u>-</u>	<u>693,935</u>
Total Liabilities and Deferred Inflows of Resources	<u>9,699,678</u>	<u>17,080</u>	<u>9,716,758</u>
NET POSITION			
Net investment in capital assets	-	582,643	582,643
Restricted for emergencies	656	-	656
Restricted for conservation trust activities	45,378	-	45,378
Restricted for debt service	171,178	-	171,178
Unrestricted	(8,849,140)	180,679	(8,668,461)
Total Net Position	<u><u>\$ (8,631,928)</u></u>	<u><u>\$ 763,322</u></u>	<u><u>\$ (7,868,606)</u></u>

The accompanying notes are an integral part of this statement.

Cotton Ranch Metropolitan District

STATEMENT OF ACTIVITIES

Year ended December 31, 2020

Function/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	
Governmental activities:							
General government	\$ 52,133	\$ -	\$ 8,288	\$ -	\$ (43,845)		\$ (43,845)
Debt issuance costs	18,733	-	-	-	(18,733)		(18,733)
Interest on long-term debt	282,481	-	-	-	(282,481)		(282,481)
Total governmental activities	<u>353,347</u>	<u>-</u>	<u>8,288</u>	<u>-</u>	<u>(345,059)</u>		<u>(345,059)</u>
Business-type activities:							
Irrigation	154,571	139,481	-	21,750		\$ 6,660	6,660
Total business-type activities	<u>154,571</u>	<u>139,481</u>	<u>-</u>	<u>21,750</u>	<u>-</u>	<u>6,660</u>	<u>6,660</u>
Total	<u>\$ 507,918</u>	<u>\$ 139,481</u>	<u>\$ 8,288</u>	<u>\$ 21,750</u>	<u>(345,059)</u>	<u>6,660</u>	<u>(338,399)</u>
General revenues:							
					697,702	-	697,702
					4,948	1,154	6,102
					163	-	163
					<u>702,813</u>	<u>1,154</u>	<u>703,967</u>
					357,754	7,814	365,568
					<u>(8,989,682)</u>	<u>755,508</u>	<u>(8,234,174)</u>
					<u>\$ (8,631,928)</u>	<u>\$ 763,322</u>	<u>\$ (7,868,606)</u>

The accompanying notes are an integral part of this statement.

Cotton Ranch Metropolitan District

BALANCE SHEET - GOVERNMENTAL FUNDS

December 31, 2020

	General	Debt Service	Total Governmental Funds
ASSETS			
Equity in pooled cash and investments	\$ 148,031	\$ 168,594	\$ 316,625
Receivables			
Due from other governments	80	2,584	2,664
Property taxes receivable	20,781	673,154	693,935
Prepaid expenses	4,677	-	4,677
Total Assets	<u>173,569</u>	<u>844,332</u>	<u>1,017,901</u>
LIABILITIES			
Accounts payable	<u>20,530</u>	-	<u>20,530</u>
Total Liabilities	<u>20,530</u>	-	<u>20,530</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred property taxes	<u>20,781</u>	<u>673,154</u>	<u>693,935</u>
Total Deferred Inflows of Resources	<u>20,781</u>	<u>673,154</u>	<u>693,935</u>
Total Liabilities and Deferred Inflows of Resources	<u>41,311</u>	<u>673,154</u>	<u>714,465</u>
FUND EQUITY			
Nonspendable	4,677	-	4,677
Restricted for emergencies	656	-	656
Restricted for conservation trust activities	45,378	-	45,378
Restricted for debt service	-	171,178	171,178
Unassigned	81,547	-	81,547
Total Fund Equity	<u>\$ 132,258</u>	<u>\$ 171,178</u>	<u>\$ 303,436</u>

The accompanying notes are an integral part of this statement.

Cotton Ranch Metropolitan District

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION

December 31, 2020

Amounts reported for governmental activities in the Statement of Net Position are different because:

Total fund balance - governmental funds	\$ 303,436
Deferred amount on refunding is not a financial resource and, therefore, is not reported in the funds.	49,849
Long-term liabilities such as bonds and notes are not due and payable in the current period and, therefore, are not reported in the funds.	(8,967,297)
Accrued interest and fees are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(17,916)</u>
Net Position of Governmental Activities	<u><u>\$ (8,631,928)</u></u>

The accompanying notes are an integral part of this statement.

Cotton Ranch Metropolitan District

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS

Year ended December 31, 2020

	General	Debt Service	Total Governmental Funds
Revenues			
Taxes	\$ 20,937	\$ 676,765	\$ 697,702
Interest	944	4,004	4,948
Intergovernmental	8,288	-	8,288
Miscellaneous revenue	163	-	163
Total revenues	<u>30,332</u>	<u>680,769</u>	<u>711,101</u>
Expenditures			
General government	15,980	35,353	51,333
Debt service			
Principal repayment	-	510,000	510,000
Interest	-	177,603	177,603
Debt issuance costs	-	18,733	18,733
Financial fees	-	800	800
Total expenditures	<u>15,980</u>	<u>742,489</u>	<u>758,469</u>
Excess of Revenues Over (Under) Expenditures	14,352	(61,720)	(47,368)
Other financing sources			
Proceeds of refunding note	-	730,000	730,000
Bond redemption	-	(730,000)	(730,000)
Total other financing sources	<u>-</u>	<u>-</u>	<u>-</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures	14,352	(61,720)	(47,368)
Fund Balance - beginning	<u>117,906</u>	<u>232,898</u>	<u>350,804</u>
Fund Balance - ending	<u><u>\$ 132,258</u></u>	<u><u>\$ 171,178</u></u>	<u><u>\$ 303,436</u></u>

The accompanying notes are an integral part of this statement.

