

VAIL SQUARE METROPOLITAN DISTRICT NO. 3
FINANCIAL STATEMENTS AND REPORT OF
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

December 31, 2020

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**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

May 25, 2021

The Board of Directors
Vail Square Metropolitan District No. 3

We have audited the accompanying financial statements of the governmental activities and each major fund of Vail Square Metropolitan District No. 3 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 Vail Square Metropolitan District No. 3, as of December 31, 2020, and the respective changes in financial position thereof 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.



Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Vail Square Metropolitan District No. 3's basic financial statements. The Debt Service Fund budgetary schedule and property tax statistical schedule are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Debt Service Fund budgetary schedule is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. 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 Debt Service Fund budgetary schedule is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

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

Vail Square Metropolitan District No. 3

Management's Discussion and Analysis December 31, 2020

As management of Vail Square Metropolitan District No. 3 (the "District"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended December 31, 2020.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are composed of three components: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to the financial statements. This report also contains additional other information after the notes to the financial statements.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The Statement of Net Position presents information on all the District's assets, liabilities, and deferred inflows with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The Statement of Activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The governmental activity of the District is primarily financing the Intergovernmental Service Costs and Capital Costs due to Vail Square Metropolitan District No. 1. There are no business-type activities within the District.

The government-wide financial statements can be found on pages 6 and 7 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The District currently has two funds, the General Fund and the Debt Service Fund, both of which are governmental funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of expendable resources, as well as on balances of expendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better

understand the long-term impact of the government’s near-term financing decisions. A reconciliation of the fund balance as reported in the governmental funds to the net position reported in the government-wide financial statements and a reconciliation of the net change in fund balance to the change in net position has been provided to facilitate the comparison between governmental funds and governmental activities.

The fund financial statements are contained on pages 8 and 9 of the report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found starting on page 11 of this report.

Condensed Financial Information

A condensed comparative summary of the District’s government-wide assets, liabilities, deferred inflows, net position, revenues and expenditures follows:

	Governmental Activities	
	2020	2019
ASSETS:		
Current assets	\$ 357,161	\$ 352,358
Total Assets	<u>357,161</u>	<u>352,358</u>
LIABILITIES & DEFERRED INFLOWS:		
Current liabilities	11,671	7,049
Non-current liabilities	1,610,205	1,783,712
Total Liabilities	<u>1,621,876</u>	<u>1,790,761</u>
Deferred inflows of resources	<u>345,149</u>	<u>345,358</u>
NET POSITION:		
Restricted	316	174
Unrestricted	(1,610,180)	(1,783,686)
Total Net Position	<u>\$ (1,609,864)</u>	<u>\$ (1,783,512)</u>
REVENUES:		
Program Revenues		
Operating contributions	\$ 1,361	\$ 2,400
General Revenues		
Property and other taxes	674,733	318,426
Interest and other revenue	195	1,126
Total Revenues	<u>676,289</u>	<u>321,952</u>
EXPENSES:		
General government	502,641	227,808
Total Expenses	<u>502,641</u>	<u>227,808</u>
Change in Net Position	173,648	94,144
Net Position - Beginning	(1,783,512)	(1,877,656)
Net Position - Ending	<u>\$ (1,609,864)</u>	<u>\$ (1,783,512)</u>

The District is one of the “financing districts” in a triple district structure whereby the District is supporting the financing of the construction of infrastructure being coordinated by Vail Square Metropolitan District No. 1. The District consists of commercial properties. Such functions are furnished through a District Facilities Joint Financing Construction and Service Agreement among the District and Vail Square Metropolitan District Nos. 1 and 2. Vail Square Metropolitan District No. 1 is the “operating district” and as such, has and will continue to receive “capital and service obligation payments” from the District and District No. 2 to fund the financing construction and operation of infrastructure in the Districts. District No. 3 funds such costs with property taxes.

Government-wide Financial Analysis. During 2020 the District’s primary activity was to collect property taxes to pay capital and service obligations to District No. 1 for the infrastructure in the Districts.

