

**COTTONWOOD HIGHLANDS
METROPOLITAN DISTRICT NO. 1
Douglas County, Colorado**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
YEAR ENDED DECEMBER 31, 2019**

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YEAR ENDED DECEMBER 31, 2019**

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Independent Auditor's Report

Board of Directors
Cottonwood Highlands Metropolitan District No. 1
Douglas County, Colorado

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Cottonwood Highlands Metropolitan District No. 1 (the "District") as of and for the year ended December 31, 2019, 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; 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. 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 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 respective financial position of the governmental activities and each major fund of Cottonwood Highlands Metropolitan District No. 1 as of December 31, 2019, and the respective changes in financial position and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States.

Other Matters

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

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

The other information, as listed in the table of contents, has not been subject to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Wipfli LLP

July 9, 2020
Lakewood, Colorado

BASIC FINANCIAL STATEMENTS

COTTONWOOD HIGHLANDS METROPOLITAN DISTRICT NO. 1
STATEMENT OF NET POSITION
DECEMBER 31, 2019

	<u>Governmental Activities</u>
ASSETS	
Cash and Investments - Restricted	\$ 3,928,564
Prepaid Expenses	9,430
Accounts Receivable	5,132
Receivable - County Treasurer	4,394
Property Taxes Receivable	728,084
Capital Assets, Not Being Depreciated	13,225,182
Capital Assets, Net	<u>1,844,874</u>
Total Assets	<u>19,745,660</u>
LIABILITIES	
Accounts Payable	32,727
Prepaid Operations and Maintenance Fees	9,136
Accrued Interest Payable	62,375
Noncurrent Liabilities:	
Due in More Than One Year	<u>19,520,497</u>
Total liabilities	<u>19,624,735</u>
DEFERRED INFLOWS OF RESOURCES	
Property Tax Revenue	<u>728,084</u>
Total Deferred Inflows of Resources	<u>728,084</u>
NET POSITION	
Restricted for:	
Emergency Reserves	8,600
Debt Service	2,010,583
Unrestricted	<u>(2,626,342)</u>
Total Net Position	<u><u>\$ (607,159)</u></u>

See accompanying Notes to Basic Financial Statements.

COTTONWOOD HIGHLANDS METROPOLITAN DISTRICT NO. 1
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2019

		Program Revenues			Net Revenues (Expenses) and Change in Net Position
FUNCTIONS/PROGRAMS	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Primary Government:					
Governmental Activities:					
General Government	\$ 384,001	\$ 190,896	\$ -	\$ -	\$ (193,105)
Interest and Related Costs on Long-Term Debt	1,195,498	-	-	-	(1,195,498)
Total Governmental Activities	\$ 1,579,499	\$ 190,896	\$ -	\$ -	\$ (1,388,603)
 GENERAL REVENUES					
Property Taxes					483,350
Specific Ownership Taxes					48,480
Net Investment Income					76,730
Total General Revenues					608,560
 CHANGE IN NET POSITION					
Net Position - Beginning of Year					172,884
 NET POSITION - END OF YEAR					
					\$ (607,159)

See accompanying Notes to Basic Financial Statements.

**COTTONWOOD HIGHLANDS METROPOLITAN DISTRICT NO. 1
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2019**

	General	Debt Service	Capital Projects	Total Governmental Funds
ASSETS				
Cash and Investments - Restricted	\$ 3,859	\$ 2,006,955	\$ 1,917,750	\$ 3,928,564
Accounts Receivable	5,132	-	-	5,132
Receivable - County Treasurer	766	3,628	-	4,394
Due from other Funds	8,729	-	-	8,729
Property Taxes Receivable	126,233	601,851	-	728,084
Prepaid Expenses	9,430	-	-	9,430
Total Assets	\$ 154,149	\$ 2,612,434	\$ 1,917,750	\$ 4,684,333
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
LIABILITIES				
Accounts Payable	\$ 32,727	\$ -	\$ -	\$ 32,727
Prepaid Operations and Maintenance Fees	9,136	-	-	9,136
Due to other Funds	-	-	8,729	8,729
Total Liabilities	41,863	-	8,729	50,592
DEFERRED INFLOWS OF RESOURCES				
Property Tax Revenue	126,233	601,851	-	728,084
Total Deferred Inflows of Resources	126,233	601,851	-	728,084
FUND BALANCES				
Nonspendable:				
Prepaid Expenses	9,430	-	-	9,430
Restricted For:				
Emergency Reserves	8,600	-	-	8,600
Debt Service	-	2,010,583	-	2,010,583
Capital Projects	-	-	1,909,021	1,909,021
Unassigned	(31,977)	-	-	(31,977)
Total Fund Balances	(13,947)	2,010,583	1,909,021	3,905,657
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 154,149	\$ 2,612,434	\$ 1,917,750	
Amounts reported for governmental activities in the statement of net position are different because:				
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.				
Capital Assets, Net				15,070,056
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not recorded as liabilities in the funds.				
Bonds Payable				(19,396,354)
Developer Advance Payable				(124,143)
Accrued Interest Payable				(62,375)
Net Position of Governmental Activities				\$ (607,159)

See accompanying Notes to Basic Financial Statements.