Cotton Ranch Metropolitan District

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year ended December 31, 2020

Amounts reported for governmental activities in the Statement of Activities are different
because:

Net Change in Fund Balances - Governmental Funds \$ (47,368)

Governmental funds report the the repayment of principal on long-term debt as expenditures.
However, these repayments are not reported as expenses in the Statement of Activities,
but rather a reduction of debt in the Statement of Net Position. This amount is the difference
in the treatment of these repayments. 1,240,000

Governmental funds report the the proceeds from debt as revenues. However, they are not
reported as revenues in the Statement of Activities, but rather as additions of debt in the
Statement of Net Position. This amount is the difference in the treatment of these proceeds. (730,000)

Governmental funds do not record the amount of interest and fees on long-term debt that has
accrued since the end of the year. However, these liabilities are reported in the Statement
of Net Position and the related expense is reported in the Statement of Activities. This is
the amount by which accrued interest and fees increased over the prior year. (104,878)

Change in Net Position of Governmental Activities \$ 357,754

The accompanying notes are an integral part of this statement.

Cotton Ranch Metropolitan District

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

Year ended December 31, 2020

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Property taxes	\$ 19,947	\$ 19,947	\$ 19,946	\$ (1)
Specific ownership taxes	900	900	991	91
Intergovernmental	9,000	9,000	8,288	(712)
Interest earnings	2,400	2,400	944	(1,456)
Miscellaneous revenue	-	-	163	163
Total revenues	<u>32,247</u>	<u>32,247</u>	<u>30,332</u>	<u>(1,915)</u>
Expenditures				
Accounting and auditing	37,250	37,250	38,333	(1,083)
Insurance	4,656	4,656	4,130	526
Legal	3,100	3,100	298	2,802
Treasurer's fees	598	598	598	-
Other	6,245	6,245	4,577	1,668
Allocation of overhead	(38,840)	(38,840)	(31,956)	(6,884)
Contingency	7,000	7,000	-	7,000
Total expenditures	<u>20,009</u>	<u>20,009</u>	<u>15,980</u>	<u>4,029</u>
Excess of Revenues Over (Under) Expenditures	12,238	12,238	14,352	2,114
Fund Balance - beginning	<u>119,300</u>	<u>119,300</u>	<u>117,906</u>	<u>(1,394)</u>
Fund Balance - ending	<u><u>\$ 131,538</u></u>	<u><u>\$ 131,538</u></u>	<u><u>\$ 132,258</u></u>	<u><u>\$ 720</u></u>

The accompanying notes are an integral part of this statement.

Cotton Ranch Metropolitan District

STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN FUND NET POSITION - PROPRIETARY FUND

Year ended December 31, 2020

	<u>Business-type Activities- Irrigation Enterprise Fund</u>
Revenues	
Water service fees	\$ 139,481
Total revenues	<u>139,481</u>
Expenses	
Repairs and maintenance	121,219
Depreciation	15,767
Augmentation water contract and lease	1,607
Allocation of overhead	15,978
Total expenses	<u>154,571</u>
	Operating income (loss) (15,090)
Interest income	1,154
Capital contributions - tap fees	21,750
	<u>22,904</u>
	Change in net position 7,814
Total net position - beginning	<u>755,508</u>
Total net position - ending	<u>\$ 763,322</u>

The accompanying notes are an integral part of this statement.

Cotton Ranch Metropolitan District

STATEMENT OF CASH FLOWS
 PROPRIETARY FUND

Year ended December 31, 2020

	Business-type Activities- Irrigation Enterprise Fund
Cash flows from operating activities	
Cash received from customers and users	\$ 137,494
Cash paid to suppliers	(136,304)
Net cash provided (used) by operating activities	1,190
Cash flows from capital and related financing activities	
Purchases of capital assets	(38,814)
Tap fees received (refunded)	21,750
Net cash provided (used) by capital and related financing activities	(17,064)
Cash flows from investing activities	
Interest income	1,154
Net cash provided (used) by investing activities	1,154
Net increase (decrease) in cash	(14,720)
Cash - beginning	196,447
Cash - ending	\$ 181,727
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	\$ (15,090)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation expense	15,767
(Increase) decrease in accounts receivable	(1,987)
Increase (decrease) in accounts payable	2,500
Total adjustments	16,280
Net cash provided (used) by operating activities	\$ 1,190

The accompanying notes are an integral part of this statement.