Financial Analysis of the District’s Funds

As mentioned earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the District’s governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the District’s financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government’s net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the District’s governmental funds reported a combined ending fund balance of \$341.

The District adopts budgets for each fund on an annual basis. A budgetary comparison has been provided on page 10 for the General Fund and on page 22 for the Debt Service Fund.

Capital assets. All capital assets inside of the District boundaries are constructed and operated by District No.1. Therefore, no capital assets are reported by the District.

Long-term debts. District No. 3 is an additional obligor for the annual financing costs related to the District No. 1 2008 Tax Exempt Loan Facility as more fully described in the Joint Funding Agreement between the Districts. More details and information related to the District’s long-term debts can be found in the Notes to the Financial Statement in Note C on page 17 of this report.

Economic Factors and Next Year’s Budget. It is anticipated COVID-19 will have impacts on the economy as a whole which will include financial impacts to the District, however the extent of such impact continues to be unknown at this time.

Request for Information

This financial report is designed to provide a general overview of the District’s finances for all those with an interest in the government’s finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Marchetti & Weaver, LLC, 28 Second Street, Suite 213, Edwards, CO 81632 or you may call (970) 926-6060.

Vail Square Metropolitan District No. 3

STATEMENT OF NET POSITION

December 31, 2020

	<u>Governmental Activities</u>
ASSETS	
Cash and investments	\$ 9,402
Due from other governments	2,610
Property taxes receivable	<u>345,149</u>
Total Assets	357,161
LIABILITIES	
Accounts payable	11,671
Net Capital and Service obligations to VSMD No. 1, non-current	<u>1,610,205</u>
Total Liabilities	1,621,876
DEFERRED INFLOW OF RESOURCES	
Property taxes	<u>345,149</u>
Total Deferred Inflow of Resources	<u>345,149</u>
Total Liabilities and Deferred Inflow of Resources	<u>1,967,025</u>
NET POSITION	
Restricted for emergencies	175
Restricted for debt service	141
Unrestricted	<u>(1,610,180)</u>
Total Net Position	<u>\$ (1,609,864)</u>

The accompanying notes are an integral part of this statement.

Vail Square Metropolitan District No. 3

STATEMENT OF ACTIVITIES

Year ended December 31, 2020

Function/Programs	Expenses	Program Revenues		Total Governmental Activities
		Operating Contributions	Capital Contributions	
Governmental activities:				
General government	\$ 502,641	\$ 1,361	\$ -	\$ (501,280)
Total governmental activities:	<u>\$ 502,641</u>	<u>\$ 1,361</u>	<u>\$ -</u>	<u>(501,280)</u>
General revenues:				
Property taxes				674,733
Interest				195
Total general revenues				<u>674,928</u>
Change in net position				173,648
Net position- beginning				<u>(1,783,512)</u>
Net position- ending				<u>\$ (1,609,864)</u>

The accompanying notes are an integral part of this statement.

Vail Square Metropolitan District No. 3

BALANCE SHEET - GOVERNMENTAL FUNDS

December 31, 2020

	General	Debt Service	Total Governmental Funds
ASSETS			
Equity in pooled cash and investments	\$ 4,685	\$ 4,717	\$ 9,402
Due from other governments	-	2,610	2,610
Property tax receivables	-	345,149	345,149
Total Assets	<u>4,685</u>	<u>352,476</u>	<u>357,161</u>
LIABILITIES			
Accounts payable	4,485	7,186	11,671
Total Liabilities	<u>4,485</u>	<u>7,186</u>	<u>11,671</u>
DEFERRED INFLOW OF RESOURCES			
Property taxes	-	345,149	345,149
Total Deferred Inflow of Resources	<u>-</u>	<u>345,149</u>	<u>345,149</u>
Total Liabilities and Deferred Inflows	<u>4,485</u>	<u>352,335</u>	<u>356,820</u>
FUND BALANCES			
Restricted for emergencies	175	-	175
Restricted for debt service	-	141	141
Unassigned	25	-	25
Total Fund Balances	<u>\$ 200</u>	<u>\$ 141</u>	<u>\$ 341</u>
Fund balances (as reported above)			\$ 341
Amounts reported for governmental activities in the Statement of Net Position are different because:			
Net capital and service obligations are not payable/receivable in the current period and are therefore not reported in the funds			
			<u>(1,610,205)</u>
Net position of governmental activities			<u>\$ (1,609,864)</u>

