

FALLBROOK VILLAS METROPOLITAN DISTRICT

Financial Statements

Year Ended December 31, 2020

with

Independent Auditor's Report

C O N T E N T S

	<u>Page</u>
<u>Independent Auditor's Report</u>	I
<u>Basic Financial Statements</u>	
Balance Sheet/Statement of Net Position - Governmental Funds	1
Statement of Revenues, Expenditures and Changes in Fund Balances/Statement of Activities - Governmental Funds	2
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund	3
Notes to Financial Statements	4
<u>Supplemental Information</u>	
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual – Debt Service Fund	18
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Capital Projects Fund	19
Summary of Assessed Valuation, Mill Levy and Property Taxes Collected	20



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Fallbrook Villas Metropolitan District
Adams County, Colorado

We have audited the accompanying financial statements of the governmental activities and each major fund of Fallbrook Villas Metropolitan District (the 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 from 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 entity'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 entity'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 and each major fund of Fallbrook Villas Metropolitan District, as of December 31, 2020, and the respective changes in financial position thereof, and the budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Economic Dependency

As disclosed in Note 9 to the financial statements, the District has not yet established a revenue base sufficient to pay the District's operational expenditures. Until a sufficient revenue base is established, the District will be dependent upon the developer of the District for funding of continued operations.

Required Supplementary Information

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other 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 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, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Fiscal Focus Partners, LLC

Greenwood Village, Colorado
June 25, 2021

Fallbrook Villas Metropolitan District

BALANCE SHEET/STATEMENT OF NET POSITION GOVERNMENTAL FUNDS December 31, 2020

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
ASSETS						
Cash and investments - restricted	\$ 2,582	\$ 255,922	\$ -	\$ 258,504	\$ -	\$ 258,504
Receivable - County Treasurer	110	549	-	659	-	659
Property taxes receivable	66,727	153,974	-	220,701	-	220,701
Developer receivable	40,092	-	-	40,092	(40,092)	-
Prepaid expenses	3,071	-	-	3,071	-	3,071
Due to other funds	-	18,968	7,065	26,033	(26,033)	-
Capital assets not being depreciated	-	-	-	-	4,371,790	4,371,790
Total Assets	<u>\$ 112,582</u>	<u>\$ 429,413</u>	<u>\$ 7,065</u>	<u>\$ 549,060</u>	<u>4,305,665</u>	<u>4,854,725</u>
LIABILITIES						
Accounts payable	\$ 19,822	\$ -	\$ -	\$ 19,822	-	19,822
Due to other funds	26,033	-	-	26,033	(26,033)	-
Accrued interest	-	-	-	-	71,278	71,278
Long-term liabilities:						
Due in more than one year	-	-	-	-	5,085,211	5,085,211
Total Liabilities	<u>45,855</u>	<u>-</u>	<u>-</u>	<u>45,855</u>	<u>5,130,456</u>	<u>5,176,311</u>
DEFERRED INFLOWS OF RESOURCES						
Deferred property taxes	<u>66,727</u>	<u>153,974</u>	<u>-</u>	<u>220,701</u>	<u>-</u>	<u>220,701</u>
Total Deferred Inflows of Resources	<u>66,727</u>	<u>153,974</u>	<u>-</u>	<u>220,701</u>	<u>-</u>	<u>220,701</u>
FUND BALANCES/NET POSITION						
Fund Balances:						
Nonspendable:						
Prepays	3,071	-	-	3,071	(3,071)	-
Restricted:						
Emergencies	2,985	-	-	2,985	(2,985)	-
Debt service	-	275,439	-	275,439	(275,439)	-
Capital projects	-	-	7,065	7,065	(7,065)	-
Unassigned	<u>(6,056)</u>	<u>-</u>	<u>-</u>	<u>(6,056)</u>	<u>6,056</u>	<u>-</u>
Total Fund Balances	<u>-</u>	<u>275,439</u>	<u>7,065</u>	<u>282,504</u>	<u>(282,504)</u>	<u>-</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 112,582</u>	<u>\$ 429,413</u>	<u>\$ 7,065</u>	<u>\$ 549,060</u>		
Net Position:						
Restricted for:						
Emergencies					2,985	2,985
Debt service					204,161	204,161
Capital projects					7,065	7,065
Unrestricted					<u>(756,498)</u>	<u>(756,498)</u>
Total Net Position					<u>\$ (542,287)</u>	<u>\$ (542,287)</u>