Cotton Ranch Metropolitan District
NOTES TO FINANCIAL STATEMENTS

December 31, 2020

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Organization

Cotton Ranch Metropolitan District (the District) is a quasi-municipal corporation and is governed pursuant to provisions of the Colorado Special District Act. The District's service area is located in Eagle County, Colorado. The District was established to provide roads, drainage, landscaping, water, sewer and recreation. The District will retain the assets and provide service for the non-potable irrigation system. Roads, drainage, potable water system, sewer system and landscaping assets have been deeded to and maintained by the Town of Gypsum.

The District has no employees except for the members of the board of directors who the Internal Revenue Service considers to be employees for income tax purposes, and all operations and administrative functions are contracted.

2. Reporting Entity

The reporting entity consists of (a) the primary government; i.e., the District, and (b) organizations for which the District is financially accountable. The District is considered financially accountable for legally separate organizations if it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the District. Consideration is also given to other organizations which are fiscally dependent; i.e., unable to adopt a budget, levy taxes, or issue debt without approval by the District. Organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete are also included in the reporting entity.

Based on the criteria above, the District is not financially accountable for any other entity, nor is the District a component unit of any other government.

3. Government-wide and Fund Financial Statements

The District's basic financial statements include both government-wide (reporting the District as a whole) and fund financial statements (reporting the District's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business type. Currently, the District has both governmental and business-type activities.

Cotton Ranch Metropolitan District

NOTES TO FINANCIAL STATEMENTS

December 31, 2020

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Government-wide Financial Statements

In the government-wide Statement of Net Position, the governmental activities column is reported on a full accrual, economic resource basis, which recognizes all long-term assets, receivables and deferred outflows of resources as well as long-term debt, obligations and deferred inflows of resources. The District's net position is reported in four parts: net position restricted for debt service, net position restricted for emergencies, net investment in capital assets, and unrestricted. The government-wide focus is on the sustainability of the District as an entity and the change in the District's net position resulting from the current year's activities.

Fund Financial Statements

The financial transactions of the District are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund equity, revenues and expenditures/expenses.

The fund focus is on current available resources and budget compliance.

4. Fund Accounting

The District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. At this time the District uses governmental funds and a proprietary fund.

Governmental Funds

Governmental funds are those through which most governmental functions typically are financed. Governmental funds reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets, deferred outflows of resources, liabilities and deferred inflows of resources is reported as fund equity.

Cotton Ranch Metropolitan District

NOTES TO FINANCIAL STATEMENTS

December 31, 2020

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

The District reports the following major governmental funds:

General Fund – The General Fund is used to account for all financial resources of the District except those required to be accounted for in another fund. The general fund balance is available to the District for any purpose provided it is expended or transferred according to the general laws of Colorado and the bylaws of the District.

Debt Service Fund – The Debt Service Fund accounts for the servicing of long-term debt including long-term contractual obligations approved by the District’s electorate and revenues generated by property taxes that are required to be used in payment of such long-term debt and contractual obligations.

Proprietary Fund

Enterprise Fund – The Enterprise Fund accounts for operations that are financed and operated in a manner where the intent of the District is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or where the District has decided that periodic determination of revenue earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. Operating revenues and expenses for enterprise funds are those that result from providing services. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

For purposes of the statement of cash flows, the District considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents.

5. Measurement Focus and Basis of Accounting

Measurement focus refers to whether financial statements measure changes in current resources only (current financial focus) or changes in both current and long-term resources (long-term economic focus). Basis of accounting refers to the point at which revenues, expenditures, or expenses are recognized in the accounts and reported in the financial statements.

Long-Term Economic Focus and Accrual Basis

Governmental activities in the government-wide financial statements use the long-term economic focus and are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of the related cash flows.

Cotton Ranch Metropolitan District

NOTES TO FINANCIAL STATEMENTS

December 31, 2020

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Current Financial Focus and Modified Accrual Basis

The governmental fund financial statements use the current financial focus and are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. “Available” means collectible within the current period or within 60 days of year-end. Expenditures are generally recognized when the related liability is incurred. The exception to this general rule is that principal and interest on general long-term debt, if any, is recognized when due.

The accrual basis of accounting is utilized in the proprietary fund type. Revenue is recognized when earned and expenses are recognized when the liability is incurred. Depreciation is computed and recorded as an operating expense and expenditures for property and equipment are shown as increases in assets.

When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the District's policy is to first apply the expense toward restricted resources and then toward unrestricted resources. In governmental funds, the District's policy is to first apply the expenditure toward restricted fund balance and then to other, less-restrictive classifications—committed and then assigned fund balances before using unassigned fund balances.

6. Government-wide Net Position

- *Net investment in capital assets*—consist of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets plus deferred outflows of resources less deferred inflows of resources related to those assets.
- *Restricted net position*—consist of assets that are restricted by the District's creditors (for example, through debt covenants), by the state enabling legislation (through restrictions on shared revenues), by grantors (both federal and state), and by other contributors (those who may donate to the District less related liabilities and deferred inflows of resources).
- *Unrestricted*—all other net position is reported in this category.