The accompanying notes are an integral part of this statement.

Vail Square Metropolitan District No. 3

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

Year ended December 31, 2020

	General	Debt Service	Total Governmental Funds
Revenues			
Taxes	\$ -	\$ 674,733	\$ 674,733
Intergovernmental - VSMD No.1	1,361	-	1,361
Interest income	-	195	195
Total revenues	<u>1,361</u>	<u>674,928</u>	<u>676,289</u>
Expenditures			
Current			
General government	5,846	-	5,846
Property taxes to VSMD No.1	-	659,943	659,943
Treasurer's fees	-	10,359	10,359
Total expenditures	<u>5,846</u>	<u>670,302</u>	<u>676,148</u>
Excess of Revenues Over (Under) Expenditures	(4,485)	4,626	141
Other financing sources (uses)			
Transfers in (out)	<u>4,485</u>	<u>(4,485)</u>	<u>-</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	-	141	141
Fund Balance - January 1	<u>200</u>	<u>-</u>	<u>200</u>
Fund Balance - December 31	<u>\$ 200</u>	<u>\$ 141</u>	<u>\$ 341</u>
		Change in fund balance (above)	\$ 141

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

Net change in capital and service obligations to VSMD No. 1	<u>173,507</u>
Change in net position of governmental activities	<u>\$ 173,648</u>

The accompanying notes are an integral part of this statement.

Vail Square Metropolitan District No. 3

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

Year ended December 31, 2020

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
VSMD No. 1 expense reimbursement	\$ 995	\$ 2,545	\$ 1,361	\$ (1,184)
Total revenues	995	2,545	1,361	(1,184)
Expenditures				
General government				
Audit	3,200	3,200	3,200	-
Insurance expense	3,000	3,000	2,646	354
Contingency	1,000	1,000	-	1,000
Total expenditures	7,200	7,200	5,846	1,354
Excess of Revenues Over (Under) Expenditures	(6,205)	(4,655)	(4,485)	170
Other financing sources (uses)				
Transfers in (out)	6,205	4,655	4,485	(170)
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	-	-	-	-
Fund Balance - January 1	200	200	200	-
Fund Balance - December 31	\$ 200	\$ 200	\$ 200	\$ -

The accompanying notes are an integral part of this statement.

Vail Square Metropolitan District No. 3
NOTES TO FINANCIAL STATEMENTS

December 31, 2020

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Organization

The Vail Square Metropolitan District No. 3 (the District) was established December 5, 2005, as a quasi-municipal corporation and political subdivision of the State of Colorado. The District was established as part of the triple district structure with Vail Square Metropolitan District Nos. 1 and 2. The District is the Financing District which encompasses non-residential development and was established to provide funding and tax base for the capital improvements constructed by VSMD No. 1. VSMD No. 2 is the Financing District which encompasses residential development. Together, the Financing Districts have paid and will continue to pay capital and service obligations to VSMD No. 1, the Operating District.

