

COPPERLEAF METROPOLITAN DISTRICT NO. 1

Financial Statements

Year Ended December 31, 2019

with

Independent Auditor's Report

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# HIRATSUKA & ASSOCIATES, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS

## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Copperleaf Metropolitan District No. 1  
Arapahoe County, Colorado

We have audited the accompanying financial statements of the governmental activities and each major fund of the Copperleaf Metropolitan District No. 1 (the District), Arapahoe County, Colorado, as of and for the year ended December 31, 2019, 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 (U.S. GAAP); 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 an opinion 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 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 opinion.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each major fund of Copperleaf Metropolitan District No. 1, Arapahoe County, Colorado, as of December 31, 2019, and the respective changes in financial position and the budgetary comparison for the General Fund for the year then ended in conformity with U.S. GAAP.

### **Other Matters**

#### *Required Supplementary Information*

Management has not presented Management's Discussion and Analysis. Such missing information, although not a part of the basic financial statements, is required by GASB, 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 the missing information.

*Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Capital Projects Fund is presented for the purpose of additional analysis and was not a required part of the financial statements.

The Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Capital Projects Fund is the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or the 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 financial statements as a whole.

*Hiratsuka & Associates, LLP*

September 29, 2020  
Wheat Ridge, Colorado

COPPERLEAF METROPOLITAN DISTRICT NO. 1

BALANCE SHEET/STATEMENT OF NET POSITION -  
GOVERNMENTAL FUNDS  
December 31, 2019

	<u>General</u>	<u>Capital Projects</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
<b>ASSETS</b>					
Cash and investments	\$ 9,892	\$ -	\$ 9,892	\$ -	\$ 9,892
Cash and investments - restricted	4,740	-	4,740	-	4,740
Due from other governments	<u>25,908</u>	<u>-</u>	<u>25,908</u>	<u>-</u>	<u>25,908</u>
Total Assets	<u>\$ 40,540</u>	<u>\$ -</u>	<u>\$ 40,540</u>	<u>-</u>	<u>40,540</u>
<b>LIABILITIES</b>					
Accounts payable	\$ 40,540	\$ -	\$ 40,540	-	40,540
Long-term liabilities:					
Due in more than one year	<u>-</u>	<u>-</u>	<u>-</u>	<u>20,515,837</u>	<u>20,515,837</u>
Total Liabilities	<u>40,540</u>	<u>-</u>	<u>40,540</u>	<u>20,515,837</u>	<u>20,556,377</u>
<b>FUND BALANCES</b>					
Fund Balances:					
Restricted:					
Emergencies	4,740	-	4,740	(4,740)	-
Unassigned	<u>(4,740)</u>	<u>-</u>	<u>(4,740)</u>	<u>4,740</u>	<u>-</u>
Total Fund Balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Liabilities and Fund Balances	<u>\$ 40,540</u>	<u>\$ -</u>	<u>\$ 40,540</u>		
<b>NET POSITION</b>					
Restricted for:					
Emergencies				4,740	4,740
Unrestricted				<u>(20,520,577)</u>	<u>(20,520,577)</u>
Total Net Position				<u>\$ (20,515,837)</u>	<u>\$ (20,515,837)</u>

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

COPPERLEAF METROPOLITAN DISTRICT NO. 1

STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES/STATEMENT OF ACTIVITIES -  
GOVERNMENTAL FUNDS  
For the Year Ended December 31, 2019