Cotton Ranch Metropolitan District

NOTES TO FINANCIAL STATEMENTS

December 31, 2020

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

7. Governmental Fund Balances

In the governmental fund financial statements, fund balances are classified as follows:

- *Non-spendable fund balance* - The portion of fund balance that cannot be spent because it is either not in spendable form (such as 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.
- *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 set aside for planned or intended purposes. The intended use may be expressed by the Board of Directors or other individuals authorized to assign funds to be used for a specific purpose.
- *Unassigned fund balance* - The residual portion of fund balance that does not meet any of the above criteria. The District will only report a positive unassigned fund balance in the General Fund.

8. Intergovernmental Revenues

For governmental funds, intergovernmental revenues, such as contributions awarded on a non-reimbursement basis, are recorded as receivables and revenues when measurable and available.

9. Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities and deferred inflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

10. Interfund Transactions

Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Nonrecurring or non-routine permanent transfers of equity and other interfund transfers are reported as transfers.

Cotton Ranch Metropolitan District

NOTES TO FINANCIAL STATEMENTS

December 31, 2020

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

11. Property Taxes

Property taxes are not due and payable until after the assessment year has ended, and are not included in the budget or Statement of Revenues, Expenditures, and Changes in Fund Balance of the assessment year. Property taxes are recorded as deferred inflow of resources in the year they are levied and measurable. Property tax revenues are recorded as revenue in the year they are available or collected. Property taxes are levied on or before December 15 of each year and attach as an enforceable lien on the property on January 1. Taxes are payable in full on April 30 or in two installments on February 28 and June 15.

12. Stewardship, Compliance, and Accountability

Budgets and Budgetary Accounting

In the fall of each year, the District's Board of Directors formally adopts a budget with appropriations by fund for the ensuing year pursuant to the Colorado Local Budget Law. The budgets for the governmental funds are adopted on a basis consistent with generally accepted accounting principles ("GAAP"). As required by the Colorado statutes, the District followed by the following timetable in approving and enacting a budget for the ensuing years:

- (1) For the 2020 budget year, prior to August 23, 2019, the County Assessor sent the District the assessed valuation of all taxable property within the District's boundaries.
- (2) On or before October 15, 2019, the District's accountant submitted to the District's Board of Directors a recommended budget which detailed the necessary property taxes needed along with other available revenues to meet the District's operating requirements.
- (3) The Board held a public hearing on the proposed budget and capital program no later than 45 days prior to the close of the fiscal year.
- (4) For the 2020 budget, prior to December 15, 2019, the District computed and certified to the County Commissioners a rate of levy that derived the necessary property taxes as computed in the proposed budget.
- (5) For the 2020 budget, the final budget and appropriating resolution was adopted prior to December 31, 2019.
- (6) After adoption of the budget resolution, the District may make the following changes: a) it may transfer appropriated monies between funds or between spending agencies within a fund, as determined by the original appropriation level; b) supplemental appropriations to the extent of revenues in excess of those estimated in the budget; c) emergency appropriations; and d) reduction of appropriations for which originally estimated revenues are insufficient.

The level of control in the budget at which expenditures exceed appropriations is at the fund level. All appropriations lapse at year end. There was one supplemental appropriation for 2020.

Cotton Ranch Metropolitan District

NOTES TO FINANCIAL STATEMENTS

December 31, 2020

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

13. Capital Assets

Capital assets, which include construction in progress, are reported in the applicable governmental activities columns in the government-wide financial statements. The District defines capital assets as assets with an initial, individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are completed.

Depreciation is computed using the straight-line method over estimated useful lives, as follows:

	<u>Estimated Lives</u>
Buildings and improvements	20 to 40 years
Infrastructure	30 to 40 years
Equipment and machinery	5 to 15 years

NOTE B – EQUITY IN POOLED CASH AND INVESTMENTS

The District maintains a cash pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the statement of net position as "Equity in pooled cash."

Deposits

As of December 31, 2020, the carrying amount of the District's deposits was \$82,969 and the bank balance was \$78,315. All of the bank balance was covered by federal depository insurance.

Statutes require that any public depository which accepts and holds public funds maintain, as security for public deposits accepted and held by it, not insured by federal depository insurance, eligible collateral having a market value, at all times, equal to at least 102 percent of the amount of public deposits. Banking institutions are monitored by the State of Colorado Banking Commission and must report monthly on all public deposits held. Pledged collateral must be held in joint custody of the bank and of the Public Deposit Protection Act in a safekeeping account held by a third party, usually the Federal Reserve Bank. The pledge collateral cannot be released unless approval is obtained by the banking commission. Savings and Loan institutions are monitored by the State of Colorado Commissioner of Savings and Loan Associations and must report quarterly on all public deposits held. Pledged collateral, usually in the form of mortgages, must be held by a third party institution for the benefit of the commissioner.

As of December 31, 2020, the District had \$17,080 in deposits received from contractors which is shown as restricted cash.