COTTONWOOD HIGHLANDS METROPOLITAN DISTRICT NO. 1
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2019

	General	Debt Service	Capital Projects	Total Governmental Funds
REVENUES				
Property Taxes	\$ 84,285	\$ 399,065	\$ -	\$ 483,350
Specific Ownership Taxes	8,454	40,026	-	48,480
Operation & Maintenance Fee	121,090	-	-	121,090
Working Capital Fee	63,500	-	-	63,500
Late Fees & Penalties	6,306	-	-	6,306
Net Investment Income	22	23,462	53,246	76,730
Total Revenues	<u>283,657</u>	<u>462,553</u>	<u>53,246</u>	<u>799,456</u>
EXPENDITURES				
General Government				
Accounting	24,618	-	-	24,618
County Treasurer's Fee	1,264	5,988	-	7,252
Dues and Licenses	522	-	-	522
Insurance and Bonds	7,263	-	-	7,263
District Management	20,788	-	-	20,788
Billing	9,674	-	-	9,674
Legal Services	54,506	-	-	54,506
Miscellaneous	403	-	-	403
Operations and maintenance				
Irrigation Repairs and Maintenance	10,722	-	-	10,722
Landscaping Maintenance	103,678	-	-	103,678
Fence and Sign Maintenance	13,920	-	-	13,920
Snow Removal	11,153	-	-	11,153
Electricity	1,779	-	-	1,779
Water	72,282	-	-	72,282
Tree & Plant Replacements	4,125	-	-	4,125
Debt Service				
Bond Interest	-	405,438	-	405,438
Capital Projects				
Capital Outlay	-	-	15,102,097	15,102,097
Engineering	-	-	15,263	15,263
Bond Issue Costs	-	-	295,819	295,819
Bond Discount	-	-	424,950	424,950
Total Expenditures	<u>336,697</u>	<u>411,426</u>	<u>15,838,129</u>	<u>16,586,252</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(53,040)	51,127	(15,784,883)	(15,786,796)
OTHER FINANCING SOURCES (USES)				
Transfers to/from Other Funds	-	1,714,934	(1,714,934)	-
Developer Advance	18,465	-	15,108,631	15,127,096
Repay Developer Advance	-	-	(15,102,097)	(15,102,097)
Bond Proceeds - Series 2019A	-	-	14,970,000	14,970,000
Bond Proceeds - Series 2019B	-	-	4,185,000	4,185,000
Bond Issue Premium	-	-	247,304	247,304
Total Other Financing Sources (Uses)	<u>18,465</u>	<u>1,714,934</u>	<u>17,693,904</u>	<u>19,427,303</u>
NET CHANGE IN FUND BALANCES	(34,575)	1,766,061	1,909,021	3,640,507
Fund Balances - Beginning of Year	<u>20,628</u>	<u>244,522</u>	<u>-</u>	<u>265,150</u>
FUND BALANCES - END OF YEAR	<u>\$ (13,947)</u>	<u>\$ 2,010,583</u>	<u>\$ 1,909,021</u>	<u>\$ 3,905,657</u>

See accompanying Notes to Basic Financial Statements.

**COTTONWOOD HIGHLANDS METROPOLITAN DISTRICT NO. 1
RECONCILIATION OF THE STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF THE GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2019**

Net Change in Fund Balances - Governmental Funds \$ 3,640,507

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

Governmental funds report capital outlays as expenditures. In the statement of activities, capital outlay is not reported as an expenditure. However, the statement of activities will report as depreciation expense, the allocation of the cost of any depreciable asset over the estimated useful life of the asset. Capital outlay and depreciation expense in the current period are as follows:

Capital outlay	15,117,360
Depreciation Expense	(47,304)

The issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The net effect of these differences in the treatment of long-term debt and related items is as follows:

Developer advance	(15,127,096)
Accrued interest on Developer advance	(6,878)
Repayment of Developer Advance	15,102,097
Series 2019A G.O. Bonds - proceeds	(14,970,000)
Series 2019B G.O. Bonds - proceeds	(4,185,000)
Series 2019A Bond Premium	(247,304)

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Amortization of Bond Premium	5,950
Accrued Interest - Change in Liability	(62,375)

Change in Net Position of Governmental Activities	\$ (780,043)
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**COTTONWOOD HIGHLANDS METROPOLITAN DISTRICT NO. 1
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL
YEAR ENDED DECEMBER 31, 2019**

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Property Taxes	\$ 84,285	\$ 84,285	\$ 84,285	\$ -
Specific Ownership Taxes	8,429	8,429	8,454	25
Operation & Maintenance Fee	115,000	122,000	121,090	(910)
Working Capital Fee	60,000	60,000	63,500	3,500
Late Fees & Penalties	-	6,500	6,306	(194)
Net Investment Income	-	158	22	(136)
Total Revenues	267,714	281,372	283,657	2,285
EXPENDITURES				
Accounting	15,000	25,000	24,618	382
County Treasurer's Fee	1,264	1,264	1,264	-
Dues and Licenses	500	522	522	-
Insurance and Bonds	2,800	7,263	7,263	-
District Management	20,000	20,000	20,788	(788)
Billing	6,500	10,000	9,674	326
Legal Services	30,000	55,000	54,506	494
Miscellaneous	350	3,651	403	3,248
Irrigation Repairs and Maintenance	8,000	11,000	10,722	278
Landscaping Maintenance	70,000	104,000	103,678	322
Fence and Sign Maintenance	20,000	14,000	13,920	80
Snow Removal	12,000	11,500	11,153	347
Tree & Plant Replacements	2,400	5,000	4,125	875
Park Maintenance	8,000	-	-	-
Electricity	4,500	1,800	1,779	21
Water	80,000	75,000	72,282	2,718
Weeds & Fertilization	4,000	-	-	-
Contingency	1,186	-	-	-
Total Expenditures	286,500	345,000	336,697	8,303
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES				
	(18,786)	(63,628)	(53,040)	10,588
OTHER FINANCING SOURCES (USES)				
Developer Advances	50,786	50,000	18,465	(31,535)
Total Other Financing Sources (Uses)	50,786	50,000	18,465	(31,535)
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES				
	32,000	(13,628)	(34,575)	(20,947)
Fund Balance - Beginning of Year	-	20,628	20,628	-
FUND BALANCE - END OF YEAR	\$ 32,000	\$ 7,000	\$ (13,947)	\$ (20,947)

See accompanying Notes to Basic Financial Statements.

