

**COTTONWOOD HOLLOW RESIDENTIAL
METROPOLITAN DISTRICT
Weld County, Colorado**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**


YEAR ENDED DECEMBER 31, 2020


**COTTONWOOD HOLLOW RESIDENTIAL METROPOLITAN DISTRICT
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YEAR ENDED DECEMBER 31, 2020**

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To the Board of Directors
Cottonwood Hollow Residential Metropolitan District

We have audited the accompanying financial statements of the governmental activities and each major fund, of Cottonwood Hollow Residential Metropolitan District, as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents. **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, and each major fund of Cottonwood Hollow Residential Metropolitan District, as of December 31, 2020, and the respective changes in financial position and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Cottonwood Hollow Residential Metropolitan District's basic financial statements. The other supplemental information schedules as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Haynie & Company

Littleton, Colorado
April 18, 2023

BASIC FINANCIAL STATEMENTS

**COTTONWOOD HOLLOW RESIDENTIAL METROPOLITAN DISTRICT
STATEMENT OF NET POSITION
DECEMBER 31, 2020**

	Governmental Activities
ASSETS	
Cash and Investments - Restricted	\$ 27,831
Receivable from County Treasurer	3,431
Prepaid Expenses	2,521
Property Taxes Receivable	188,787
Due from Developer	3,182,210
Total Assets	3,404,780
LIABILITIES	
Accounts Payable	6,515
Due to Other Governments	2,873,615
Total Liabilities	2,880,130
DEFERRED INFLOWS OF RESOURCES	
Property Tax Revenue	188,787
Total Deferred Inflows of Resources	188,787
NET POSITION	
Restricted for:	
Emergency Reserves	30,500
Unrestricted	305,363
Total Net Position	\$ 335,863

See accompanying Notes to Basic Financial Statements.

**COTTONWOOD HOLLOW RESIDENTIAL METROPOLITAN DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2020**

		Program Revenues			Net Revenues (Expenses) and Change in Net Position
Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	
FUNCTIONS/PROGRAMS					
Governmental Activities:					
General Government	\$ 64,723	\$ -	\$ -	\$ -	\$ (64,723)
Total Governmental Activities	\$ 64,723	\$ -	\$ -	\$ -	(64,723)
GENERAL REVENUES					
Property Taxes					722,949
Specific Ownership Taxes					45,163
NFURA TIF revenue					242,040
Interest Income					4,233
Total General Revenues					1,014,385
CHANGE IN NET POSITION					949,662
Net Position - Beginning of Year as Restated					(613,799)
NET POSITION - END OF YEAR					\$ 335,863

See accompanying Notes to Basic Financial Statements.

**COTTONWOOD HOLLOW RESIDENTIAL METROPOLITAN DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2020**

	General	Debt Service	Capital Projects	Total Governmental Funds
ASSETS				
Cash and Investments - Restricted	\$ 27,831	\$ -	\$ -	\$ 27,831
Receivable from County Treasurer	3,431	-	-	3,431
Prepaid Expenses	2,521	-	-	2,521
Property Taxes Receivable	28,921	159,866	-	188,787
Due from Developer	-	-	3,182,210	3,182,210
Total Assets	\$ 62,704	\$ 159,866	\$ 3,182,210	\$ 3,404,780
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
LIABILITIES				
Accounts Payable	\$ 6,515	\$ -	\$ -	\$ 6,515
Due to Other Governments	-	-	2,873,615	2,873,615
Total Liabilities	6,515	-	2,873,615	2,880,130
DEFERRED INFLOWS OF RESOURCES				
Deferred Property Tax Revenue	28,921	159,866	-	188,787
Total Deferred Inflows of Resources	28,921	159,866	-	188,787
FUND BALANCES				
Nonspendable:				
Prepaid Expenses	2,521	-	-	2,521
Restricted For:				
Emergency Reserves	30,500	-	-	30,500
Capital Projects	-	-	308,595	308,595
Unassigned	(5,753)	-	-	(5,753)
Total Fund Balances	27,268	-	308,595	335,863
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 62,704	\$ 159,866	\$ 3,182,210	\$ 3,404,780

Amounts reported for governmental activities in the statement of net position are the same as above.