	<u>General</u>	<u>Capital Projects</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
EXPENDITURES					
Accounting and audit	\$ 34,351	\$ -	\$ 34,351	\$ -	\$ 34,351
Insurance	27,076	-	27,076	-	27,076
Legal	42,262	-	42,262	-	42,262
Consultants / engineering	1,480	-	1,480	-	1,480
Miscellaneous expenses	3,000	-	3,000	-	3,000
Interest expense - developer notes	-	466,000	466,000	1,042,127	1,508,127
Total Expenditures	<u>108,169</u>	<u>466,000</u>	<u>574,169</u>	<u>1,042,127</u>	<u>1,616,296</u>
GENERAL REVENUES					
Transfer from other governments	<u>81,972</u>	<u>466,000</u>	<u>547,972</u>	<u>-</u>	<u>547,972</u>
Total General Revenues	<u>81,972</u>	<u>466,000</u>	<u>547,972</u>	<u>-</u>	<u>547,972</u>
NET CHANGES IN FUND BALANCES	(26,197)	-	(26,197)	26,197	
CHANGE IN NET POSITION				(1,068,324)	(1,068,324)
FUND BALANCES/NET POSITION:					
BEGINNING OF YEAR - RESTATED	<u>26,197</u>	<u>-</u>	<u>26,197</u>	<u>(19,473,710)</u>	<u>(19,447,513)</u>
END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$(20,515,837)</u>	<u>\$(20,515,837)</u>

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

COPPERLEAF METROPOLITAN DISTRICT NO. 1

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

For the Year Ended December 31, 2019

	Original and <u>Final Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
REVENUES			
Transfer from other governments	\$ 100,377	\$ 81,972	\$ (18,405)
Total Revenues	<u>100,377</u>	<u>81,972</u>	<u>(18,405)</u>
EXPENDITURES			
Accounting and audit	25,800	34,351	(8,551)
Insurance	27,500	27,076	424
Legal	68,000	42,262	25,738
Consultants / engineering	6,500	1,480	5,020
Miscellaneous expenses	2,500	3,000	(500)
Contingency	71,142	-	71,142
Emergency reserve	<u>3,909</u>	<u>-</u>	<u>3,909</u>
Total Expenditures	<u>205,351</u>	<u>108,169</u>	<u>97,182</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(104,974)	(26,197)	78,777
OTHER FINANCING SOURCES (USES)			
Developer advances	<u>100,000</u>	<u>-</u>	<u>(100,000)</u>
Total Other Financing Sources (Uses)	<u>100,000</u>	<u>-</u>	<u>(100,000)</u>
NET CHANGE IN FUND BALANCE	(4,974)	(26,197)	(21,223)
FUND BALANCE:			
BEGINNING OF YEAR	<u>4,974</u>	<u>26,197</u>	<u>21,223</u>
END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

# COPPERLEAF METROPOLITAN DISTRICT NO. 1

## Notes to Financial Statements December 31, 2019

### Note 1: Summary of Significant Accounting Policies

The accounting policies of the Copperleaf Metropolitan District No. 1 (the “District”), located in Arapahoe 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 February 7, 2005, as a quasi-municipal organization established under the State of Colorado Special District Act. The District was established to finance and construct certain public infrastructure improvements that benefit the citizens of the District. During most of 2015, the District was the service district for eight other districts within the development, the Copperleaf Metropolitan District Nos. 2 through No. 9 (“Districts 2-9”) and was charged with the coordination and management of services for Districts 2-9 and the provision of improvements authorized in the service plans and pursuant to several intergovernmental agreements. Upon recommendation from District No. 1, Districts 2-9 would approve improvements which benefit a particular district and provide financing therefore. In 2015, the relationship with District No. 2 was terminated (See Note 4.) Thus, in 2019, the District was the service District for Districts 3-9.

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, Statement No. 61, *The Financial Reporting Entity: Omnibus, which amended* GASB Statement No. 14, *The Financial Reporting Entity* and GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, which provides 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.

# COPPERLEAF METROPOLITAN DISTRICT NO. 1

## Notes to Financial Statements December 31, 2019

### Basis of Presentation

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

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

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

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

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

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

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.

# COPPERLEAF METROPOLITAN DISTRICT NO. 1

## Notes to Financial Statements December 31, 2019

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.

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.

### Assets, Liabilities, Deferred Inflows/Inflows of Resources and Net Position:

#### Fair Value of Financial Instruments

The District's financial instruments include cash and cash equivalents, and accounts payable. The District estimates that the fair value of all financial instruments at December 31, 2019, 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 cash equivalents are considered to be cash on hand and short-term investments with maturities of three months or less from the date of acquisition. Investments for the government are reported at fair value.