COTTONWOOD HIGHLANDS METROPOLITAN DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 1 DEFINITION OF REPORTING ENTITY

Cottonwood Highlands Metropolitan District No. 1 (District), a quasi-municipal corporation and a political subdivision of the State of Colorado, was organized by order and decree of the District Court for Douglas County, Colorado, on October 6, 2014, and is governed pursuant to provisions of the Colorado Special District Act (Title 32, Article 1, Colorado Revised Statutes). The District's service area is located in the Town of Parker. The District was established to provide financing for the design, acquisition, installation, construction and completion of public improvements and services, including water, sanitation, street, safety and fire protection, security, park and recreation, transportation, television relay and translation and mosquito control improvements and services.

The District follows the Governmental Accounting Standards Board (GASB) accounting pronouncements, which provide guidance for determining which governmental activities, organizations and functions should be included within the financial reporting entity. GASB pronouncements set forth the financial accountability of a governmental organization's elected governing body as the basic criterion for including a possible component governmental organization in a primary government's legal entity. Financial accountability includes, but is not limited to, appointment of a voting majority of the organization's governing body, ability to impose its will on the organization, a potential for the organization to provide specific financial benefits or burdens, and fiscal dependency.

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

The District is not financially accountable for any other organization, nor is the District a component unit of any other primary governmental entity.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Government-Wide and Fund Financial Statements

The government-wide financial statements include the statement of net position and the statement of activities. These financial statements include all of the activities of the District. The effect of interfund activity has been removed from these statements. Governmental activities are normally supported by property taxes and intergovernmental revenues.

The statement of net position reports all financial and capital resources of the District. The difference between the assets, deferred outflow of resources, liabilities, and deferred inflow of resources of the District is reported as net position.

COTTONWOOD HIGHLANDS METROPOLITAN DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. Internally dedicated resources are reported as general revenues rather than program revenues. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

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 major sources of revenue susceptible to accrual are property taxes. All other revenue items are considered to be measurable and available only when cash is received by the District. Expenditures, other than interest on long-term obligations, are recorded when the liability is incurred or the long-term obligation due.

The District reports the following major governmental funds:

The General Fund is the District's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Debt Service Fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of the governmental funds.

The Capital Projects Fund is used to account for financial resources to be used for the acquisition and construction of capital equipment and facilities.

The effect of interfund activity has been eliminated from the government-wide financial statements.

COTTONWOOD HIGHLANDS METROPOLITAN DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budgets

In accordance with the State Budget Law, the District's Board of Directors holds public hearings in the fall each year to approve the budget and appropriate the funds for the ensuing year. The appropriation is at the total fund expenditures and other financing uses level and lapses at year-end. The District's Board of Directors can modify the budget by line item within the total appropriation without notification. The 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 District amended its annual budget for the year ended December 31, 2019.

Pooled Cash and Investments

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 single bank account. Cash in excess of immediate operating requirements is pooled for deposit and investment flexibility. Investment earnings are allocated periodically to the participating funds based upon each fund's average equity balance in the total cash and investments.

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 assess the property tax obligation of the individual properties as of January 1 of the following year. The County Treasurer collects the determined taxes during the ensuing calendar year. The taxes are payable by April, or if in equal installments at the taxpayer's election, in February and June. Delinquent taxpayers are notified in August and generally sales of the tax liens on delinquent properties are held in November or December. The County Treasurer remits the taxes collected monthly to the District.

Property taxes, net of estimated uncollectible taxes, are recorded initially as deferred inflow of resources in the year they are levied and measurable. The unearned property tax revenues are recorded as revenue in the year they are available or collected.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported 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. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

COTTONWOOD HIGHLANDS METROPOLITAN DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets (Continued)

Capital assets which are anticipated to be conveyed to other governmental entities are recorded as construction in progress, and are not included in the calculation of net investment in capital assets.

The cost 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. Depreciation expense has been computed using the straight-line method over the estimated economic useful life:

Parks and Recreation	20 Years
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Amortization – Original Issue Premium

In the government-wide financial statements, bond premiums are deferred and amortized over the life of the bonds using the effective interest method. In the fund financial statements, governmental fund types recognize bond premiums during the current period. The face amount of debt issued and premiums received on debt issuances are reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Operations and Maintenance Fee

The District provides operations and maintenance services for park and recreation type amenities and facilities benefiting property and inhabitants within the District. A recurring monthly Operations Fee is imposed upon each Residential Unit within the District Boundaries to the fund the costs. In 2019, the Operations Fee was \$40 per Residential Unit.

Working Capital Fee

The District established a Working Capital Fee in order to pay for costs associated with account administration. The Working Capital Fee is imposed on all Transfer of a Residential Unit by an End User. In 2019, the Working Cap Fee was \$500.

Equity

Net Position

For government-wide presentation purposes when both restricted and unrestricted resources are available for use, it is the District's practice to use restricted resources first, then unrestricted resources as they are needed.

COTTONWOOD HIGHLANDS METROPOLITAN DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Equity (Continued)

Fund Balance

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

Nonspendable Fund Balance – The portion of fund balance that cannot be spent because it is either not in spendable form (such as prepaid amounts or inventory) or legally or contractually required to be maintained intact.

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

Committed Fund Balance – The portion of fund balance that can only be used for specific purposes pursuant to constraints imposed by 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 – The portion of fund balance that is constrained by the government's intent to be used for specific purposes, but is neither restricted nor committed. Intent is expressed by the Board of Directors to be used for a specific purpose. Constraints imposed on the use of assigned amounts are more easily removed or modified than those imposed on amounts that are classified as committed.

Unassigned Fund Balance – The residual portion of fund balance that does not meet any of the criteria described above.

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

Deficits

The General Fund reported a deficit in the fund financial statement as of December 31, 2019. The deficit will be eliminated with the receipt of property taxes.