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

Fallbrook Villas Metropolitan District

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES/STATEMENT OF ACTIVITIES

GOVERNMENTAL FUNDS

For the Year Ended December 31, 2020

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
EXPENDITURES						
Accounting and audit	\$ 11,482	\$ -	\$ -	\$ 11,482	\$ -	\$ 11,482
Legal	9,722	-	-	9,722	-	9,722
Insurance	3,443	-	-	3,443	-	3,443
Management fees	9,907	-	-	9,907	-	9,907
Landscape maintenance	49,998	-	-	49,998	-	49,998
Snow removal	30,649	-	-	30,649	-	30,649
Landscape improvements	1,920	-	-	1,920	-	1,920
Utilities	439	-	-	439	-	439
Miscellaneous expenses	118	-	-	118	-	118
Treasurer's fees	299	1,496	-	1,795	-	1,795
Bond interest expense	-	126,262	-	126,262	32,996	159,258
Trustee fees	-	7,000	-	7,000	-	7,000
	<u>117,977</u>	<u>134,758</u>	<u>-</u>	<u>252,735</u>	<u>32,996</u>	<u>285,731</u>
GENERAL REVENUES						
Property taxes	19,934	99,678	-	119,612	-	119,612
Specific ownership taxes	1,472	7,362	-	8,834	-	8,834
Interest and other income	34	1,897	6	1,937	-	1,937
	<u>21,440</u>	<u>108,937</u>	<u>6</u>	<u>130,383</u>	<u>-</u>	<u>130,383</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES						
	(96,537)	(25,821)	6	(122,352)	(32,996)	(155,348)
OTHER FINANCING SOURCES (USES)						
Developer advances	96,537	-	-	96,537	(96,537)	-
	<u>96,537</u>	<u>-</u>	<u>-</u>	<u>96,537</u>	<u>(96,537)</u>	<u>-</u>
NET CHANGES IN FUND BALANCES						
	-	(25,821)	6	(25,815)	25,815	
CHANGE IN NET POSITION						
					(155,348)	(155,348)
FUND BALANCES/NET POSITION:						
BEGINNING OF YEAR	-	301,260	7,059	308,319	(695,258)	(386,939)
END OF YEAR	<u>\$ -</u>	<u>\$ 275,439</u>	<u>7,065</u>	<u>\$ 282,504</u>	<u>\$ (824,791)</u>	<u>\$ (542,287)</u>

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

Fallbrook Villas Metropolitan District

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

For the Year Ended December 31, 2020

	Original & Final		Variance
	<u>Budget</u>	<u>Actual</u>	Favorable (Unfavorable)
REVENUES			
Property taxes	\$ 20,061	\$ 19,934	\$ (127)
Specific ownership taxes	1,404	1,472	68
Interest and other income	<u>500</u>	<u>34</u>	<u>(466)</u>
Total Revenues	<u>21,965</u>	<u>21,440</u>	<u>(525)</u>
EXPENDITURES			
Accounting and audit	12,000	11,482	518
Election expense	1,000	-	1,000
Legal	12,000	9,722	2,278
Insurance	4,000	3,443	557
Management fees	9,600	9,907	(307)
Landscape maintenance	50,000	49,998	2
Snow removal	15,000	30,649	(15,649)
Landscape improvements	-	1,920	(1,920)
Utilities	10,000	439	9,561
Other maintenance	5,000	-	5,000
Miscellaneous expenses	1,000	118	882
Treasurer's fees	301	299	2
Contingency	8,750	-	8,750
Emergency reserve	<u>3,597</u>	<u>-</u>	<u>3,597</u>
Total Expenditures	<u>132,248</u>	<u>117,977</u>	<u>14,271</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES			
	(110,283)	(96,537)	13,746
OTHER FINANCING SOURCES (USES)			
Developer advances	<u>80,000</u>	<u>96,537</u>	<u>16,537</u>
Total Other Financing Sources (Uses)	<u>80,000</u>	<u>96,537</u>	<u>16,537</u>
NET CHANGE IN FUND BALANCE	(30,283)	-	30,283
FUND BALANCE:			
BEGINNING OF YEAR	<u>30,283</u>	<u>-</u>	<u>(30,283)</u>
END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