Cotton Ranch Metropolitan District

NOTES TO FINANCIAL STATEMENTS

December 31, 2020

NOTE B – EQUITY IN POOLED CASH AND INVESTMENTS – CONTINUED

Investments

Colorado state statutes authorize the District to invest in U.S. Treasury bills, obligations of any other U.S. agencies, obligations of the World Bank, general obligation bonds of any state or any of their subdivisions, revenue bonds of any state or any of their subdivisions, bankers acceptance notes, commercial paper, repurchase agreements, money market funds and guaranteed investment contracts. All investments must be held by the District, in their name, or in custody of a third party on behalf of the local government.

The District had invested \$415,383 in the Colorado Local Governmental Liquid Asset Trust, (Colotrust), an investment vehicle established for local government entities in Colorado to pool surplus funds. A designated custodial bank provides safekeeping and depository services to Colotrust in connection with the direct investment and withdrawal functions of Colotrust. Substantially all securities owned by Colotrust are held by the Federal Reserve Bank in the account maintained for the custodial bank. The custodian's internal records identify the investments owned by Colotrust. Colotrust funds carry a Standard & Poor's AAAM rating. There is no custodial, interest rate or foreign currency risk exposure. Colotrust operates like a 2a-7 external investment pool and investments in the pool are valued at \$1 net asset value (NAV) per share. The underlying investments held by Colotrust are valued at fair value.

A reconciliation of the carrying value of deposits and investments reported above to the Statement of Net Position as of December 31, 2020 is as follows:

Deposits	\$ 82,969
Investments	<u>415,383</u>
Total cash and investments	<u><u>498,352</u></u>
Equity in pooled cash and investments	\$ 481,272
Restricted cash	<u>17,080</u>
Total cash and investments	<u><u>498,352</u></u>

Cotton Ranch Metropolitan District

NOTES TO FINANCIAL STATEMENTS

December 31, 2020

NOTE C – LONG-TERM DEBT

	Balance at January 1, <u>2020</u>	<u>Additions</u>	<u>Payments</u>	Balance at December 31, <u>2020</u>	<u>Due within one year</u>
By Classification					
2002A Subordinate Junior General Obligation Limited Tax Refunding Bonds	\$ 1,680,000	\$ –	\$ 730,000	\$ 950,000	\$ –
Unpaid interest	2,505,739	101,557	–	2,607,296	–
2017 Refunding General Obligation Note	4,385,000	–	510,000	3,875,000	400,000
2019 Refunding General Obligation Note	805,000	–	–	805,000	–
2020 Refunding General Obligation Note	–	730,000	–	730,000	–
	<u>\$ 9,375,739</u>	<u>\$ 831,557</u>	<u>\$ 1,240,000</u>	<u>\$ 8,967,296</u>	<u>\$ 400,000</u>

The detail of the District’s governmental activities long-term obligations is as follows:

\$3,485,000 Subordinate Junior General Obligation Limited Tax Refunding Bonds, Series 2002A, dated December 24, 2002, with interest of 2.9% to 5.95% consist of term bonds due December 15, 2035. During 2002, these bonds were exchanged for the tender and cancellation of the District’s 1999B Bonds. The Bonds were refunded to lower the interest rates on the bonds, extend the maturity dates and change the conversion ratio to general obligation bonds. These bonds were issued to the Developer.

Pursuant to the Bond Resolution, the District shall convert the Series 2002A Subordinate Junior General Obligation Limited Tax Refunding Bonds to General Obligation Bonds when the ratio of general obligation debt to certified assessed value of the District is less than or equal to thirty-five percent. The mill levy imposed for the payment of debt service on the bonds shall not be less than thirty-five (35) mills to be Gallagherized and not to exceed fifty (50) mills. Any monies on deposit in the bond fund which are available for payment of the bonds (which are not converted bonds) and any other obligations which have a parity lien on the District’s revenues pledged for repayment of the bonds shall be applied in the following order of priority (as more fully described in the bond resolution):

1. to the payment of unpaid interest on the bonds
2. to the payment of unpaid principal on the bonds
3. to the payment of current interest
4. to the payment of current principal

Thereafter, the balance of any monies in the bond fund, if any, shall be applied to the optional redemption of converted bonds.

Cotton Ranch Metropolitan District

NOTES TO FINANCIAL STATEMENTS

December 31, 2020

NOTE C – LONG-TERM DEBT – CONTINUED

\$5,130,000 General Obligation Refunding Note, Series 2017, dated August 1, 2017, with interest of 3.45%. Principal and interest payments are due December 31 of each year commencing December 31, 2018 through December 31, 2032.

\$805,000 General Obligation Refunding Note, Series 2019, dated December 27, 2019, with interest of 3.45%. Principal and interest payments are due December 1 of each year commencing June 1, 2020 through December 1, 2035.

\$730,000 General Obligation Refunding Note, Series 2020, dated December 29, 2020, with interest of 3.45%. Principal and interest payments are due December 1 of each year commencing June 1, 2020 through December 1, 2035.

The 2020 refunding reduced total debt service payments over the subsequent 13 years by \$198,625. This results in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$160,792.