**COTTONWOOD HIGHLANDS METROPOLITAN DISTRICT NO. 1
 NOTES TO BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2019**

NOTE 3 CASH AND INVESTMENTS

Cash and investments as of December 31, 2019, are classified in the accompanying financial statements as follows:

Statement of Net Position:

Cash and Investments - Restricted	\$ 3,928,564
Total Cash and Investments	\$ 3,928,564

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

Deposits with Financial Institutions	\$ 11,825
Investments	3,916,739
Total Cash and Investments	\$ 3,928,564

Deposits with Financial Institutions

The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulators. Amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is determined by the PDPA. PDPA allows the institution to create a single collateral pool for all public funds. The pool for all the uninsured public deposits as a group is to be maintained by another institution or held in trust. The market value of the collateral must be at least 102% of the aggregate uninsured deposits.

The State Commissioners for banks and financial services are required by statute to monitor the naming of eligible depositories and reporting of the uninsured deposits and assets maintained in the collateral pools.

At December 31, 2019, the District's cash deposits had a bank and carrying balance of \$11,825.

Investments

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

The District generally limits its concentration of investments to those noted with an asterisk (*) below, which are believed to have minimal credit risk, minimal interest rate risk, and no foreign currency risk. Additionally, the District is not subject to concentration risk or investment custodial risk disclosure requirements for investments that are in the possession of another party.

Colorado revised statutes limit investment maturities to five years or less unless formally approved by the board of directors. Such actions are generally associated with a debt service reserve or sinking fund requirements.

**COTTONWOOD HIGHLANDS METROPOLITAN DISTRICT NO. 1
 NOTES TO BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2019**

NOTE 3 CASH AND INVESTMENTS (CONTINUED)

Investments (Continued)

Colorado statutes specify investment instruments meeting defined rating and risk criteria in which local governments may invest which include:

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

As of December 31, 2019, the District had the following investments:

<u>Investment</u>	<u>Maturity</u>	<u>Amount</u>
Colorado Surplus Asset Fund Trust (CSAFE)	Weighted Average Under 60 Days	\$ 3,916,739

CSAFE

The District invested in the Colorado Surplus Asset Fund Trust (CSAFE) (the Trust), which is an investment vehicle established by state statute for local government entities to pool surplus assets. The State Securities Commissioner administers and enforces all State statutes governing the Trust. The Trust is similar to a money market fund, with each share valued at \$1.00. CSAFE may invest in U.S. Treasury securities, repurchase agreements collateralized by U.S. Treasury securities, certain money market funds and highest rated commercial paper. A designated custodial bank serves as custodian for CSAFE's portfolio pursuant to a custodian agreement. The custodian acts as safekeeping agent for CSAFE's investment portfolio and provides services as the depository in connection with direct investments and withdrawals. The custodian's internal records segregate investments owned by CSAFE. CSAFE is rated AAAM by Standard & Poor's. CSAFE records its investments at amortized cost and the District records its investments in CSAFE at net asset value as determined by amortized cost. There are no unfunded commitments, the redemption frequency is daily and there is no redemption notice period.

COTTONWOOD HIGHLANDS METROPOLITAN DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 4 CAPITAL ASSETS

An analysis of the changes in capital assets for the year ended December 31, 2019 follows:

	Balance at December 31, 2018	Increases	Decreases	Balance at December 31, 2019
<u>Governmental Activities:</u>				
Capital Assets, Not Being Depreciated:				
Construction in Progress	\$ -	\$ 13,225,182	\$ -	\$ 13,225,182
Total Capital Assets, Not Being Depreciated	-	13,225,182	-	13,225,182
Capital Assets, Being Depreciated:				
Parks and Recreation	\$ -	\$ 1,892,178	\$ -	\$ 1,892,178
Total Capital Assets, Being Depreciated	-	1,892,178	-	1,892,178
Less Accumulated Depreciation for:				
Parks and Recreation	-	(47,304)	-	(47,304)
Total Accumulated Depreciation	-	(47,304)	-	(47,304)
Total Capital Assets, Being Depreciated, Net	-	1,844,874	-	1,844,874
Governmental Activities Capital Assets, Net	<u>\$ -</u>	<u>\$ 15,070,056</u>	<u>\$ -</u>	<u>\$ 15,070,056</u>

Depreciation expense for the year ended December 31, 2019 of \$47,304 was charged to general government function/program.

COTTONWOOD HIGHLANDS METROPOLITAN DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 5 LONG-TERM OBLIGATIONS

The following is an analysis of changes in the District's long-term obligations for the year ended December 31, 2019:

	Balance December 31, 2018	Additions	Deletions	Balance December 31, 2019	Due Within One Year
General Obligation Bonds:					
Series 2019A	\$ -	\$ 14,970,000	\$ -	\$ 14,970,000	\$ -
Series 2019B ₍₃₎	-	4,185,000	-	4,185,000	-
Subtotal	-	19,155,000	-	19,155,000	-
Bond Premium:					
Series 2019A	-	247,304	5,950	241,354	-
Subtotal	-	247,304	5,950	241,354	-
Developer Advance:					
General Fund	83,298	18,465	-	101,763	-
General Fund - Interest	8,968	6,822	-	15,790	-
Capital Projects	-	15,108,631	15,102,097	6,534	-
Capital Projects - Interest	-	56	-	56	-
Subtotal	92,266	15,133,974	15,102,097	124,143	-
Total	\$ 92,266	\$ 34,536,278	\$ 15,108,047	\$ 19,520,497	\$ -

The details of the District's general obligation bonds outstanding during 2019 are as follows:

Limited Tax (Convertible to Unlimited Tax) General Obligation Bonds, Series 2019A (the 2019A Senior Bonds) and Subordinate Limited Tax General Obligation Bonds, Series 2019B (the 2019B Subordinate Bond) (together the 2019 Bonds).

Bond Details

The District issued the 2019 Bonds on May 16, 2019, in the par amounts of \$14,970,000 for the 2019A Senior Bonds and \$4,185,000 for the 2019B Subordinate Bonds. Proceeds from the sale of the 2019A Senior Bonds were used to: (i) finance public improvements; (ii) pay capitalized interest on the 2019A Senior Bonds; (iii) fund the Senior Reserve Fund; and, (iv) pay the costs of issuing the 2019 Bonds. Proceeds from the sale of the 2019B Subordinate Bonds were used to finance and refinance public improvements.