**COTTONWOOD HOLLOW RESIDENTIAL METROPOLITAN DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2020**

	General	Debt Service	Capital Projects	Total Governmental Funds
REVENUES				
Bond Proceeds				
Property Taxes	\$ 722,949	\$ -	\$ -	\$ 722,949
Specific Ownership Taxes	45,163	-	-	45,163
Interest Income	4,233	-	-	4,233
NFURA TIF Revenue	242,040	-	-	242,040
Total Revenues	<u>1,014,385</u>	<u>-</u>	<u>-</u>	<u>1,014,385</u>
EXPENDITURES				
Current:				
Accounting	11,371	-	-	11,371
Audit	5,700	-	-	5,700
County Treasurer's Fees	10,908	-	-	10,908
Dues and Membership	433	-	-	433
Insurance	2,510	-	-	2,510
Legal	33,282	-	-	33,282
Banking Fees	519	-	-	519
Total Expenditures	<u>64,723</u>	<u>-</u>	<u>-</u>	<u>64,723</u>
NET CHANGE IN FUND BALANCES	949,662	-	-	949,662
Fund Balances - Beginning of Year as Restated	<u>(922,394)</u>	<u>-</u>	<u>308,595</u>	<u>(613,799)</u>
FUND BALANCES - END OF YEAR	<u>\$ 27,268</u>	<u>\$ -</u>	<u>\$ 308,595</u>	<u>\$ 335,863</u>

Amounts reported for governmental activities in the statement of net position are the same as above.

**COTTONWOOD HOLLOW RESIDENTIAL METROPOLITAN DISTRICT
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL
YEAR ENDED DECEMBER 31, 2020**

	Budgets		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Property Taxes	\$ 723,771	\$ 937,600	\$ 722,949	\$ (214,651)
Specific Ownership Taxes	55,080	44,333	45,163	830
Interest Income	-	4,000	4,233	233
TIF (Tax Increment Financing)	117,666	217,300	242,040	24,740
Total Revenues	<u>896,517</u>	<u>1,203,233</u>	<u>1,014,385</u>	<u>(188,848)</u>
EXPENDITURES				
Accounting	7,640	7,640	11,371	(3,731)
Audit	6,000	6,000	5,700	300
Contingency	26,895	36,097	-	36,097
County Treasurer's Fees	9,064	10,900	10,908	(8)
Dues and Membership	-	-	433	(433)
Insurance	3,000	3,000	2,510	490
Legal	22,360	22,360	33,282	(10,922)
TIF Expense	105,323	217,300	-	217,300
Miscellaneous	500	500	-	500
Banking Fees	700	500	519	(19)
Engineering	10,000	-	-	-
Capital Outlay	707,000	-	-	-
Intergovernmental Expenditures	-	307,500	-	307,500
Total Expenditures	<u>898,482</u>	<u>611,797</u>	<u>64,723</u>	<u>547,074</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES				
	<u>(1,965)</u>	<u>591,436</u>	<u>949,662</u>	<u>358,226</u>
OTHER FINANCING SOURCES (USES)				
Transfers to/from Other Funds	-	(700,000)	-	700,000
Total Other Financing Sources (Uses)	<u>-</u>	<u>(700,000)</u>	<u>-</u>	<u>700,000</u>
NET CHANGE IN FUND BALANCES				
	(1,965)	(108,564)	949,662	1,058,226
Fund Balances - Beginning of Year	<u>2,752</u>	<u>132,589</u>	<u>(922,394)</u>	<u>(1,054,983)</u>
FUND BALANCES - END OF YEAR	<u>\$ 787</u>	<u>\$ 24,025</u>	<u>\$ 27,268</u>	<u>\$ 3,243</u>

See accompanying Notes to Basic Financial Statements.

**COTTONWOOD HOLLOW RESIDENTIAL METROPOLITAN DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 1 DEFINITION OF REPORTING ENTITY

Cottonwood Hollow Residential Metropolitan District (the District), a quasi-municipal corporation and political subdivision of the State of Colorado was organized on December 2, 2004, and is governed pursuant to provisions of the Colorado Special District Act. The District's service area boundaries are located entirely in the town of Firestone (Town), Weld County, Colorado.