The District’s Series 2002A Bonds and Series 2017, 2019, and 2020 Notes will mature as follows:

Subordinate Bonds

<u>Year</u>	\$3,485,000		
	<u>Junior Subordinate 2002A</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ –	\$ 56,525	\$ 56,525
2022	–	56,525	56,525
2023	25,000	56,525	81,525
2024	25,000	55,038	80,038
2025	35,000	53,550	88,550
2026-2030	305,000	226,398	531,398
2031-2035	560,000	107,398	667,398
Total	<u>\$ 950,000</u>	<u>\$ 611,959</u>	<u>\$ 1,561,959</u>

Cotton Ranch Metropolitan District
 NOTES TO FINANCIAL STATEMENTS

December 31, 2020

NOTE C – LONG-TERM DEBT – CONTINUED

General Obligation Refunding Note, Series 2017

Year	\$5,130,000 General Obligation Refunding 2017		
	Principal	Interest	Total
2021	\$ 400,000	\$ 138,518	\$ 538,518
2022	420,000	124,718	544,718
2023	320,000	110,228	430,228
2024	320,000	99,459	419,459
2025	320,000	88,148	408,148
2026-2030	1,600,000	275,288	1,875,288
2031-2032	495,000	32,804	527,804
Total	\$ 3,875,000	\$ 869,163	\$ 4,744,163

General Obligation Refunding Note, Series 2019

Year	\$805,000 General Obligation Refunding 2019		
	Principal	Interest	Total
2021	\$ –	\$ 27,773	\$ 27,773
2022	–	27,773	27,773
2023	20,000	27,773	47,773
2024	20,000	27,157	47,157
2025	30,000	26,392	56,392
2031-2035	255,000	111,842	366,842
2031-2035	480,000	53,514	533,514
Total	\$ 805,000	\$ 302,224	\$ 1,107,224

General Obligation Refunding Note, Series 2020

Year	\$730,000 General Obligation Refunding 2020		
	Principal	Interest	Total
2021	\$ –	\$ 25,185	\$ 25,185
2022	–	25,185	25,185
2023	20,000	25,185	45,185
2024	25,000	24,562	49,562
2025	25,000	23,633	48,633
2026-2030	220,000	101,314	321,314
2031-2035	440,000	49,198	489,198
Total	\$ 730,000	\$ 274,262	\$ 1,004,262

Cotton Ranch Metropolitan District

NOTES TO FINANCIAL STATEMENTS

December 31, 2020

NOTE C – LONG-TERM DEBT – CONTINUED

Remaining Authorized but Unissued Indebtedness and Obligation to Issue Future Bonds. The District held elections in 1994, 1996, 1998, and 2006 at which a majority of the qualified electors of the District authorized the issuance of indebtedness. A portion of the debt authorized in the 1994 election was rescinded in the 1998 election. And while the 2006 election increased the maximum repayment cost of the indebtedness under the 1994 election, it did not authorize any new indebtedness. Bonds were issued in 1998 that fully used the remaining debt authorized in the 1994 election.

The 1996 election authorized the issuance of \$5.5 million of debt. Bonds were issued using \$3.126 million of this authorization. In the 1998 election the electors of the District authorized the issuance of \$3.8 million of debt to be used for streets improvements and \$500,000 for sewage facilities, total \$4.3 million. The District has used \$359,000 of the 1998 amount authorized for street improvements, but hasn't used any of the 1998 authorization for sewage facilities. The District's legal counsel has advised that the remaining voter authorized debt from the 1996 and 1998 elections has become stale and is likely unusable.

NOTE D – CAPITAL ASSETS

Capital asset activity for business-type activities for the year ended December 31, 2020 follows:

	Balance at January 1, <u>2020</u>	<u>Additions</u>	<u>Deletions</u>	Balance at December 31, <u>2020</u>
Business-type Activities				
Capital assets not being depreciated				
Water rights	\$ 314,035	\$ –	\$ –	\$ 314,035
Capital assets being depreciated				
Non-potable water system	444,543	38,815	–	483,358
Vehicle	11,161	–	–	11,161
Accumulated depreciation	<u>(210,143)</u>	<u>(15,768)</u>	<u>–</u>	<u>(225,911)</u>
Total capital assets being depreciated, net	<u>245,561</u>	<u>23,047</u>	<u>–</u>	<u>268,608</u>
Business-type activity capital assets, net	<u>\$ 559,596</u>	<u>\$ 23,047</u>	<u>\$ –</u>	<u>\$ 582,643</u>

Depreciation expense for the year ended December 31, 2020 was \$15,768.

Cotton Ranch Metropolitan District

NOTES TO FINANCIAL STATEMENTS

December 31, 2020

NOTE E – RELATED PARTY TRANSACTIONS

A company owned by a current board member was paid \$55,357 in 2020 for services provided in relation to the irrigation system. \$0 was owed to this board member's company as of December 31, 2020.