The 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.

# COPPERLEAF METROPOLITAN DISTRICT NO. 1

## Notes to Financial Statements December 31, 2019

### Estimates

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

### Deferred Outflows/Inflows of Resources

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

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has no items that qualify for reporting in this category.

### 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 estimated fair 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. No depreciation expense was recognized during 2019. At December 31, 2019 all capital assets have been transferred to other governments.

### 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.

# COPPERLEAF METROPOLITAN DISTRICT NO. 1

## Notes to Financial Statements December 31, 2019

### 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.

### 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 \$4,740 of the General Fund balance has been restricted in compliance with this requirement.

### Committed Fund Balance

The portion of fund balance that can only be used for specific purposes pursuant to constraints imposed by a formal action of the government's highest level of decision-making authority, the Board of Directors. The constraint may be removed or changed only through formal action of the Board of Directors.

### Assigned Fund Balance

Assigned fund balance includes amounts the District intends to use for a specific purpose. Intent can be expressed by the District's Board of Directors or by an official or body to which the Board of Directors delegates the authority.

### Unassigned Fund Balance

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

For the classification of Governmental Fund balances, the District considers an expenditure to be made from the most restrictive first when more than one classification is available.

COPPERLEAF METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements  
December 31, 2019

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. At December 31, 2019, the District did not have any net investments in capital assets as it had no capital 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

As of December 31, 2019, cash is classified in the accompanying financial statements as follows:

Statement of Net Position:	
Cash and investments	\$ 9,892
Cash and investments - Restricted	<u>4,470</u>
Total	<u>\$ 14,632</u>

Cash as of December 31, 2019 consist of the following:

Deposits with financial institutions	<u>\$ 14,632</u>
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COPPERLEAF METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements  
December 31, 2019

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.

Note 3: Capital Assets

The District has conveyed all fixed assets to other local governments. The District will not be responsible for maintenance.

# COPPERLEAF METROPOLITAN DISTRICT NO. 1

## Notes to Financial Statements December 31, 2019

### Note 4: Long-term Debt

#### Facilities Acquisition Agreement:

On October 3, 2005, the District entered into a Facilities Acquisition Agreement (“FAA”) with South Quincy Residential Developers, Inc. (the “Developer”), and other ownership entities with property in the development known as the Development Group: SQH Residential Investors, Inc., Staack Commercial Investors, LLC, Quincy Corner, LLC, Quincy-West Commercial Investors, LLC, Quincy-East Commercial Investors, LLC, and Rippey Commercial Investors, LLC. For developer-built improvements to be acquired by District No. 1 or dedicated to public entities, the Facilities Acquisition Agreement provides that the Development Group appoints the Developer as the master builder and creates an obligation in the Development Group to provide funds for projects and the ability of District No. 1 to reimburse the Developer for construction of projects.

District No. 2 was released from its obligations under the FAA and the FFCOA as part of that certain Acknowledgement of Termination and Release of Copperleaf Metropolitan District No. 2’s Funding Obligations Under Facilities Funding and Acquisition Agreement dated October 14, 2015.

On December 12, 2017, the First Amendment to the Facilities Acquisition Agreement amended the Facilities Acquisition Agreement (“First Amendment to FAA”) by removing Quincy Corner, LLC as a party. Pursuant to the First Amendment to FAA, Quincy Corner, LLC has no further liabilities and obligations under the Facilities Acquisition Agreement, no amounts are due to Quincy Corner, LLC from the District, and Quincy Corner, LLC relinquishes any right or claim to any reimbursements due under the Facilities Acquisition Agreement.