FALLBROOK VILLAS METROPOLITAN DISTRICT

Notes to Financial Statements December 31, 2020

Note 1: Summary of Significant Accounting Policies

The accounting policies of the Fallbrook Villas Metropolitan District (“District”), located in the City of Thornton (“the City”) in 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 3, 2015, as a quasi-municipal organization established under the State of Colorado Special District Act. The District operates pursuant to a service plan approved by the City of Thornton (the “City”) on August 11, 2015 (the “Service Plan”). The District was established to provide for the construction and completion of a part or all of the public improvements for the use and benefit of the residents and property owners within the service area. The District is governed by an elected Board of Directors.

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

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

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

Basis of Presentation

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

FALLBROOK VILLAS METROPOLITAN DISTRICT

Notes to Financial Statements December 31, 2020

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.

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.

FALLBROOK VILLAS METROPOLITAN DISTRICT

Notes to Financial Statements December 31, 2020

Debt Service Fund – The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

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

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. Subsequent to year end the District amended its total appropriations in the Debt Service Fund from \$ 132,767 to \$142,767 primarily as a result of increased cost of the trustee.

Assets, Liabilities 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, 2020, 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.

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.

FALLBROOK VILLAS METROPOLITAN DISTRICT

Notes to Financial Statements December 31, 2020

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 fixed assets, as applicable using the straight-line method. Depreciation on property that will remain assets of the District is reported on the Statement of Activities as a current charge. 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.

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.

FALLBROOK VILLAS METROPOLITAN DISTRICT

Notes to Financial Statements December 31, 2020

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.

Interfund Balances

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “due to/from other funds”. These amounts are eliminated in the Statement of Net Position.

Long-Term Obligations

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

Fund Equity

Fund 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 is related to prepaid insurance.

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 \$2,985 of the General Fund balance has been reserved in compliance with this requirement.

The restricted fund balance in the Debt Service Fund in the amount of \$275,439 is restricted for the payment of the debt service costs associated with the Series 2019A Bonds and 2019B Bonds (see Note 4).

The restricted fund balance in the Capital Projects Fund in the amount of \$7,065 is restricted for the payment of the costs for capital improvements within the District.

FALLBROOK VILLAS METROPOLITAN DISTRICT

Notes to Financial Statements
December 31, 2020

Committed Fund Balance

Committed fund balance is 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.

Net Position

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

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

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

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

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

Note 2: Cash and investments

As of December 31, 2020, cash is classified in the accompanying financial statements as follows:

Statement of Net Position:

Cash and investments - restricted	\$ <u>258,504</u>
Total	\$ <u>258,504</u>

FALLBROOK VILLAS METROPOLITAN DISTRICT

Notes to Financial Statements
December 31, 2020

Cash and investments as of December 31, 2020, consist of the following:

Deposits with financial institutions	\$ 1,461
Investments - COLOTRUST	<u>257,043</u>
	\$ <u>258,504</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.

Investments

Credit Risk

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

Custodial and Concentration of Credit Risk

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

Interest Rate Risk

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

FALLBROOK VILLAS METROPOLITAN DISTRICT

Notes to Financial Statements December 31, 2020

Investment Valuation

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

As of December 31, 2020, the District had the following investment:

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. There are no unfunded commitments, the redemption frequency is daily, and there is no redemption notice period. 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. 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, 2020, the District had \$257,043 invested in COLOTRUST.