The financial statements of the District have been prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

2. Reporting Entity

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

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

3. Government-wide and Fund Financial Statements

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

Vail Square Metropolitan District No. 3

NOTES TO FINANCIAL STATEMENTS

December 31, 2020

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Government-wide Financial Statements

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

Fund Financial Statements

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

4. Fund Accounting

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

Governmental Funds

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

The District reports the following major governmental funds:

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

Vail Square Metropolitan District No. 3

NOTES TO FINANCIAL STATEMENTS

December 31, 2020

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

5. Measurement Focus and Basis of Accounting

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

Long-Term Economic Focus and Accrual Basis

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

Current Financial Focus and Modified Accrual Basis

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

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

6. Intergovernmental Revenues

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

Vail Square Metropolitan District No. 3

NOTES TO FINANCIAL STATEMENTS

December 31, 2020

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

7. Use of Estimates

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

8. Property Taxes

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

9. Interfund Transactions

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

10. Stewardship, Compliance, and Accountability

Budgets and Budgetary Accounting

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

- (1) For the 2020 budget year, prior to August 25, 2019, the County Assessor sent the District the assessed valuation of all taxable property within the District's boundaries.

Vail Square Metropolitan District No. 3

NOTES TO FINANCIAL STATEMENTS

December 31, 2020

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

- (2) On or before October 15, 2019, the District's accountant submitted to the District's Board of Directors a recommended budget which detailed the necessary property taxes needed along with other available revenues to meet the District's operating requirements.
- (3) For the 2020 budget, prior to December 15, 2019, the District computed and certified to the County Commissioners a rate of levy that derived the necessary property taxes as computed in the proposed budget.
- (4) For the 2020 budget, the final budget and appropriating resolution was adopted prior to December 31, 2019.
- (5) After adoption of the budget resolution, the District may make the following changes: a) it may transfer appropriated monies between funds or between spending agencies within a fund, as determined by the original appropriation level; b) supplemental appropriations to the extent of revenues in excess of those estimated in the budget; c) emergency appropriations; and d) reduction of appropriations for which originally estimated revenues are insufficient.

The level of control in the budget at which expenditures exceed appropriations is at the fund level. All appropriations lapse at year-end.

11. Fund Balances

GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions" provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. In the fund financial statements the following classifications describe the relative strength of the spending constraints.

- *Non-spendable fund balance* - The portion of fund balance that cannot be spent because it is either not in spendable form (such as inventory) or is legally or contractually required to be maintained intact.
- *Restricted fund balance* - The portion of fund balance constrained to being used for a specific purpose by external parties (such as grantors or bondholders), constitutional provisions or enabling legislation.
- *Committed fund balance* - The portion of fund balance constrained for specific purposes according to limitations imposed by the District's highest level of decision making authority, the Board, prior to the end of the current fiscal year. The constraint may be removed or changed only through formal action of the Board.

Vail Square Metropolitan District No. 3

NOTES TO FINANCIAL STATEMENTS

December 31, 2020

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

- *Assigned fund balance* - The portion of fund balance set aside for planned or intended purposes. The intended use may be expressed by the Board or other individuals authorized to assign funds to be used for a specific purpose. Assigned fund balances in special revenue funds will also include any remaining fund balance that is not restricted or committed. This classification is necessary to indicate that those funds are, at a minimum intended to be used for the purpose of that particular fund.
- *Unassigned fund balance* - The residual portion of fund balance that does not meet any of the above criteria. The District will only report a positive unassigned fund balance in the General Fund.

NOTE B – EQUITY IN POOLED CASH AND INVESTMENTS

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

Cash Deposits

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 equal to 102 percent of the aggregate uninsured deposits. As of December 31, 2020, the District had no cash deposits.

Investments

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

As of December 31, 2020, the District had \$9,402 invested in the Colorado Surplus Asset Fund (CSafe), an investment vehicle established for local government entities in Colorado to pool surplus funds. CSafe operates similarly to a money market fund and each share is equal in value to \$1.00. A designated custodial bank provides safekeeping and depository services to CSafe in connection with the direct investment and withdrawal functions of CSafe. Substantially all securities owned by CSafe are held by the Federal Reserve Bank in the account maintained for the custodial bank. The custodian's internal records identify the investments owned by CSafe. CSafe funds carry a Standard & Poor's AAAM rating. There is no custodial, interest rate or foreign currency risk exposure.