On July 16, 2018, that certain Termination of Facilities Acquisition Agreement terminated and rendered the FAA null and void. As of the date of the termination of the FAA, July 16, 2018, there was remaining outstanding and payable by the Service District to the Residential Owner Prior RO Costs amounting to \$25,555,989. In December 2019, the District adopted a resolution regarding the interest accrual repayment on the long-term debt obligations relating to the capital advances by the developer for the acquisition of capital assets. Capital costs incurred by the developer and accepted by the District will now record the facilities and accrue interest commencing on the date that the costs are verified by an independent engineer and as evidenced by the date of the letter or report and not by the date the District accepts the facilities.

Coincident with the termination of the FAA, District No. 1 and Residential Owners (here, SQH Residential Investors, Inc. and South Quincy Residential Developers, Inc.) entered a new Facilities Acquisition Agreement (“Agreement”), dated and effective as of July 16, 2018. This Agreement acknowledges the Prior RO Costs are reimbursable to the Residential Owners. Further, this Agreement obligates the Service District agrees to reimburse Residential Owner up to amount of the Prior RO Costs and certain Certified Additional Residential Improvement Costs. Interest on this agreement shall accrue at 8% per annum.

## COPPERLEAF METROPOLITAN DISTRICT NO. 1

### Notes to Financial Statements December 31, 2019

#### Termination of Facilities Acquisition Agreement:

On July 16, 2018, District No. 1 and the Development Group entered into an agreement terminating the FAA, acknowledge and consent to 2016 Facilities Acquisition Agreement, and waive any right to reimbursement under this agreement and acknowledge reimbursement of Prior RO Costs shall be in accordance with the Community Improvements and Prior RO Costs Pledge Agreement.

#### Termination of Facilities Funding, Construction, and Operations Agreement:

On July 16, 2018, Copperleaf Metropolitan District Nos. 1 and 3 through 9 entered into a certain Termination of Facilities Funding, Construction, and Operations Agreement (“Termination of FFCOA”). This Agreement rendered null and void the Facilities Funding, Construction, and Operations Agreement (“FFCOA”) entered October 3, 2005, amended by first amendment on July 21, 2008, and amended by second amendment on November 15, 2010. The Districts acknowledge their continued obligations under their respective Residential Districts IGA and Commercial Revenues Pledge Agreement.

#### Intergovernmental Agreement Regarding Facilities Funding and Construction (Residential Districts):

On July 16, 2018, Copperleaf Metropolitan District Nos. 1, 3, 4, & 6 entered into an agreement whereby District No. 1 acknowledged it will coordinate the construction of Additional Residential Improvements by either constructing them or acquiring them from the Residential Developer under the Facilities Acquisition Agreement dated July 16, 2018 (“Residential IGA”). The Parties acknowledged that this Residential IGA replaces and supersedes the FFCOA previously entered by the Parties. District No. 1 is designated as the Service District and shall coordinate construction and funding of public improvements with and for the benefit of other Districts within the Development. The Residential Districts that are also a party to this Residential IGA agree to, from time to time, issue debt and convey the same to District No. 1 to fund their respective costs of such improvements. Residential Revenue is pledged to pay Residential District Debt, to be collected from: (i) community SDFs; (ii) Residential Debt Service Mill Levy of 50 mills (subject to Gallagher) and any PILOT payments attributable to same.

District No. 1 will reimburse the Residential Owners and Commercial Owner for any Additional Residential Improvement costs not reimbursed from Pledged Residential District Bond Proceeds with Pledged Net Commercial District Revenues as provided in the Commercial District Revenues Pledge Agreement.

Each Residential District shall adopt a community SDF resolution in conjunction with execution of this Agreement which establishes uniform Community SDFs throughout the Development. In addition, District No. 1 is to enter into an Agreement with each Owner to establish the requirement of each owner to submit an Inclusion Petition. This Residential IGA also obligates each Owner to record PILOT Covenants against its property at the time of the time of the Inclusion Petition requirement triggers.

## COPPERLEAF METROPOLITAN DISTRICT NO. 1

### Notes to Financial Statements December 31, 2019

The principal balance owed to the developer for capital advances outstanding as of December 31, 2019 was \$18,654,154 and accrued interest was \$1,626,334.