The District was established principally to finance the construction of various categories of public improvements, such as streets, traffic and safety signals, storm drainage, sewer, water, and park and recreation facilities for the use and benefit of all its residents and taxpayers within the District's boundaries. Upon completion of construction and installation, it is the District's intent to dedicate all public improvements to the Town or its designee for operation and maintenance. Certain landscaping, park and recreation improvements, addition of retention/detention ponds, and irrigation system improvements may be maintained by the District unless the Town accepts ownership of any such improvements.

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 sum of assets and deferred outflows and the sum of liabilities and deferred inflows is reported as net position.

**COTTONWOOD HOLLOW RESIDENTIAL METROPOLITAN DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government-Wide and Fund Financial Statements (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. Taxes and other items not properly included among program revenues are reported 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. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met. Expenditures for property and equipment are shown as increases in assets and redemption of bonds and notes are recorded as a reduction in liabilities.

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, specific ownership taxes and sales tax. All other revenue items are considered to be measurable and available only when cash is received by the District. The District has determined that Developer advances are not considered as revenue susceptible to accrual. 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 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.

**COTTONWOOD HOLLOW RESIDENTIAL METROPOLITAN DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2020**

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, 2020.

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.

Property Taxes

Property taxes are levied by the District's board of directors. The levy is based on assessed valuations determined by the county assessor generally as of January 1 of each year. The levy is normally set by December 15 by certification to the county commissioners to put the tax lien on the individual properties as of January 1 of the following year. The county treasurer collects the determined taxes during the ensuing calendar year. The taxes are payable by April or if in equal installments, at the taxpayer's election, in February and June. Delinquent taxpayers are notified in August and, generally, sale 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 property tax revenues are recorded as revenue in the year they are available or collected.

Deferred Inflows of Resources

In addition to liabilities, the statement of net position reports 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 and so will not be recognized as an inflow of resources (revenue) until that time. The District has one item that qualifies for reporting in this category. The item *deferred property tax revenue* is deferred, and recognized as an inflow of resources in the period that the amount becomes available.

**COTTONWOOD HOLLOW RESIDENTIAL METROPOLITAN DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Fund Balance

Fund balance 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.

**COTTONWOOD HOLLOW RESIDENTIAL METROPOLITAN DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 3 CASH AND INVESTMENTS

Cash and investments as of December 31, 2020, are classified in the accompanying financial statements as follows:

Statement of Net Position:

Cash and Investments - Restricted	\$ 27,831
Total Cash and Investments	<u>\$ 27,831</u>

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

Deposits with Financial Institutions	\$ 27,831
Total Cash and Investments	<u>\$ 27,831</u>

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, 2020, the District's cash deposits had a bank balance of \$37,498 and a carrying balance of \$27,831.

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 HOLLOW RESIDENTIAL METROPOLITAN DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2020**

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, 2020, the District had no investments.

NOTE 4 LONG-TERM OBLIGATIONS

Authorized Debt

On November 8, 2016, a majority of the qualified electors of the District authorized the issuance of indebtedness in an amount not to exceed \$156,150,000, at an interest rate not to exceed 18% per annum. At December 31, 2020, the District had authorized and unissued indebtedness in the following amounts allocated for the following purposes:

	<u>Authorized November 8 2016 Election</u>	<u>Total Authorized Debt</u>
Streets	\$ 19,320,000	\$ 19,320,000
Water	14,475,000	14,475,000
Parks and Recreation	27,780,000	27,780,000
Debt for Operations	16,500,000	16,500,000
Refunding	78,075,000	78,075,000
Total	<u>\$ 156,150,000</u>	<u>\$ 156,150,000</u>

**COTTONWOOD HOLLOW RESIDENTIAL METROPOLITAN DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 5 FUND BALANCES

At December 31, 2020, the District reported the following classifications of fund equity.

Nonspendable – The nonspendable fund balance in the General Fund in the amount of \$2,521 represents prepaid expenditures for the ensuing fiscal year and is therefore not in a spendable form.

Restricted – The restricted fund balance in the General Fund in the amount of \$30,500 is comprised of the emergency reserves that have been provided for as required by Article X, Section 20 of the Constitution of the State of Colorado.

Unrestricted – Amounts that are available for any purpose.

NOTE 6 NET POSITION

The District's net position consists of two components: restricted and unrestricted.

Restricted net position includes amounts that are restricted for use either externally by creditors, grantors, contributors, or law and regulations of other governments, or as imposed by law through constitutional provisions or enabling legislation. The District's restricted net position at December 31, 2020, consists of \$30,500 for emergency reserves.