Vail Square Metropolitan District No. 3

NOTES TO FINANCIAL STATEMENTS

December 31, 2020

NOTE B – EQUITY IN POOLED CASH AND INVESTMENTS – CONTINUED

CSafe operates like a 2a7-like external investment pool in the fair value hierarchy established by GASB 72. The underlying investments held by CSafe, and the District’s investment in CSafe, are valued at amortized cost which approximates fair value. There are no limitations on withdrawals.

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

Deposits	\$	–
CSafe		<u>9,402</u>
Equity in pooled cash and investments	\$	<u>9,402</u>

NOTE C – INTERGOVERNMENTAL AGREEMENTS

The District has entered into the following intergovernmental agreements:

Joint Funding Agreement

The Joint Funding Agreement generally provides that the Financing Districts will assess mill levies to collect property tax revenues which will be paid to the Operating District. The property tax revenues will be used by the Operating District to pay Financing Costs, which are defined as the principal and interest payments required by debt and interest rate swaps obtained or entered into by the Districts, including replenishment of debt reserve funds.

In 2020, the mill levy assessed for collection in 2021 was 35 mills in Vail Square Metropolitan District No. 2, with 32 mills allocated for the Joint Funding Agreement and 3 mills for the District Facilities Joint Financing, Construction and Service Agreement; and, 21.875 mills in Vail Square Metropolitan District No. 3, with 18.875 mills allocated for the Joint Funding Agreement and 3 mills for the District Facilities Joint Financing, Construction and Service Agreement. The portion of the annual bond costs to be paid by each Financing District will remain in the same proportion in future years.

District Facilities Joint Financing, Construction and Service Agreement

The Agreement generally provides an obligation for the Financing Districts to pay for the acquisition and construction of the Facilities (defined above), to the extent not funded by the Joint Funding Agreement (the Capital Obligation), and operation and maintenance of the Facilities and administrative expenses incurred by the Operating District (the Service Obligation). The Financing Districts are obligated to generate and pay to the Operating District certain tax and other revenues to fund the Capital Obligation and the Service Obligation. The amounts of these Obligations are offset with one another on the Statement of Net Position.

Vail Square Metropolitan District No. 3

NOTES TO FINANCIAL STATEMENTS

December 31, 2020

NOTE C – INTERGOVERNMENTAL AGREEMENTS – CONTINUED

The Operating District has recorded a capital and service obligation receivable from the Financing Districts as of December 31, 2020 in the amount of \$9,471,796 which represents unreimbursed costs incurred through that date for infrastructure construction and costs related to issuance of and debt service on the loans. This obligation payable to the Operating District has been allocated between the Financing Districts based on the Operating District's forecast of the future annual bond costs to be paid by each Financing District. Based upon this forecast, the amount of \$1,610,205 has been allocated to Vail Square Metropolitan District No. 3.

However, each Financing District is responsible to pay Financing Costs until the Operating District's loans have been fully repaid and the ultimate allocation of the Financing Costs between the Financing Districts will be dependent on the assessed value and mill levy of each Financing District over the life of the Operating District's loans.

In any given year the Financing Districts are obligated to fund such portion of the Capital and Service Obligations as may be funded with the District taxes available from imposition of a subordinate mill levy, together with other charges imposed by the Financing Districts.

The Agreement specifies certain termination rights on the part of the Districts. Various limitations and conditions to such termination rights exist and reference to the text of the Agreement should be made for specific terms.

Pledge Agreement

The Districts entered into an Intergovernmental Agreement with the Vail Reinvestment Authority.

Under this agreement and in consideration for the Districts' commitment to undertake construction of certain public improvements, the Vail Reinvestment Authority agrees to transfer to the Districts the District Tax Increment Revenues, to which the Authority would otherwise be entitled under an Urban Renewal Plan relating to the project.