#### Commercial District Revenues Pledge Agreement:

On July 16, 2018, Copperleaf Metropolitan District Nos. 1, 5, 7, 8, & 9 entered into this Commercial District Revenues Pledge Agreement (“CD Revenues Pledge Agreement”) to outline the use of Commercial Districts’ revenue. District No. 1 pledges Allocated PIF Revenues to Commercial Districts for payment of CD Improvement costs, both previously incurred and those to be incurred in the future. Moreover, each Commercial District pledged certain Pledged Net CD Revenues to District No. 1 to be distributed by District No. 1 as set forth in the Community Improvements and Prior RO Costs Pledge Agreement.

This Commercial District Revenue is comprised of: (i) Community SDFs; (ii) Minimum CD Debt Service Mill Levy (currently 47.5 mills, unless District No. 1 consents to a different rate) and any PILOT payments attributable to same; and (iii) Allocated PIF Revenues, which may only be used for capital costs and not O&M expenses.

District No. 1 transfers, sells, assigns and pledges to each Commercial District its Allocated PIF Revenues, but may retain from gross PIF Revenue: (i) PIF Collection Costs; and (ii) Annual District Shortfall Amount. Each Commercial District agrees to apply all Commercial District Revenues in following order of priority: (i) first, to payment of debt issued to finance Commercial District Improvements; (ii) second, to reimburse applicable Commercial Owner under any Commercial District Reimbursement Obligations; (iii) third, annually pay Pledged Net Commercial District Revenue to District No. 1.

District No. 1 must apply Pledged Net Commercial District Revenues as set forth in the Community Improvements and Community and Prior RO Costs Pledge Agreement. Each Commercial District have the independent right to issue and structure its own Debt and Reimbursement Obligations without District No. 1’s consent. Each Commercial District has an obligation to impose the Minimum Commercial District Debt Service Mill Levy in the Commercial District Mill Levy Commencement Year.

#### Administrative Services Funding Agreement (Residential):

On July 16, 2018 Copperleaf Metropolitan District Nos. 1, 3, 4, 6, South Quincy Residential Developers, Inc., (the “Residential Developer”) and SQH Residential Investors, Inc. (the “Residential Investor”) entered into a certain Administrative Services Funding Agreement (Residential) (“Residential ASFA”) whereby District No. 1 agrees to provide Administrative Services to District Nos. 3, 4, & 6. District Nos. 3, 4, & 6 agreed to reimburse District No. 1 for advances made by the Residential Developer for these administrative services using (i) General Fund mill levy; (ii) allocated PIF revenue; or (iii) a combination thereof, after payment of annual debt service obligations. Interest on these reimbursements shall accrue at 8% per annum.

COPPERLEAF METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements  
December 31, 2019

Administrative Services Funding Agreement (Commercial):

On July 16, 2018 Copperleaf Metropolitan District Nos. 1, 5, 7, 8, 9, and Copperleaf Escrow, LLC (“Escrow, LLC”) entered into a certain Administrative Services Funding Agreement whereby the District No. 1 agrees to provide Administrative Services to District Nos. 5, 7, 8, & 9. District Nos. 5, 7, 8, & 9 agreed to reimburse District No. 1 for advances made to Escrow, LLC for these administrative services using (i) General Fund mill levy; (ii) allocated PIF revenue; or (iii) a combination thereof, after payment of annual debt service obligations. Interest on these reimbursements shall accrue at 8% per annum.

Operation Funding Agreements

On December 9, 2015, and with an effective date of January 1, 2016, the District and SQH Residential Investors, Inc. (“SQH”) entered into a 2016 Operation Funding Agreement (“2016 OFA”), under which SQH agreed to advance funds necessary to fund or directly pay the District’s operations and maintenance expenses for the 2016 fiscal year, up to \$93,000. Under the 2016 OFA, simple interest accrues on each advance from the date of deposit into the District’s account or from the date of direct payment by SQH, until paid, at the rate of eight percent (8%) per annum.