**COTTONWOOD HIGHLANDS METROPOLITAN DISTRICT NO. 1
 NOTES TO BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2019**

NOTE 5 LONG-TERM OBLIGATIONS (CONTINUED)

Bond Details (Continued)

The 2019A Senior Bonds bear interest at the rate of 5.00% per annum and are payable semiannually on June 1 and December 1, beginning on December 1, 2019. Annual mandatory sinking fund principal payments are due on December 1, beginning on December 1, 2023. The 2019A Senior Bonds mature on December 1, 2049. To the extent principal of any bond is not paid when due, such principal shall remain outstanding until paid, subject to discharge on December 1, 2056. To the extent interest on any 2019A Senior Bond is not paid when due, such interest shall compound semiannually on each interest payment date, at the rate then borne by the 2019A Senior Bond. If any amounts due on the 2019A Senior Bonds remain outstanding on December 1, 2056, such amounts shall be deemed discharged and will no longer be due and outstanding.

The 2019B Subordinate Bonds bear interest at the rate of 8.75% per annum and are payable annually on December 15, beginning December 15, 2019, from, and to the extent of, Subordinate Pledged Revenue available, if any, and mature on December 15, 2049. The 2019B Subordinate Bonds are structured as cash flow bonds meaning that there are no scheduled payments of principal or interest prior to the final maturity date. Unpaid interest on the 2019B Subordinate Bonds compounds annually on each December 15. If any principal or interest on the 2019B Subordinate Bonds remains unpaid after the application of all Subordinate Pledged Revenue available on December 15, 2056, the 2019B Subordinate Bonds shall be deemed discharged and will no longer be due and outstanding.

Optional Redemption

The 2019A Senior Bonds are subject to redemption prior to maturity, at the option of the District, on June 1, 2024, and on any date thereafter, upon payment of par, accrued interest, and a redemption premium equal to a percentage of the principal amount so redeemed, as follows:

<u>Date of Redemption</u>	<u>Redemption Premium</u>
June 1, 2024, to May 31, 2025	3.00%
June 1, 2025, to May 31, 2026	2.00
June 1, 2026, to May 31, 2027	1.00
June 1, 2027, and thereafter	0.00

The 2019B Subordinate Bonds are subject to redemption prior to maturity, at the option of the District, on June 1, 2024, and on any date thereafter, upon payment of par, accrued interest, and a redemption premium equal to a percentage of the principal amount so redeemed, as follows:

<u>Date of Redemption</u>	<u>Redemption Premium</u>
June 1, 2024, to May 31, 2025	3.00%
June 1, 2025, to May 31, 2026	2.00
June 1, 2026, to May 31, 2027	1.00
June 1, 2027, and thereafter	0.00

COTTONWOOD HIGHLANDS METROPOLITAN DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 5 LONG-TERM OBLIGATIONS (CONTINUED)

Pledged Revenue

The 2019A Senior Bonds are secured by and payable solely from and to the extent of Senior Pledged Revenue, net of any costs of collection, which includes: (a) all Senior Property Tax Revenues; (b) all Senior Specific Ownership Tax Revenues; (c) all Capital Fees; and (d) any other legally available moneys which the District determines, in its absolute discretion, to credit to the Senior Bond Fund.

The 2019B Subordinate Bonds are secured by and payable solely from and to the extent of Subordinate Pledged Revenue, net of any costs of collection, which includes; (a) all Subordinate Property Tax Revenues; (b) all Subordinate Specific Ownership Tax Revenues; (c) all Subordinate Capital Fees; (d) any amounts in the Senior Surplus Fund upon the termination of such fund pursuant to the Senior Indenture; (e) any other legally available monies which the District determines, in its absolute discretion, to credit to the Subordinate Bond Fund.

Property Tax Revenues

“Senior Property Tax Revenues” mean all monies derived from imposition by the District of the Senior Required Mill Levy and are net of the costs of collection and any tax refunds or abatements authorized by or on behalf of the County. Senior Property Tax Revenues do not include specific ownership tax revenues.

“Subordinate Property Tax Revenues” mean all monies derived from imposition by the District of the Subordinate Required Mill Levy and are net of the costs of collection and any tax refunds or abatements authorized by or on behalf of the County. Subordinate Property Tax Revenues do not include specific ownership tax revenues

Required Mill Levies

Pursuant to the 2019 Senior Bond Indenture, prior to the Conversion Date, the District is to impose a Senior Required Mill Levy in an amount necessary to generate Senior Property Tax Revenues sufficient to pay the principal of, premium if any, and interest on the 2019A Senior Bonds when due (less any amounts on deposit in the Senior Bond Fund and, as provided in the Senior Indenture, the Senior Surplus Fund and the Senior Reserve Fund, respectively) and to replenish the Senior Reserve Fund to the Senior Reserve Requirement, but not in excess of 35 mills. As long as the Senior Surplus Fund is required to be maintained and the amount on deposit therein is less than the Maximum Surplus Amount, the Senior Required Mill Levy shall be equal to 35 mills (subject to adjustment), or such lesser amount that will generate Senior Property Tax Revenues: (A) sufficient to pay the principal of, premium if any, and interest on the 2019A Senior Bonds when due, to replenish the Senior Reserve Fund to the Senior Reserve Requirement, and to fully fund the Senior Surplus Fund to the Maximum Surplus Amount, or (B) which, when combined with monies then on deposit in the Senior Bond Fund, the Senior Surplus Fund, and the Senior Reserve Fund will pay the 2019A Senior Bonds in full in the year such levy is collected.

COTTONWOOD HIGHLANDS METROPOLITAN DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 5 LONG-TERM OBLIGATIONS (CONTINUED)

Required Mill Levies (Continued)

In the event that the method of calculating assessed valuation is changed after January 1, 2000, the minimum levy of 35 mills and maximum levy of 35 mills will be increased or decreased to reflect such changes, such increases or decreases to be determined by the Board in good faith (such determination to be binding and final) so that to the extent possible, the actual tax revenues generated by the mill levy, as adjusted, are neither diminished nor enhanced as a result of such changes (for purposes of the foregoing, a change in the ratio of actual valuation shall be deemed to be a change in the method of calculating assessed valuation).