NOTE D – COMMITMENTS AND CONTINGENCIES

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

Vail Square Metropolitan District No. 3

NOTES TO FINANCIAL STATEMENTS

December 31, 2020

NOTE E – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; injuries to employees, or acts of God. The District has elected to participate in the Colorado Special District Property and Liability Pool (the Pool) which is sponsored by the Special District Association of Colorado. The Pool provides property and general liability, automobile physical damage and liability, public official's liability and machinery coverage to its members. Members of the Pool are required to make additional surplus contributions. Any excess funds which the Pool determines are not needed for purposes of the Pool may be returned to the members pursuant to a distribution formula. During the year ended December 31, 2020 the Pool made no distributions to the District.

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

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

NOTE F – TABOR AMENDMENT

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

TABOR also requires local governments to establish emergency reserves to be used for declared emergencies only. Emergencies, as defined by TABOR, exclude economic conditions, revenue shortfalls, or salary or fringe benefit increases. These reserves are required to be 3% or more of the fiscal year spending (excluding bonded debt service) for fiscal years ended after December 31, 1994. At December 31, 2020, the District's emergency reserve was \$175.

Vail Square Metropolitan District No. 3

NOTES TO FINANCIAL STATEMENTS

December 31, 2020

NOTE F – TABOR AMENDMENT – CONTINUED

Under TABOR, the initial base for local government spending and revenue limits is December 31, 1992 fiscal year spending. The District's first year of operations ended December 31, 2006. Future spending and revenue limits are determined based on the prior year's fiscal year spending adjusted for inflation in the prior calendar year plus annual local growth. Fiscal year spending is generally defined as expenditures and reserve increases with certain exceptions. Revenue, if any, in excess of the fiscal year spending limit must be refunded in the next fiscal year unless voters approve retention of such revenue.

The electorate of the District authorized property taxes to be increased up to \$1,500,000 in 2005, plus up to \$3,000,000 in 2007, and each year thereafter to pay the Districts operations, maintenance, and other expenses, such amounts to increase annually in an amount not to exceed the applicable limitations of Article X, Section 20 of the Colorado Constitution and Colorado Law.

The District's electorate further approved that the District's taxes be increased \$120,000,000 annually, or by such lesser annual amount as may be necessary to pay the District's general or special obligation bonds, revenue bonds or other multiple fiscal year financial obligations, including contracts, issued for the purpose of refunding, paying or defeasing, in whole or in part, bonds, notes or other financial obligations of the District. Such taxes may consist of an ad valorem property tax mill levy imposed without limitation of rate and in amounts sufficient to produce the annual increase set forth above or such lesser amount as may be necessary. The revenue from such taxes and any other monies used to pay such general or special obligation bonds, revenue bonds or other multiple fiscal year financial obligations costs, and investment income thereon, may be collected and spent by the District without regard to any expenditure, revenue raising, or other limitation contained within Article X, Section 20 of the Colorado Constitution.

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

Vail Square Metropolitan District No. 3

NOTES TO FINANCIAL STATEMENTS

December 31, 2020

NOTE F – TABOR AMENDMENT – CONTINUED

On November 1, 2005 and November 6, 2007 the voters of the District authorized increases in debt as follows:

<u>Date of Authorization</u>	<u>Purpose</u>	<u>Amount</u>	<u>Authorization Used</u>	<u>Authorization Remaining</u>
11/1/2005	Street Facilities	\$ 20,000,000	\$ 3,338,449	\$ 16,661,551
11/1/2005	Drainage Facilities	2,000,000	–	2,000,000
11/1/2005	Security Facilities	1,000,000	–	1,000,000
11/1/2005	Traffic/Safety Protection Facilities	2,000,000	323,582	1,676,418
11/6/2007	Water Facilities	5,000,000	682,256	4,317,744
11/6/2007	Sanitary Sewer Facilities	5,000,000	682,256	4,317,744
11/6/2007	Parks and Recreation	5,000,000	962,346	4,037,654
11/6/2007	Public Transportation	5,000,000	–	5,000,000
11/6/2007	Mosquito Control	1,000,000	–	1,000,000
11/6/2007	Fire Protection	5,000,000	–	5,000,000
11/6/2007	Television Relay	1,000,000	91,111	908,889
11/1/2005	Refunding	40,000,000	–	40,000,000
	Total	<u>\$ 92,000,000</u>	<u>\$ 6,080,000</u>	<u>\$ 85,920,000</u>

NOTE G – RELATED PARTIES

The developer of the property which constitutes the District is Arrabelle at Vail Square, LLC. The members of the District’s Board of Directors are officers, employees, or others associated with the Developer and may have conflicts of interest in dealing with the District.