On November 13, 2017, the District entered into the First Amendment to the 2016 Operation Funding Agreement (“First Amendment to 2016 OFA”) with SQH. The First Amendment to 2016 OFA extended the time period under which SQH would advance funds necessary to fund or directly pay the District’s operations and maintenance expenses through the 2018 fiscal year, and increased the shortfall amount to \$450,000.

On November 19, 2018, the District entered into the Second Amendment to the 2016 Operation Funding Agreement with SQH, increasing the shortfall amount to \$550,000 and extending the term through fiscal year 2019.

As of December 31, 2019, the principal advanced under the 2016 OFA as amended was \$197,446, and the total interest accrued was \$38,003.

Below is an analysis of changes in long-term debt for the period ending December 31, 2019:

	Balance - Restated 1/1/2019	Additions	Deletions	Balance 12/31/2019
Developer advances - capital	\$ 18,654,154	\$ -	\$ -	\$ 18,654,154
Accrued interest - capital	599,902	1,492,332	466,000	1,626,234
Developer advances - operations	197,446	-	-	197,446
Accrued interest - operations	22,208	15,795	-	38,003
Total	<u>\$ 19,473,710</u>	<u>\$ 1,508,127</u>	<u>\$ 466,000</u>	<u>\$ 20,515,837</u>

# COPPERLEAF METROPOLITAN DISTRICT NO. 1

## Notes to Financial Statements December 31, 2019

### Debt Authorization

At an election held November 2, 2004, a majority of the qualified electors of the District who voted in the elections authorized the issuance of general obligation indebtedness in an amount not to exceed \$2,069,000,000 for providing public improvements; \$516,000,000 for intergovernmental agreements; and \$258,000,000 for refunding of previously issued indebtedness. All amounts remain un-issued. In the future, the District may issue a portion or all of the remaining authorized but unissued general obligation debt for purposes of providing public improvements to support development as it occurs within the District's service area. As of the date of this audit, the amount and timing of any debt issuances is not determinable.

### Note 5: Agreements with Other Governments

#### Amended and Restated District Administration Agreement:

On July 16, 2018, Copperleaf Metropolitan District Nos. 1 and 3 through 9 entered into that certain Amended and Restated District Administration Agreement ("Amended and Restated Administration Agreement"), which replaces and supersedes the existing District Administration Agreement dated October 3, 2005, as subsequently amended. Pursuant to the Amended and Restated Administration Agreement, District No. 1 agrees to provide Administration Services to and on behalf of the other Districts which are a party to this Amended and Restated Administration Agreement. Further, each other District shall all share the administrative costs incurred by District No. 1 in providing such Administration Services. In furtherance of this, each other District will set a General Fund mill levy of not less than 10 mills and not more than 60 mills to pay its administrative costs; provided Commercial Districts can elect to use other Commercial District Revenue to pay their share. In the event there is a shortfall in the Districts' ability to pay their full share, District No. 1 will retain PIF revenues to make up the shortfall. The Financing Districts have the option to terminate their participation in this Amended and Restated Administration Agreement.

#### Letter of Direction with District No. 3:

On December 5, 2017, the District, Copperleaf Metropolitan District No. 3 ("District No. 3"), South Quincy Residential Developers, Inc., SQH Residential Investors, Inc., Staack Commercial Investors, LLC, Quincy-West Commercial Investors, LLC, Quincy-East Commercial Investors, LLC and Rippey Commercial Investors, LLC entered into a Letter of Direction, under which the parties agreed that any revenue generated solely by District No. 3 from the imposition of system development fees is payable to SQH Residential Investors, Inc.

# COPPERLEAF METROPOLITAN DISTRICT NO. 1

## Notes to Financial Statements December 31, 2019

### Letters of Direction with District No. 6:

On August 28, 2018, The District, Copperleaf Metropolitan District No. 6 (“District No. 6”), South Quincy Residential Developers, Inc., and SQH Residential Investors, Inc., entered into a Letter of Direction, under which the parties agreed that any revenue generated solely by District No. 6 from the imposition of system development fees is payable to SQH Residential Investors, Inc.