On and after the Conversion Date, the District is to impose a Senior Required Mill Levy in an amount (without limitation as to rate) sufficient to pay the principal of, premium if any, and interest on the 2019A Senior Bonds when due (less any amounts on deposit in the Senior Bond Fund and, solely as provided in the Senior Indenture, the Senior Reserve Fund) and to replenish the Senior Reserve Fund to the Senior Reserve Requirement. On and after the Conversion Date, the definition of Senior Required Mill Levy is to be determined exclusively by this paragraph regardless of any subsequent increase in the Debt to Assessed Ratio.

The Conversion Date is the first date on which all of the following conditions are met: (a) the Debt to Assessed Ratio is 50% or less; (b) no amounts of principal or interest on the 2019A Senior Bonds are due but unpaid; and (c) the amount on deposit in the Senior Reserve Fund is not less than the Senior Reserve Requirement.

Pursuant to the 2019 Subordinate Bond Indenture, the District is to impose a Subordinate Required Mill Levy in an amount equal to (i) 35 mills (as adjusted) less the Senior Obligation Mill Levy (which means the sum of the Senior Required Mill Levy and any other mill levy required to be imposed for the payment of Senior Obligations), or (ii) such lesser amount that will generate Subordinate Property Tax Revenues which, when combined with monies on deposit in the Subordinate Bond Fund, will pay the 2019B Subordinate Bonds in full in the year such levy is collected.

Senior Reserve Fund

The 2019A Senior Bonds are also secured by the Senior Reserve Fund which was funded from the proceeds of the 2019A Senior Bonds in the amount of the Senior Reserve Requirement of \$1,178,000. If a withdrawal from the Senior Reserve Fund is made that reduces the balance in such fund below the Senior Reserve Requirement, the District is to include in the computation of its next mill levy certification the amount necessary to replenish the Senior Reserve Fund to the amount of the Senior Reserve Requirement, subject to the limitations of the Senior Required Mill Levy. The balance in the Senior Reserve Fund at December 31, 2019 is \$1,180,996.

**COTTONWOOD HIGHLANDS METROPOLITAN DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 5 LONG-TERM OBLIGATIONS (CONTINUED)

Senior Surplus Fund

The 2019A Senior Bonds are further secured by funds in the Senior Surplus Fund, if any. Prior to the Conversion Date, Senior Pledged Revenue that is not needed to pay debt service on the 2019A Senior Bonds in any year will be deposited to and held in the Senior Surplus Fund, up to the Maximum Surplus Amount of \$1,497,000. The Senior Surplus Fund will be terminated upon the Conversion Date and any moneys therein applied to any legal purpose of the District. Pursuant to the Subordinate Indenture, amounts released from the Senior Surplus Fund are to be applied to the payment of the 2019B Subordinate Bonds. The balance in the Senior Surplus Fund at December 31, 2019 is \$424,068.

2019A Senior Bonds Debt Service

The outstanding principal and interest of the 2019A Senior Bonds are due as follows:

<u>Year Ending December 31.</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ -	\$ 748,500	\$ 748,500
2021	-	748,500	748,500
2022	-	748,500	748,500
2023	20,000	748,500	768,500
2024	110,000	747,500	857,500
2025-2029	1,135,000	3,608,500	4,743,500
2030-2034	1,745,000	3,265,500	5,010,500
2035-2039	2,505,000	2,757,000	5,262,000
2040-2044	3,515,000	2,034,750	5,549,750
2045-2049	5,940,000	1,037,750	6,977,750
	<u>\$ 14,970,000</u>	<u>\$ 16,445,000</u>	<u>\$ 31,415,000</u>

The annual debt service requirements on the 2019B Subordinate Bonds are not currently determinable since they are payable only from available Subordinate Pledged Revenue.

On November 4, 2014, the District's voters authorized total indebtedness of \$200,000,000 for the above listed facilities. The District's voters also authorized total indebtedness of \$30,000,000 each for debt refunding and debt related to intergovernmental agreements or other contracts with other public entities. The election also approved an annual increase in property taxes of \$5,000,000 without limitation of rate, to pay the District's operations and maintenance costs.

COTTONWOOD HIGHLANDS METROPOLITAN DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 5 LONG-TERM OBLIGATIONS (CONTINUED)

2019A Senior Bonds Debt Service (Continued)

Pursuant to the Consolidated Service Plan for Cottonwood Highlands Metropolitan District Nos. 1 and 2, the District is permitted to issue bond indebtedness not to exceed \$30,000,000 for both Districts combined. 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 December 31, 2019, the District had authorized but unissued indebtedness in the following allocation for the following purposes:

	Amount Authorized on 11/4/2014	Amount Used Series 2019A and 2019B Bonds	Authorized Amount Remaining
Streets	\$ 30,000,000	\$ 6,174,543	\$ 23,825,457
Sewer	30,000,000	5,503,662	24,496,338
Water	30,000,000	2,213,951	27,786,049
Parks and Recreation	30,000,000	2,736,028	27,263,972
Traffic and Safety	30,000,000	394,345	29,605,655
Mosquito Control	5,000,000	-	5,000,000
Transportation	30,000,000	-	30,000,000
Fire Protection	5,000,000	-	5,000,000
TV Relay	5,000,000	-	5,000,000
Security	5,000,000	-	5,000,000
Total	<u>\$ 200,000,000</u>	<u>\$ 17,022,529</u>	<u>\$ 182,977,471</u>

NOTE 6 NET POSITION

The District has net position consisting of two components – restricted, and unrestricted.