FALLBROOK VILLAS METROPOLITAN DISTRICT

Notes to Financial Statements
December 31, 2020

Note 3: Capital Assets

An analysis of the changes in capital assets for the year ended December 31, 2020, follows:

	Balance 1/1/2020	Additions	Deletions	Balance 12/31/2020
<u>Governmental Type Activities:</u>				
<u>Capital assets not being depreciated:</u>				
Construction in progress	\$4,371,790	\$ -	\$ -	\$ 4,371,790
Total capital assets not being depreciated	<u>4,371,790</u>	<u>-</u>	<u>-</u>	<u>4,371,790</u>
Government type assets, net	<u>\$4,371,790</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,371,790</u>

Pursuant to the Service Plan, all public improvements are to be owned and maintained by the City upon their completion and acceptance by the City, except for park and recreation improvements, which the District is obligated to continue to own and operate.

Note 4: Long Term Debt

A description of the long-term obligations as of December 31, 2020, is as follows:

\$2,405,000 General Obligation (Limited Tax Convertible to Unlimited Tax) Bonds, Series 2019A and \$398,000 Subordinate General Obligation Limited Tax Bonds, Series 2019B

On February 7, 2019, the District issued \$2,405,000 General Obligation (Limited Tax Convertible to Unlimited Tax) Bonds, Series 2019A (“Series 2019A Bonds”) and \$398,000 Subordinate General Obligation Limited Tax Bonds, Series 2019B (“Series 2019B Bonds”). The Series 2019A Bonds were issued for the purpose of financing public improvements related to a residential development in the City of Thornton, Colorado, (“the Development”) paying capitalized interest on the 2019A Bonds, funding a deposit to the Senior Reserve Fund and paying other costs in connection with the issuance of the Series 2019A Bonds. The Series 2019B Bonds were issued for purpose of funding additional public improvements related to the Development and paying other costs in connection with the issuance of the Series 2019B Bonds. The Series 2019A Bonds bear interest at the rate of 5.250%, payable semiannually on each June 1 and December 1, commencing on June 1, 2019, and mature on December 1, 2049. The Series 2019B Bonds bear interest at the rate of 7.750%, payable annually on December 15, commencing on December 15, 2019, to the extent that Subordinate Pledged Revenue is available, and mature on December 15, 2049. The Series 2019A Bonds are subject to a mandatory sinking fund redemption commencing on December 1, 2022 and are 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, 2023, upon payment of par, accrued interest, and a redemption premium that ranges between 0% and 3%.

FALLBROOK VILLAS METROPOLITAN DISTRICT

Notes to Financial Statements
December 31, 2020

The Series 2019A Bonds are secured by the Senior Required Mill Levy, the portion of the Specific Ownership Tax which is collected as a result of the Senior Required Mill Levy, Capital Fees, and any other legally available moneys as determined by the District. The Series 2019A Bonds are also secured by the Senior Reserve Fund in the initial amount of \$192,825. The Series 2019B Bonds are secured by the Subordinate Required Mill Levy, the portion of the Specific Ownership Tax which is collected as a result of the Subordinate Required Mill Levy, the amount in the Senior Surplus Fund after the termination of such fund pursuant to the Senior Indenture, Subordinate Capital Fee Revenue, and any other legally available moneys as determined by the District.

The 2019B bonds are “cash flow” bonds meaning that no regularly scheduled principal payments are due prior to the maturity date, and interest not paid will accrue and compound until there is sufficient Subordinate Pledged Revenue for payment. In the event any amounts due and owing on the 2019B Bonds remain outstanding on December 15, 2057, such amounts shall be deemed discharged and shall no longer be due and outstanding.