The 2002A bonds were originally issued to the Cotton Ranch developers to reimburse them for infrastructure costs which they incurred in developing Cotton Ranch. One of the Developers owned a \$745,000 bond that was a portion of the 2002A bonds and was interested in selling this bond in 2017. The District's accountant and administrator, Ken Marchetti, purchased that bond from the developer including all prior unpaid interest associated with the bond. As a subordinate bond, no interest is currently being paid on this bond, but the bond interest (and principal when applicable) will be payable when the District has funds available from property taxes collected from the debt service mill levy after all required payments for unlimited tax bonds have been paid. This bond is eligible to convert to unlimited tax status when the ratio of general obligation debt to certified assessed value of the District is less than or equal to thirty-five percent. This occurred in 2019 and principal and interest will begin to be paid June 1, 2020. During 2020 principal in the amount of \$295,000 was paid to Mr. Marchetti.

Mr. Marchetti also purchased the prior unpaid interest associated with a portion of the 2010 Converted Bonds from another developer during 2017.

NOTE F – COMMITMENTS AND CONTINGENCIES

During the normal courses of business, the District may incur claims and other assertions against it from various agencies and individuals. Management of the District and their legal representatives have disclosed that they are not aware of any material outstanding claims against the District at December 31, 2020.

NOTE G – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, thefts of, damage to, or destruction of assets; errors or omissions; injuries to employees, or acts of God. The District has elected to participate in the Colorado Special District Property and Liability Pool (the Pool), which is sponsored by the Special District Association of Colorado. The Pool provides property and general liability, automobile physical damage and liability, public official's liability and machinery coverage to its members. Members of the Pool are required to make additional surplus contributions. 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. During the year ended December 31, 2020 the Pool made no distributions to the District.

Condensed financial statement data for the Colorado Special Districts Property and Liability Pool as of December 31, 2019 (latest information available) is as follows:

Cotton Ranch Metropolitan District

NOTES TO FINANCIAL STATEMENTS

December 31, 2020

NOTE G – RISK MANAGEMENT – CONTINUED

	<u>Colorado Special Districts Property and Liability Pool</u>
Assets	\$ <u>55,602,023</u>
Liabilities	\$ 33,163,342
Surplus	<u>22,438,681</u>
	<u>\$ 55,602,023</u>
Revenue	\$ 22,436,944
Investment income and other	<u>1,173,628</u>
Total revenue	23,610,572
Expenses	<u>25,355,739</u>
Excess of revenues over (under) expenses	<u>\$ (1,745,167)</u>

NOTE H – TABOR AMENDMENT

In November 1992, Colorado voters amended Article X of the Colorado Constitution by adding Section 20, commonly known as the Taxpayer’s Bill of Rights (“TABOR”). TABOR contains revenue, spending, tax and debt limitations which apply to the State of Colorado and local governments. TABOR requires, with certain exceptions, advance voter approval for any new tax, tax rate increase, mill levy above that of the prior year, extension of any expiring tax, or tax policy change directly causing a new tax revenue gain to any local government. Except for refinancing bonded debt at a lower interest rate or adding new employees to existing pension plans, TABOR requires advance voter approval for the creation of any multiple fiscal year or other financial obligation unless adequate present cash reserves are pledged irrevocable and held for payments in future years.

TABOR also requires local governments to establish emergency reserves to be used for declared emergencies only. Emergencies, as defined by TABOR, exclude economic conditions, revenue shortfalls, or salary or fringe benefit increases. These reserves are required to be 3% or more of the fiscal year spending (excluding bonded debt service) for fiscal years ended after December 31, 1994. At December 31, 2020, the District had the required 3% reserve of \$656, restricted for emergencies.

Under Tabor, the initial base for local government spending and revenue limits is December 31, 1992 fiscal year spending. The District’s first year of operations ended December 31, 1995. Future spending and revenue limits are determined based on the prior year’s fiscal year spending adjusted for inflation in the prior calendar year plus annual local growth. Fiscal year spending is generally defined as expenditures and reserve increases with certain exceptions. Revenue, if any, in excess of the fiscal year spending limit must be refunded in the next fiscal year unless voters approve retention of such revenue.

Cotton Ranch Metropolitan District

NOTES TO FINANCIAL STATEMENTS

December 31, 2020

NOTE H – TABOR AMENDMENT – CONTINUED

The District’s management believes it is in compliance with the financial provisions of TABOR. However, TABOR is complex and subject to interpretation. Many of its provisions, including the interpretation of how to calculate fiscal year spending limits, will require judicial interpretation.

On November 8, 1994, a majority of the District’s electors authorized the District to collect and spend or retain all revenues through 1998 without regard to any limitations under TABOR.

On November 8, 1994, a majority of the District’s electors authorized the District to increase taxes \$50,000 annually in 1996 and thereafter by the imposition of an ad valorem property tax levy which shall not exceed a total of 30 mills for the general operations of the District.

On May 5, 1998, a majority of the District’s electors authorized the District to collect, keep and expend all District revenues received in 1998 and each year thereafter without regard to limitations under TABOR.

On May 5, 1998, a majority of the District’s electors authorized the District to increase taxes \$12,500 annually in the first full fiscal year, upon real property proposed to be included into the District.

NOTE I – CONSERVATION TRUST RESTRICTED FUNDS

The District receives lottery funds from the State of Colorado, which are restricted to recreational and related activities. The balance of these funds at December 31, 2019 was \$37,090. During 2020, the District received an additional \$8,288, but has not expended any of the funds, leaving funds available at December 31, 2020 of \$45,378 for future spending. This amount is presented in the General fund as fund balance restricted for conservation trust activities.

