

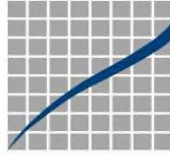
STERLING RANCH METROPOLITAN DISTRICT NO. 1

FINANCIAL STATEMENTS

DECEMBER 31, 2021

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BiggsKofford
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Sterling Ranch Metropolitan District No. 1
Colorado Springs, Colorado

Opinions

We have audited the accompanying financial statements of the governmental activities and each major fund of Sterling Ranch Metropolitan District No. 1 ("District"), as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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 the District as of December 31, 2021, the respective changes in financial position, and the budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of the report. We are required to be independent of the District and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in the United States of America will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with auditing standards generally accepted in the United States of America, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Other Matters

Required Supplementary Information

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which 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 opinions on the basic financial statements are not affected by this missing information.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. 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 supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

BiggsKofford, P.C.

Colorado Springs, Colorado
July 7, 2022

BASIC FINANCIAL STATEMENTS

STERLING RANCH METROPOLITAN DISTRICT NO. 1
STATEMENT OF NET POSITION
DECEMBER 31, 2021

	Governmental Activities
<u>ASSETS</u>	
Cash and investments	\$ 4,003
Cash and investments - restricted	14,109,649
Property taxes receivable	16,109
Due from District No. 2	150,067
Infrastructure assets	6,623,727
Total assets	20,903,555
<u>LIABILITIES</u>	
Accounts payable	25,444
Accrued interest payable	95,547
Noncurrent liabilities:	
Developer advances	242,810
Due in more than one year	22,620,324
Total liabilities	22,984,125
<u>DEFERRED INFLOWS OF RESOURCES</u>	
Deferred property tax revenues	16,109
Total deferred inflows of resources	16,109
<u>NET POSITION</u>	
Restricted for:	
Debt service	4,129,272
Capital projects	10,164,798
Emergency reserve	2,200
Unrestricted	(16,392,949)
Total net position	\$ (2,096,679)

The accompanying notes and independent auditor's report
should be read with these financial statements.

STERLING RANCH METROPOLITAN DISTRICT NO. 1

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2021

	Program Revenues			Net (Expenses) Revenue and Changes in Net Position
	Expenses	Charges for Services	Operating Grants and Contributions	
			Capital Grants and Contributions	Governmental Activities
FUNCTIONS/PROGRAMS				
<u>PRIMARY GOVERNMENT</u>				
General government	\$ 72,872	\$ -	\$ -	\$ (72,872)
Interest and related costs on long-term debt	1,184,816	-	-	(1,184,816)
Total governmental activities	\$ 1,257,688	\$ -	\$ -	(1,257,688)
<u>GENERAL REVENUES</u>				
Property taxes				3,636
Specific ownership taxes				423
Investment income				6,797
Total general revenues				10,856
Changes in net position				(1,246,832)
Net position, beginning of year				(849,847)
Net position, end of year				\$ (2,096,679)

The accompanying notes and independent auditor's report
should be read with these financial statements.

STERLING RANCH METROPOLITAN DISTRICT NO. 1
BALANCE SHEETS
GOVERNMENTAL FUNDS
DECEMBER 31, 2021

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>				
Cash and investments	\$ 4,003	\$ -	\$ -	\$ 4,003
Cash and investments - restricted	2,200	4,155,959	9,951,490	14,109,649
Property taxes receivable	2,685	13,424	-	16,109
Due from District No. 2	-	150,067	-	150,067
Due from other fund	-	-	213,308	213,308
Total assets	\$ 8,888	\$ 4,319,450	\$ 10,164,798	14,493,136
<u>LIABILITIES</u>				
Accounts payable	\$ 25,444	\$ -	\$ -	25,444
Due to other fund	54,534	158,774	-	213,308
Total liabilities	79,978	158,774	-	238,752
<u>DEFERRED INFLOWS OF RESOURCES</u>				
Deferred property tax revenues	2,685	13,424	-	16,109
Total deferred inflows of resources	2,685	13,424	-	16,109
<u>FUND BALANCE</u>				
Restricted for:				
Capital projects	-	-	10,164,798	10,164,798
Debt service	-	4,147,252	-	4,147,252
Emergency reserve	2,200	-	-	2,200
Unassigned:				
General government	(75,975)	-	-	(75,975)
Total fund balances	(73,775)	4,147,252	10,164,798	14,238,275
Total liabilities and fund balances	\$ 8,888	\$ 4,319,450	\$ 10,164,798	

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

Infrastructure assets are recorded as assets on the statement of net position, but are recorded as expenditures in the funds:

Infrastructure assets	6,623,727
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Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds:

Accrued interest payable	(95,547)
Developer advances	(242,810)
Bonds payable	(22,620,324)

Net position of governmental activities	\$ (2,096,679)
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The accompanying notes and independent auditor's report
should be read with these financial statements.