NOTE H – SIGNIFICANT TAXPAYER

The hotel complex located within the boundaries of District No. 3 represents all of the assessed valuation of that District. The County Assessor increased the assessed valuation of the hotel from \$12,706,140 in 2018 to \$28,646,250 in 2019 and 2020. The hotel owner has protested the 2019 and 2020 assessed valuations (which are the basis for taxes paid in 2020 and to be paid in 2021). The protest is currently being litigated in District Court. A portion of the property taxes for the hotel received in 2020 and the property taxes receivable in 2021 are subject to abatement if the District Court rules in favor of the hotel. The District has budgeted an allowance for this potential abatement in the District’s 2021 budget but has not deferred recognition of the tax revenue received in 2020.

SUPPLEMENTARY INFORMATION

Vail Square Metropolitan District No. 3

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

Year ended December 31, 2020

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Property taxes	\$ 642,421	\$ 642,421	\$ 642,422	\$ 1
Allowance for potential abatements	(175,000)	-	-	-
Specific ownership taxes	23,372	32,122	32,311	189
Interest income	3,000	250	195	(55)
Total revenues	<u>493,793</u>	<u>674,793</u>	<u>674,928</u>	<u>135</u>
Expenditures				
Intergovernmental agreement				
Transfer to VSMD No. 1	682,227	659,777	659,943	(166)
Allowance for potential abatements	(175,000)	-	-	-
Treasurer's fees	10,361	10,361	10,359	2
Contingency	(30,000)	-	-	-
Total expenditures	<u>487,588</u>	<u>670,138</u>	<u>670,302</u>	<u>(164)</u>
Excess of Revenues Over (Under) Expenditures	6,205	4,655	4,626	(29)
Other financing sources (uses)				
Transfers in (out)	(6,205)	(4,655)	(4,485)	170
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	-	-	141	141
Fund Balance - January 1	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance - December 31	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 141</u>	<u>\$ 141</u>

OTHER INFORMATION

Vail Square Metropolitan District No. 3

SUMMARY OF ASSESSED VALUATION, MILL LEVY AND PROPERTY TAXES COLLECTED

Year Ended December 31, 2020

Year Ending December 31,	Prior Year Net Assessed Valuation for Current Year Property Tax Levy	Mills Levied	Total Property Tax		Percent Collected to Levied
			Levied	Collected	
2008	\$ 180	25	\$ 5	\$ 5	100.0%
2009	8,951,400	25	223,785	160,379	71.7%
2010	7,421,000	25	185,525	185,513	100.0%
2011	6,319,180	25	157,980	157,972	100.0%
2012	4,531,910	25	113,298	113,283	100.0%
2013	4,443,210	25	111,080	111,080	100.0%
2014	4,897,360	25	122,434	122,234	99.8%
2015	4,635,620	25	115,891	116,107	100.2%
2016	5,448,760	21.875	119,192	119,176	100.0%
2017	5,139,910	21.875	112,436	112,436	100.0%
2018	7,626,730	21.875	166,835	166,835	100.0%
2019	7,442,030	21.875	162,794	162,808	100.0%
2020	15,787,780	21.875	345,358	345,353	100.0%
2021	15,778,220	21.875	345,149		

Notes:

Tax collections in 2009 were less than taxes levied because of a valuation protest by the sole owner of property in the District that was not resolved until after the taxes were levied.

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