SUPPLEMENTARY INFORMATION

Cotton Ranch Metropolitan District

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

Year ended December 31, 2020

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Property taxes	\$ 644,797	\$ 644,797	\$ 644,747	\$ (50)
Specific ownership taxes	29,016	29,016	32,018	3,002
Interest income	12,895	12,895	4,004	(8,891)
Total revenues	<u>686,708</u>	<u>686,708</u>	<u>680,769</u>	<u>(5,939)</u>
Expenditures				
Treasurer's fees	19,343	19,343	19,375	(32)
Contingency	10,000	10,000	-	10,000
Principal	515,000	515,000	510,000	5,000
Interest	179,056	179,056	177,603	1,453
Debt issuance costs	20,000	20,000	18,733	1,267
Allocation of overhead	19,420	19,420	15,978	3,442
Other - Paying Agent Fees	2,600	2,600	800	1,800
Total expenditures	<u>765,419</u>	<u>765,419</u>	<u>742,489</u>	<u>22,930</u>
Excess of Revenues Over (Under) Expenditures	(78,711)	(78,711)	(61,720)	16,991
Other financing sources (uses)				
Proceeds of refunding note	805,000	805,000	730,000	(75,000)
Bond redemption	(805,000)	(805,000)	(730,000)	75,000
Total other financing sources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures	(78,711)	(78,711)	(61,720)	16,991
Fund Balance - beginning	<u>225,949</u>	<u>225,949</u>	<u>232,898</u>	<u>6,949</u>
Fund Balance - ending	<u>\$ 147,238</u>	<u>\$ 147,238</u>	<u>\$ 171,178</u>	<u>\$ 23,940</u>

Cotton Ranch Metropolitan District

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGE IN NET
POSITION - BUDGET AND ACTUAL - PROPRIETARY FUND

Year ended December 31, 2020

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Water service fees	\$ 124,482	\$ 128,882	\$ 139,481	\$ 10,599
Tap fees	11,000	24,500	21,750	(2,750)
Interest income	4,043	4,043	1,154	(2,889)
Total revenues	<u>139,525</u>	<u>157,425</u>	<u>162,385</u>	<u>4,960</u>
Expenses				
Repairs and maintenance	97,403	110,243	121,219	(10,976)
Augmentation water contract and lease	5,055	1,655	1,607	48
Allocation of overhead	19,420	19,420	15,978	3,442
Capital Outlay	40,000	40,000	38,815	1,185
Contingency	10,000	10,000	-	10,000
Total expenses	<u>171,878</u>	<u>181,318</u>	<u>177,619</u>	<u>3,699</u>
Change in net position budgetary basis	<u>\$ (32,353)</u>	<u>\$ (23,893)</u>	<u>(15,234)</u>	<u>\$ 8,659</u>
Reconciliation to GAAP basis				
Capital Outlay			38,815	
Depreciation			(15,767)	
Change in net position GAAP basis			<u>23,048</u>	
Total net position - beginning			<u>755,508</u>	
Total net position - ending			<u>\$ 763,322</u>	

OTHER INFORMATION

Cotton Ranch Metropolitan District

SUMMARY OF ASSESSED VALUATION, MILL LEVY AND PROPERTY TAX COLLECTIONS

December 31, 2020

Year Ended December 31,	Prior Year Assessed Valuation for Current Year Property Tax Levy	Mills Levied	Property Taxes		Percent Collected to Levied
			Levied	Collected	
2002	\$ 8,110,670	38.060	\$ 308,692	\$ 308,388	100.0%
2003	8,381,140	42.016	352,143	352,122	99.9%
2004	8,112,638	42.016	340,808	340,808	100.0%
2005	8,238,870	45.231	372,652	371,354	99.65%
2006	9,046,300	45.345	410,204	410,204	100.0%
2007	10,018,350	39.074	391,457	391,457	100.0%
2008	14,612,390	38.414	561,321	557,720	99.36%
2009	15,966,210	39.092	624,152	623,518	99.90%
2010	19,787,380	39.067	773,034	772,568	99.94%
2011	18,548,230	39.274	728,463	721,431	99.03%
2012	11,283,210	63.166	712,715	686,456	96.32%
2013	11,328,190	62.246	705,134	747,232	105.97%
2014	6,724,490	48.345	325,095	325,529	100.13%
2015	6,898,380	48.345	333,502	333,500	100.00%
2016	9,985,260	48.345	482,737	482,726	100.00%
2017	10,139,440	41.23	418,050	419,031	100.23%
2018	12,526,290	44.394	556,092	555,318	99.89%
2019	13,215,680	44.533	588,534	588,530	100.00%
2020	14,830,750	44.822	664,744	664,693	100.00%
2021	15,450,650	44.913	693,935		

NOTE:

Property taxes collected in any one year include collection of delinquent property taxes assessed in prior years. Information received from the County Treasurer does not permit identification of specific year of assessment.