As of December 31, 2020, the District had an unrestricted net position of \$305,363. This unrestricted net position is the amount of net position not invested in capital assets or restricted for emergencies.

NOTE 7 RELATED PARTIES

Certain members of the board of directors of the District are employees, owners or associated with Mortgage Consultants, LLC (Developer) and Del Camino East Properties, LLC. In addition, Mortgage Consultants, LLC, and Del Camino East Properties, LLC, may do business with various construction, engineering, and financing companies of which members of the board of directors are associated.

**COTTONWOOD HOLLOW RESIDENTIAL METROPOLITAN DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 8 AGREEMENTS

Advance and Reimbursement Agreement – Mortgage Consultants, LLC

The District entered into an infrastructure acquisition agreement with the Developer on January 1, 2017. This agreement established the terms and conditions for reimbursing the Developer for hard and soft construction costs pursuant to the District's reimbursement policy and specifies simple interest to accrue on amounts accepted for reimbursement at an annual rate of 7.0%. The District shall make payments for the advances, subject to annual appropriation and budget approval, from funds available within any fiscal year and not otherwise required for operations, capital improvements, debt service costs, and expenses of the District.

Water Credits

On February 7, 2018, Mortgage Consultants, LLC, purchased a total of 131 water credits from the Town for a purchase price of \$5,458,989 (equivalent to \$41,672 per certificate) for commercial and residential use. On April 4, 2019, Mortgage Consultants, LLC, conveyed 56.18 water credits to the Town, on behalf of the District and Cottonwood Hollow Commercial District, for exclusive use within their commercial and residential developments. On June 7, 2019, the board of directors of the District approved a reimbursement to Mortgage Consultants, LLC, in the amount of \$1,240,790 for the District's share of the 56.18 water credits that were dedicated to the Town, with \$437,954 approved for immediate payment and the balance of \$802,836 to be approved for reimbursement by the board of directors at a later date, subject to the availability of District funds. The District anticipates that Mortgage Consultants, LLC, will convey the balance of 74.82 water credits to the Town in the future as development progresses within both the District and Cottonwood Hollow Commercial Metropolitan District, for the exclusive use within those Districts.

NOTE 9 RISK MANAGEMENT

Except as provided in the Colorado Governmental Immunity Act, §24-10-101, et seq., C.R.S., the District may be 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 (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, workers compensation, and public officials' liability 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 HOLLOW RESIDENTIAL METROPOLITAN DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 10 TAX, SPENDING, AND DEBT LIMITATIONS

Article X, Section 20 of the Colorado Constitution, referred to 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. As of December 31, 2020, the District had provided but did not fully fund an Emergency Reserve, which may be a violation of the Constitutional Amendment

The District's management believes it is in compliance with the provisions of TABOR. However, TABOR is complex and subject to interpretation. Many of the provisions, including the interpretation of how to calculate Fiscal Year Spending limits, will require judicial interpretation. During 2020, the District did not have sufficient funds to provide for the full emergency reserve.

NOTE 11 RESTATEMENT

The beginning balance of net position has been restated from the previously issued financial statements to correct for errors that occurs during the years ended December 31, 2017, 2018, and 2019. The statement of net position cumulated effect as of December 31, 2019, understated due from developer by \$786,273, overstated capital assets by \$1,797,198, overstated liabilities by \$12,138. The statement of activities for the year ended December 31, 2019, overstated developer interest and dedication of capital assets to other governments by \$1,324,718. The effects of the correction on the government-wide financial statements as of and for the year ended December 31, 2019, are as follows:

Net Position - December 31, 2019, as Originally Stated	\$ 384,988
Net Effect of Restatement:	
Due from Developer	786,273
Capital Assets	(1,797,198)
Due to Other Governments	(1,532,661)
Long-Term Obligations	1,544,799
Net Position - December 31, 2019, as Restated	<u>\$ (613,799)</u>

**COTTONWOOD HOLLOW RESIDENTIAL METROPOLITAN DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 11 RESTATEMENT (CONTINUED)