On September 21, 2018, the District, District No. 6, South Quincy Residential Developers, Inc., and SQH Residential Investors, Inc., entered into a Letter of Direction, under which the parties agreed that any proceeds received by the District from District Nos. 6’s Series 2018A Bonds and Series 2018B Bonds shall be payable directly to SQH Residential Investors, Inc.

### Note 6: Related Party

All members of the Board of Directors of the District are either officers or employees of or have business or professional relationships with the primary developers within the District. The primary developer, South Quincy Residential Developers, Inc. is the construction manager for the development.

### Note 7: Covenants

#### Declaration of Covenants Imposing and Implementing Payment in Lieu of Taxes:

The District and SQH Residential Investors, Inc., South Quincy Residential Developers, Inc., Quincy-East Commercial Investors, LLC, Rippey Commercial Investors, LLC, Quincy-West Commercial Investors, LLC, Staack Commercial Investors, LLC, and KB Home Colorado Inc., a (collectively, the “PILOT Property Owners”) entered into a Declaration of Covenants Imposing and Implementing Payment in Lieu of Taxes dated December 22, 2016, which was recorded in the real property records of Arapahoe County on December 23, 2016 (the “PILOT Covenants”). Under the PILOT Covenants, the PILOT Property Owners agreed that if real or personal property included within District No. 1 or one of District Nos. 3 through 9 is exempt from imposition of ad valorem taxes, such property shall instead be subject to a payment in lieu of taxes (“PILOT”) in an amount equal to what would have been derived from imposition of the applicable District’s debt service mill levy and operations and maintenance mill levy on such property if it had been taxable.

Each PILOT Property Owner agreed to impose the PILOT on property subject to the PIF Covenants, and to assign the District declarant rights with respect to imposition of the PILOT. The PILOT Covenants terminate when the District imposing the PILOT dissolves. There were no PILOT fees collected in 2019.

COPPERLEAF METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements  
December 31, 2019

Note 8: Public Improvement Fees:

Declaration of Covenants Imposing and Implementing Public Improvement Fee #1:

The District and Quincy-East Commercial Investors, LLC, Quincy-West Commercial Investors, LLC, Rippey Commercial Investors, LLC, South Quincy Residential Developers, Inc, SQH Residential Investors, Inc., Staack Commercial Investors, LLC, and Richmond American Homes of Colorado, Inc., (collectively, the “ PIF #1 Property Owners”) entered into a Declaration of Covenants Imposing and Implementing Public Improvement Fee dated April 3, 2013, and recorded in the real property records of Arapahoe County on April 5, 2013, as amended by the First Amendment to Declaration of Covenants Imposing and Implementing Public Improvement Fee dated April 12, 2016, and recorded in the real property records of Arapahoe County on May 16, 2016 (“PIF Covenant #1”). Under PIF Covenant #1, the PIF #1 Property Owners agreed to impose a public improvement fee equal to a percentage of all PIF Sales that occur on the property that is one percentage point less than the total sales tax imposed on taxable sales occurring in that portion of the City of Aurora, Colorado located within the boundaries of the County (the “PIF #1”). PIF Sales means any exchange of goods or services for money or other media of exchange initiated, consummated, conducted, transacted or otherwise occurring from or within the property subject to PIF Covenant #1 upon which a sales tax would be payable. The PIF #1 Property Owners agreed to assign the District declarant rights with respect to imposition of PIF #1. In 2019, \$167,831 in PIF fees was collected by District No. 4.