Restricted net position consists of assets that are restricted for use either externally imposed by creditors, grantors, contributors, or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The District had a restricted net position as of December 31, 2019, as follows:

	Governmental Activities
Restricted Net Position:	
Emergencies	\$ 8,600
Debt Service	2,010,583
Total Restricted Net Position	<u>\$ 2,019,183</u>

The District's unrestricted net position as of December 31, 2019 totaled (\$2,626,342).

COTTONWOOD HIGHLANDS METROPOLITAN DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 7 RELATED PARTY

The developer of the property which constitutes the District is Lennar Corporation (Developer). Certain members of the Board of Directors of the District are officers or employees of or related to the Developer or an entity affiliated with the Developer, and may have conflicts of interest in dealing with the District.

Reimbursement Allocation Agreement

On May 29, 2015, the District entered into the Reimbursement Allocation Agreement with C&J Land Investments, LLC, S&L Land Investments, LLC, K&H Land Investments, LLC, Colorado Venture III, LLC, Colorado Venture I, LLC, Parkwood East, LLC, Clay Carlson, Kent Carlson and Scott Carlson (collectively "Carlson"), and Lennar Colorado, LLC, ("Lennar"). Carlson and Lennar can be referred to collectively as "Parties" or individually as a "Party". When the District incurs Debt to pay for the acquisition of Public Infrastructure that has been or will be constructed pursuant to the terms of a Facilities Acquisition Agreement, the Parties (or any of them) shall obtain from the debt advisor that the District has engaged in connection with its bond underwriting process ("Debt Advisor") the projected assessed ad valorem valuation of Property within the District that was used to calculate and determine the amount of the Debt incurred by the District ("Utilized AV"). The Parties will engage the Debt Advisor to apportion the Utilized AV between and among the development phases of the Property as identified by the Parties. Each Phase's share ("Share") of the amount of the Debt that is incurred by the District will be a percentage that is determined by dividing the Utilized AV that has been apportioned to that Phase of the Property by the total Utilized AV. The total amount of payments received by any owner with respect to a Phase under a Facility Acquisition Agreement may not exceed the applicable Share of the Debt apportioned to that Phase. As the construction of Public Infrastructure for a Phase is completed by a Party, such Party may submit the cost of the Public Infrastructure to the District pursuant to a Facilities Acquisition Agreement and receive payment.

Amended and Restated Reimbursement Allocation Agreement

On September 26, 2017, the District entered into the Amended and Restated Allocation Agreement with Lennar, Century at Compark Village North, LLC, ("Century"), and Carlson. Lennar, Century, Carlson and the District can be referred to as "Parties" or individually as a "Party". The Parties agree that with respect to the net proceeds of any Debt incurred by the District, each Party shall be entitled to receive from the District pursuant to the Facilities Acquisition Agreement executed by each Party and any other agreement entered between the Party and the District, its "Share" of the District Debt Proceeds as defined in the agreement.

Funding and Reimbursement Agreement

On September 26, 2017, the District entered into the Funding and Reimbursement Agreement with Lennar. Lennar agrees to loan the District not to exceed the aggregate of \$60,000 per annum for five years, up to \$300,000. These funds shall be loaned to the District in one or a series of installments and shall be available to the District through December 31, 2021. The loan bears simple interest rate of 8% per annum, from the date any such advance is made.

COTTONWOOD HIGHLANDS METROPOLITAN DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 7 RELATED PARTY (CONTINUED)

Facilities Acquisition Agreements

On September 26, 2017, the District entered into the Facilities Acquisition Agreement with Lennar. Lennar has incurred certain costs related to public infrastructure for the benefit of the District. The District has agreed to: (i) reimburse Lennar the Construction Costs for all completed public infrastructure authorized by the District's Service Plan; and (ii) acquire any such completed Public Infrastructure constructed for the benefit of the District from Lennar that is not being dedicated to other governmental entities.

On September 26, 2017, the District entered into the Facilities Acquisition Agreement with Century. Century has incurred certain costs related to public infrastructure for the benefit of the District. The District has agreed to: (i) reimburse Century the Construction Costs for all completed public infrastructure authorized by the District's Service Plan; and (ii) acquire any such completed Public Infrastructure constructed for the benefit of the District from Century that is not being dedicated to other governmental entities.

NOTE 8 OPERATING TRANSFERS

The transfer of \$1,714,934 from the Capital Projects Fund to the Debt Service Fund during 2019 is in connection with the Series 2019A and 2019B bond issuance.

NOTE 9 RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; thefts of, damage to, or destruction of assets; errors or omissions; injuries to employees; or acts of God.

The District is a member of the Colorado Special Districts Property and Liability Pool (the Pool). The Pool is an organization created by intergovernmental agreement to provide property, liability, public officials' liability, boiler and machinery, and workers' compensation coverage to its members. Settled claims have not exceeded this coverage in any of the past three fiscal years.

The District pays annual premiums to the Pool for liability, property, public officials' liability, and workers' compensation coverage. In the event aggregated losses incurred by the Pool exceed amounts recoverable from reinsurance contracts and funds accumulated by the Pool, the Pool may require additional contributions from the Pool members. Any excess funds which the Pool determines are not needed for purposes of the Pool may be returned to the members pursuant to a distribution formula.

COTTONWOOD HIGHLANDS METROPOLITAN DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 10 TAX, SPENDING, AND DEBT LIMITATIONS

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

Spending and revenue limits are determined based on the prior year's Fiscal Year Spending adjusted for allowable increases based upon inflation and local growth. Fiscal Year Spending is generally defined as expenditures plus reserve increases with certain exceptions. Revenue in excess of the Fiscal Year Spending limit must be refunded unless the voters approve retention of such revenue.

TABOR requires local governments to establish Emergency Reserves. These reserves must be at least 3% of Fiscal Year Spending (excluding bonded debt service). Local governments are not allowed to use the Emergency Reserves to compensate for economic conditions, revenue shortfalls, or salary or benefit increases.

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.