The beginning balance of the fund balances has been restated from the previously issued financial statements to correct for errors that occurs during the years ended December 31, 2017, 2018, and 2019. The balance sheet cumulated effect as of December 31, 2019, understated due from developer by \$786,273 and understated liabilities by \$1,532,661. The statement of revenue, expenditures, and changes in fund balances for the year ended December 31, 2019, overstated developer repayment - principal and interest by \$207,303 and overstated capital outlay by \$1,774,333. The effects of the correction on the governmental funds financial statements as of and for the year ended December 31, 2019, are as follows:

Fund Balances - December 31, 2019, as Originally Stated	\$	132,589
Net Effect of Restatement:		
Due from Developer		786,273
Due to Other Governments		<u>(1,532,661)</u>
Fund Balances - December 31, 2019, as Restated	\$	<u><u>(613,799)</u></u>

SUPPLEMENTARY INFORMATION

**COTTONWOOD HOLLOW RESIDENTIAL METROPOLITAN DISTRICT
DEBT SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL
YEAR ENDED DECEMBER 31, 2020
(SEE INDEPENDENT AUDITORS' REPORT)**

	Budgets		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Bond Proceeds	\$ -	\$ 11,250,000	\$ -	\$ (11,250,000)
Total Revenues	-	11,250,000	-	(11,250,000)
EXPENDITURES				
Bond Issue Costs	-	337,500	-	337,500
Underwriter's Discount	-	185,000	-	185,000
Total Expenditures	-	522,500	-	522,500
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	-	10,727,500	-	(10,727,500)
OTHER FINANCING SOURCES (USES)				
Transfers to Other Fund	-	(8,852,959)	-	8,852,959
Total Other Financing Sources (Uses)	-	(8,852,959)	-	8,852,959
NET CHANGE IN FUND BALANCES	-	1,874,541	-	(1,874,541)
Fund Balances - Beginning of Year	-	-	-	-
FUND BALANCES - END OF YEAR	\$ -	\$ 1,874,541	\$ -	\$ (1,874,541)

**COTTONWOOD HOLLOW RESIDENTIAL METROPOLITAN DISTRICT
CAPITAL PROJECT FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL
YEAR ENDED DECEMBER 31, 2020
(SEE INDEPENDENT AUDITORS' REPORT)**

	Budgets		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Total Revenues	\$ -	\$ -	\$ -	\$ -
EXPENDITURES				
Repay Developer Advance - Principal	-	1,492,000	-	(1,492,000)
Repay Developer Advance - Interest	-	138,000	-	(138,000)
Total Expenditures	-	1,630,000	-	1,630,000
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	-	(1,630,000)	-	1,630,000
OTHER FINANCING SOURCES (USES)				
Transfers from General Fund	-	700,000	-	(700,000)
Transfers from Debt Service	-	8,852,959	-	(8,852,959)
Total Other Financing Sources (Uses)	-	9,552,959	-	(9,552,959)
NET CHANGE IN FUND BALANCES	-	7,922,959	-	(7,922,959)
Fund Balances - Beginning of Year	-	-	308,595	308,595
FUND BALANCES - END OF YEAR	\$ -	\$ 7,922,959	\$ 308,595	\$ (7,614,364)

OTHER INFORMATION

**COTTONWOOD HOLLOW RESIDENTIAL METROPOLITAN DISTRICT
SCHEDULE OF ASSESSED VALUATION, MILL LEVY, AND PROPERTY TAXES COLLECTED
DECEMBER 31, 2020
(SEE INDEPENDENT AUDITORS' REPORT)**

Year Ended December 31,	Prior Year Assessed Valuation for Current Year Property Tax Levy	Mills Levied			Total Property Taxes		Percentage Collected to Levied
		General	Bonds and Interest	Refunds/ Abatements	Levied	Collected	
2016	\$ 115,930	50.000	0.000	0.000	\$ 5,797	\$ 7,084	122.20 %
2017	15,514,140	50.000	0.000	0.000	775,707	775,707	100.00
2018	9,191,430	61.911	0.000	0.000	569,051	569,236	100.03
2019	11,680,873	61.911	0.000	0.000	723,175	500,318	69.18
2020	5,286,288	65.277	0.000	71.638	723,771	722,949	99.89
Estimated for the Year Ending December 31, 2021	\$ 4,288,310	10.070	55.664	0.000	\$ 188,787		

NOTE: Property taxes collected in any one year include collection of delinquent property taxes assessed in prior years, as well as reductions for property tax refunds or abatements. Information received from the county treasurer does not permit identification of specific year of assessment.