Declaration of Covenants Imposing and Implementing Public Improvement Fee #2:

The District and SQH Residential Investors, Inc., South Quincy Residential Developers, Inc., Quincy-East Commercial Investors, LLC, Rippey Commercial Investors, LLC, Quincy-West Commercial Investors, LLC, Staack Commercial Investors, LLC, and KB Home Colorado Inc., (collectively, the “PIF #2 Property Owners”) entered into a Declaration of Covenants Imposing and Implementing Public Improvement Fee #2 dated May 13, 2016, and recorded in the real property records of Arapahoe County on May 16, 2016 (“PIF Covenant #2”). Under PIF Covenant #2, the PIF #2 Property Owners agreed to impose a public improvement fee equal to one percent (1%) of all PIF Sales that occur on the property (the “PIF #2”). PIF Sales means any exchange of goods or services for money or other media of exchange initiated, consummated, conducted, transacted or otherwise occurring from or within the property subject to PIF Covenant #2 upon which a sales tax would be payable. The PIF #2 Property Owners agreed to assign the District declarant rights with respect to imposition of PIF #2. For the property subject to PIF Covenant #2, PIF Covenant #2 is in addition to, and does not modify, terminate or amend, PIF Covenant# 1. There were no PIF fees collected in 2019.

# COPPERLEAF METROPOLITAN DISTRICT NO. 1

## Notes to Financial Statements December 31, 2019

### Note 9: 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 2, 2004, a majority of the District’s electors authorized the District to collect and spend or retain in a reserve all currently levied taxes and fees of the District without regard to any limitations under Article X, Section 20 of the Colorado Constitution.

### Note 10: 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.

COPPERLEAF METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements  
December 31, 2019

Note 11: Reconciliation of Government-Wide Financial Statements and Fund Financial Statements

The Governmental Funds Balance Sheet/Statement of Net Position includes an adjustments column. The adjustments may 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 notes payable and accrued interest payable are not due and payable in the current period and, therefore, are not in the funds.

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

- 1) governmental funds report capital outlays as expenditures, however, in the statement of activities, the costs of those assets are held as construction in process pending transfer to other governmental entities or depreciated over their useful lives;
- 2) governmental funds report interest expense on the modified accrual basis; however, interest expense is reported on the full accrual method on the Statement of Activities; and
- 3) governmental funds report developer advances as revenue.

Note 12: Prior Period Adjustment

In December 2019, the District adopted a resolution regarding the interest accrual repayment on the long-term debt obligations relating to the capital advances by the developer for the acquisition of capital assets. Capital costs incurred by the developer and accepted by the District will now record the facilities and accrue interest commencing on the date that the costs are verified by an independent engineer and as evidenced by the date of the letter or report and not by the date the District accepts the facilities. This was made retroactive and as a result, the ending balance for the prior year increased. Additionally, there were some facilities accepted by the District in 2019, totaled \$4,815,691 with the letters dated 2018. These will be reflected in the 2019 beginning balance plus the accrued interest. See below for a total effect on the beginning net position on the Statement of Activities:

2018 audited ending balance	\$	(14,125,944)
Increase in principal and accrued interest		<u>(5,321,569)</u>
Restated Net Position 2019	\$	<u><u>(19,447,513)</u></u>

## SUPPLEMENTAL INFORMATION

COPPERLEAF METROPOLITAN DISTRICT NO. 1

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

For the Year Ended December 31, 2019

	Original and <u>Final Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
REVENUES			
Transfer from other governments	\$ -	\$ 466,000	\$ 466,000
Total Revenues	<u>-</u>	<u>466,000</u>	<u>466,000</u>
EXPENDITURES			
Interest expense - developer notes	-	466,000	(466,000)
Capital improvements	<u>27,000,000</u>	<u>-</u>	<u>27,000,000</u>
Total Expenditures	<u>27,000,000</u>	<u>466,000</u>	<u>26,534,000</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(27,000,000)	-	27,000,000
OTHER FINANCING SOURCES (USES)			
Developer advances	<u>27,000,000</u>	<u>-</u>	<u>(27,000,000)</u>
Total Other Financing Sources (Uses)	<u>27,000,000</u>	<u>-</u>	<u>(27,000,000)</u>
NET CHANGE IN FUND BALANCE	-	-	-
FUND BALANCE:			
BEGINNING OF YEAR	<u>-</u>	<u>-</u>	<u>-</u>
END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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