The following is an analysis of changes in long-term debt for the year ending December 31, 2020:

	Balance 1/1/2020	Additions	Deletions	Balance 12/31/2020	Current Portion
<u>Bonds Payable</u>					
General Obligation Bonds 2019A	\$2,405,000	\$ -	\$ -	\$ 2,405,000	\$ -
General Obligation Bonds 2019B	398,000	-	-	398,000	-
<u>Other Debt</u>					
Developer advance - Operating	98,731	75,667	-	174,398	-
Developer advance - Capital	<u>2,107,813</u>	<u>-</u>	<u>-</u>	<u>2,107,813</u>	<u>-</u>
Total	<u>\$5,009,544</u>	<u>\$ 75,667</u>	<u>\$ -</u>	<u>\$ 5,085,211</u>	<u>\$ -</u>

Debt Authorization

On November 3, 2015 a majority of the qualified electors of the District authorized the issuance of indebtedness in the amount not to exceed \$50,000,000. As of December 31, 2020, \$47,197,000 of this authorization remains unissued. The Service Plan provides that the District shall not issue bonds or other debt in excess of \$5,000,000. At December 31, 2020, \$2,197,000 of this authorization remains unissued.

FALLBROOK VILLAS METROPOLITAN DISTRICT

Notes to Financial Statements
December 31, 2020

The following is a summary of the annual long-term debt principal and interest requirements for the Series 2019A Bonds.

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ -	\$ 126,263	\$ 126,263
2022	20,000	126,263	146,263
2023	20,000	125,213	145,213
2024	25,000	124,163	149,163
2025	30,000	122,850	152,850
2026 - 2030	190,000	588,263	778,263
2031 - 2035	290,000	528,150	818,150
2036 - 2040	420,000	439,163	859,163
2041 - 2045	585,000	313,163	898,163
2046 - 2049	825,000	126,000	951,000
	<u>\$ 2,405,000</u>	<u>\$ 2,619,491</u>	<u>\$ 5,024,491</u>

Because of the uncertainty of the timing of the principal and interest payment on the Series 2019B Bonds, no schedule of principal and interest payments is presented.

Note 5: Other Agreements

Advance, Acquisition and Reimbursement Agreement

On January 1, 2019, the District entered into an Advance, Acquisition and Reimbursement Agreement with Calatlantic Group, Inc., a Colorado limited liability company (the “Developer”) (the “Reimbursement Agreement”). The Reimbursement Agreement replaces a terminated Funding and Reimbursement Agreement dated June 1, 2016. The Reimbursement Agreement requires the Developer to construct and install all Public Improvements in accordance with City standards and specifications and warranty such improvements for the period required by the City upon the transfer to the District, the City or other applicable jurisdiction. The reimbursable cost of any Public Improvement transferred to the District, the City or other applicable jurisdiction is required to be determined based upon actual costs verified by the Developer, which costs may be verified by an independent public accountant, professional engineer or valuation consultant reasonably acceptable to the District based upon “as built” drawings and other construction documentation available and applicable to such Public Improvements. Reimbursements for Public Improvements may be made from appropriated legally available revenue not otherwise appropriated, obligated, pledged or reserved for any current or future purpose in any year. Reimbursements may also be made from the proceeds of tax-exempt bonds, subject to applicable law.

FALLBROOK VILLAS METROPOLITAN DISTRICT

Notes to Financial Statements December 31, 2020

Intergovernmental Agreement Regarding the Service Plan

On January 7, 2016, the District and the City entered into an Intergovernmental Agreement Regarding the Service Plan for the District (“the IGA”) which requires the District to convey all Public Improvements to the City or other appropriate jurisdiction except for park and recreation improvements, which the District is obligated to continue to own and operate. The IGA, with minor exceptions, also generally prohibits the District from constructing, acquiring or operating any fire protection, television relay and television and telecommunication facilities. The IGA further requires all Public Improvements to generally be constructed in accordance with City standards and specifications and be subject to City zoning and land use requirements. Finally, the IGA limited any District debt to \$5,000,000, prohibits the imposition of any fee for debt that is payable by an end user of taxable property subsequent to the issuance of a certificate of occupancy, imposes a maximum debt service mill levy that is consistent with the District’s definitions of Senior Required Mill Levy and Subordinate Required Mill Levy contained in the Indentures, and imposes a maximum debt service mill levy imposition term that is consistent with the discharge dates described herein.