SUPPLEMENTARY INFORMATION

**COTTONWOOD HIGHLANDS METROPOLITAN DISTRICT NO. 1
DEBT SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL
YEAR ENDED DECEMBER 31, 2019**

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Property Taxes	\$ 399,064	\$ 399,064	\$ 399,065	\$ 1
Specific Ownership Taxes	39,906	36,900	40,026	3,126
Net Investment Income	50	10,724	23,462	12,738
Total Revenues	<u>439,020</u>	<u>446,688</u>	<u>462,553</u>	<u>15,865</u>
EXPENDITURES				
County Treasurer's Fees	5,986	5,986	5,988	(2)
Bond Interest	295,785	405,438	405,438	-
Contingency	-	13,576	-	13,576
Total Expenditures	<u>301,771</u>	<u>425,000</u>	<u>411,426</u>	<u>13,574</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES				
	137,249	21,688	51,127	29,439
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	1,296,473	1,714,934	1,714,934	-
Total Other Financing Sources (Uses)	<u>1,296,473</u>	<u>1,714,934</u>	<u>1,714,934</u>	<u>-</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES				
	1,433,722	1,736,622	1,766,061	29,439
Fund Balance - Beginning of Year	<u>243,516</u>	<u>244,522</u>	<u>244,522</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u><u>\$ 1,677,238</u></u>	<u><u>\$ 1,981,144</u></u>	<u><u>\$ 2,010,583</u></u>	<u><u>\$ 29,439</u></u>

**COTTONWOOD HIGHLANDS METROPOLITAN DISTRICT NO. 1
CAPITAL PROJECTS FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL
YEAR ENDED DECEMBER 31, 2019**

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Net Investment Income	\$ -	\$ 60,000	\$ 53,246	\$ (6,754)
Total Revenues	-	60,000	53,246	(6,754)
EXPENDITURES				
Capital Outlay	-	17,026,601	15,102,097	1,924,504
Engineering	-	20,000	15,263	4,737
Bond Issue Costs	303,100	295,819	295,819	-
Bond Discount	265,480	424,950	424,950	-
Total Expenditures	568,580	17,767,370	15,838,129	1,929,241
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES				
	(568,580)	(17,707,370)	(15,784,883)	1,922,487
OTHER FINANCING SOURCES (USES)				
Transfers to Other Fund	(1,296,473)	(1,714,934)	(1,714,934)	-
Developer Advance	-	17,046,601	15,108,631	(1,937,970)
Repay Developer Advance	-	(17,026,601)	(15,102,097)	1,924,504
Bond Proceeds - Series 2019A	9,390,000	14,970,000	14,970,000	-
Bond Proceeds - Series 2019B	1,528,000	4,185,000	4,185,000	-
Bond Proceeds - Series 2019C	796,000	-	-	-
Bond Issue Premium	-	247,304	247,304	-
Total Other Financing Sources (Uses)	10,417,527	17,707,370	17,693,904	(13,466)
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES				
	9,848,947	-	1,909,021	1,909,021
Fund Balance - Beginning of Year	-	-	-	-
FUND BALANCE - END OF YEAR	\$ 9,848,947	\$ -	\$ 1,909,021	\$ 1,909,021

OTHER INFORMATION

**COTTONWOOD HIGHLANDS METROPOLITAN DISTRICT NO. 1
SCHEDULE OF DEBT SERVICE REQUIREMENTS TO MATURITY
DECEMBER 31, 2019**

\$14,970,000 Series 2019A limited
Tax (Convertible to Unlimited Tax)
General Obligation Bonds
Dated May 15, 2019
Principal due December 1
Interest Rate 5.0% Payable
June 1 and December 1

Year Ended December 31,	Principal	Interest	Annual Debt Service
2020	\$ -	\$ 748,500	\$ 748,500
2021	-	748,500	748,500
2022	-	748,500	748,500
2023	20,000	748,500	768,500
2024	110,000	747,500	857,500
2025	170,000	742,000	912,000
2026	215,000	733,500	948,500
2027	225,000	722,750	947,750
2028	255,000	711,500	966,500
2029	270,000	698,750	968,750
2030	300,000	685,250	985,250
2031	315,000	670,250	985,250
2032	350,000	654,500	1,004,500
2033	370,000	637,000	1,007,000
2034	410,000	618,500	1,028,500
2035	430,000	598,000	1,028,000
2036	470,000	576,500	1,046,500
2037	495,000	553,000	1,048,000
2038	540,000	528,250	1,068,250
2039	570,000	501,250	1,071,250
2040	620,000	472,750	1,092,750
2041	650,000	441,750	1,091,750
2042	705,000	409,250	1,114,250
2043	740,000	374,000	1,114,000
2044	800,000	337,000	1,137,000
2045	835,000	297,000	1,132,000
2046	900,000	255,250	1,155,250
2047	945,000	210,250	1,155,250
2048	1,015,000	163,000	1,178,000
2049	2,245,000	112,250	2,357,250
	<u>\$ 14,970,000</u>	<u>\$ 16,445,000</u>	<u>\$ 31,415,000</u>

**COTTONWOOD HIGHLANDS METROPOLITAN DISTRICT NO. 1
SCHEDULE OF ASSESSED VALUATION, MILL LEVY, AND PROPERTY TAXES COLLECTED
DECEMBER 31, 2019**

Year Ended December 31,	Prior Year Assessed Valuation for Current Year Property Tax Levy	Mills Levied		Total Mills Levied	Total Property Taxes		Percent Collected to Levied
		General	Debt Service		Levied	Collected	
		Fund	Fund				
2016	\$ 609,840	10.000	42.827	52.827	\$ 32,216	\$ 32,216	100.00 %
2017	1,148,890	10.000	42.827	52.827	60,693	60,693	100.00
2018	3,691,390	10.000	47.347	57.347	211,690	211,690	100.00
2019	8,428,500	10.000	47.347	57.347	483,349	483,350	100.00
Estimated for the year ending December 31, 2020	\$ 12,623,250	10.000	47.678	57.678	\$ 728,084		

NOTE:

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