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.

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.

On November 3, 2015, 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.

FALLBROOK VILLAS METROPOLITAN DISTRICT

Notes to Financial Statements December 31, 2020

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.

Note 8: Related Party

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

Note 9: Economic Dependency

The District has not yet established a revenue base sufficient to pay the District’s operational expenditures. Until an independent revenue base is established, continuation of operations in the District will be dependent upon funding by the Developer pursuant to the Reimbursement Agreement. (See Note 5)

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

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

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

FALLBROOK VILLAS METROPOLITAN DISTRICT

Notes to Financial Statements
December 31, 2020

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 in the statement of activities; and,
- 2) governmental funds report developer advances and/or bond proceeds as revenue and report interest as expenditures; however, these are reported as changes to long-term liabilities on the government-wide financial statements.

SUPPLEMENTAL INFORMATION

Fallbrook Villas Metropolitan District

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

For the Year Ended December 31, 2020

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES				
Property taxes	\$ 100,311	\$ 100,311	\$ 99,678	\$ (633)
Specific ownership taxes	7,022	7,022	7,362	340
Interest and other income	<u>5,500</u>	<u>5,500</u>	<u>1,897</u>	<u>(3,603)</u>
Total Revenues	<u>112,833</u>	<u>112,833</u>	<u>108,937</u>	<u>(3,896)</u>
EXPENDITURES				
Bond interest expense	126,262	126,262	126,262	-
Paying agent fees	5,000	15,000	7,000	8,000
Treasurer's fees	<u>1,505</u>	<u>1,505</u>	<u>1,496</u>	<u>9</u>
Total Expenditures	<u>132,767</u>	<u>142,767</u>	<u>134,758</u>	<u>8,009</u>
NET CHANGE IN FUND BALANCE	(19,934)	(29,934)	(25,821)	4,113
FUND BALANCE:				
BEGINNING OF YEAR	<u>295,146</u>	<u>295,146</u>	<u>301,260</u>	<u>6,114</u>
END OF YEAR	<u>\$ 275,212</u>	<u>\$ 265,212</u>	<u>\$ 275,439</u>	<u>\$ 10,227</u>

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

Fallbrook Villas Metropolitan District

SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL -
CAPITAL PROJECTS FUND

For the Year Ended December 31, 2020

	Original & Final		Variance
	<u>Budget</u>	<u>Actual</u>	Favorable <u>(Unfavorable)</u>
REVENUES			
Interest and other income	\$ -	\$ 6	\$ 6
Total Revenues	<u>-</u>	<u>6</u>	<u>6</u>
EXPENDITURES			
Contingency	<u>-</u>	<u>-</u>	<u>-</u>
Total Expenditures	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	-	6	6
FUND BALANCE:			
BEGINNING OF YEAR	<u>-</u>	<u>7,059</u>	<u>7,059</u>
END OF YEAR	<u>\$ -</u>	<u>\$ 7,065</u>	<u>\$ 7,065</u>

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

Fallbrook Villas Metropolitan District

SUMMARY OF ASSESSED VALUATION, MILL LEVY AND PROPERTY TAXES COLLECTED

December 31, 2020

<u>Collection year</u>	<u>Net Assessed Value</u>	<u>Mills Levied</u>		<u>Total Property Tax</u>		<u>Percent Collected to Levied</u>
		<u>General Fund</u>	<u>Debt Service</u>	<u>Levied</u>	<u>Collected</u>	
2017	\$ 1,330	0.000	0.000	\$ -	\$ -	0.00%
2018	\$ 412,730	11.056	55.277	\$ 27,378	\$ 27,377	100.00%
2019	\$ 970,670	11.056	55.277	\$ 64,387	\$ 64,388	100.00%
2020	\$ 1,802,080	11.132	55.664	\$ 120,372	\$ 119,612	99.37%
Estimated for year ending December 31, 2021	\$ 2,766,130	24.123	55.664	\$ 220,701		

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.