STERLING RANCH METROPOLITAN DISTRICT NO. 1
STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2021

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
<u>REVENUES</u>				
Property taxes	\$ 727	\$ 2,909	\$ -	\$ 3,636
Specific ownership taxes	84	339	-	423
Investment income	-	2,003	4,794	6,797
Total revenues	811	5,251	4,794	10,856
<u>EXPENDITURES</u>				
Accounting	12,250	-	-	12,250
Bank charges	1,097	-	-	1,097
County Treasurer's fees	11	44	-	55
Dues and subscriptions	526	-	-	526
Management fees	10,500	-	-	10,500
Office supplies	207	-	-	207
Professional fees	47,923	-	-	47,923
Debt service:				
Bond issuance costs	-	-	17,500	17,500
Interest expense	-	1,146,883	-	1,146,883
Trustee fees	-	4,000	-	4,000
Capital projects:				
Capital outlay	-	-	5,454,557	5,454,557
Total expenditures	72,514	1,150,927	5,472,057	6,695,498
Excess of revenues over (under) expenditures	(71,703)	(1,145,676)	(5,467,263)	(6,684,642)
<u>OTHER FINANCING SOURCES (USES)</u>				
Developer advances	-	-	45,180	45,180
Total other financing sources (uses)	-	-	45,180	45,180
Net change in fund balances	(71,703)	(1,145,676)	(5,422,083)	(6,639,462)
Fund balances, beginning of year	(2,072)	5,292,928	15,586,881	20,877,737
Fund balances, end of year	<u>\$ (73,775)</u>	<u>\$ 4,147,252</u>	<u>\$ 10,164,798</u>	<u>\$ 14,238,275</u>

The accompanying notes and independent auditor's report
should be read with these financial statements.

STERLING RANCH METROPOLITAN DISTRICT NO. 1
RECONCILIATION OF THE STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2021

Net change in fund balances - governmental funds	\$ (6,639,462)
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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 allocations of the cost of any depreciable assets over the estimated useful lives of the assets. The effect of these differences is as follows:

Infrastructure assets	5,454,557
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The issuance of long-term debt 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 and discounts when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The effect of these differences is as follows:

Amortization of bond premium	2,780
Developer advances	(45,180)

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. The effect of these differences is as follows:

Accrued interest payable on bonds payable - change in liability	(1,547)
Accrued interest payable on developer advances - change in liability	(17,980)

Changes in net position of governmental activities	\$ (1,246,832)
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The accompanying notes and independent auditor's report
should be read with these financial statements.

STERLING RANCH METROPOLITAN DISTRICT NO. 1
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
YEAR ENDED DECEMBER 31, 2021

	Budget		Actual Amounts	Variance
	Original	Final		
REVENUES				
Property taxes	\$ 1,200	\$ 723	\$ 727	\$ 4
Specific ownership taxes	100	57	84	27
Total revenues	1,300	780	811	31
EXPENDITURES				
Accounting	1,500	12,250	12,250	-
Bank charges	35	100	1,097	(997)
County Treasurer's fees	17	10	11	(1)
Dues and subscriptions	800	840	526	314
Intergovernmental	3,500	-	-	-
Legal fees	20,000	45,000	47,923	(2,923)
Management fees	5,000	10,500	10,500	-
Office supplies	-	400	207	193
Trustee fees	3,500	-	-	-
Total expenditures	34,352	69,100	72,514	(3,414)
Excess of revenues over (under) expenditures	(33,052)	(68,320)	(71,703)	(3,383)
OTHER FINANCING SOURCES (USES)				
Developer advance	35,000	70,395	-	(70,395)
Total other financing sources (uses)	35,000	70,395	-	(70,395)
Net change in fund balance	\$ 1,948	\$ 2,075	(71,703)	\$ (73,778)
Fund balance, beginning of year			(2,072)	
Fund balance, end of year			<u>\$ (73,775)</u>	

The accompanying notes and independent auditor's report
should be read with these financial statements.

STERLING RANCH METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021

1. DEFINITION OF REPORTING ENTITY

Sterling Ranch Metropolitan District No. 1 ("District"), a quasi-municipal corporation and political subdivision of the state of Colorado, was formed in June 2010, and is governed pursuant to provisions of the Colorado Special District Act. The District's service area is located in El Paso County, Colorado ("County"). The District was organized for the purpose of providing financing, construction, installation, operation and maintenance of public infrastructure and improvements.

The District was organized in conjunction with Sterling Ranch Metropolitan District No. 2 ("District No. 2") and Sterling Ranch Metropolitan District No. 3 ("District No. 3"). As of December 31, 2021, District No. 1 is the controlling district and District Nos. 2 and 3 are the financing districts and will produce the required revenue to fund public improvements and any operations and maintenance costs.

Effective February 25, 2022, District Nos. 1, 2, and 3 amended the service plan, and District No. 3 became the coordinating district and District Nos. 1 and 2 are designated as the financing districts. District No. 3 will perform the administrative services on behalf of District Nos. 1 and 2.

The District follows 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 and potential for the organization to provide specific financial benefits or burdens and fiscal dependency.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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. Material interfund activity has been removed from these statements. Governmental activities are normally supported by taxes and intergovernmental revenues.

See independent auditor's report.

STERLING RANCH METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government-wide and fund financial statements (continued)

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

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: a) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or segment; and b) grants and contributions that are restricted to meet the operational or capital requirements of a particular function or segment. Taxes and other items are properly excluded from program revenues and 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 position

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 when they are both measurable and available. Revenues are considered to be available when they are collectable 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 is due.

The District reports the following major governmental funds:

General fund - The general fund accounts for all financial resources of the District except those required to be accounted for in another fund.

See independent auditor's report.

STERLING RANCH METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement focus, basis of accounting and financial statement position (continued)

Debt service fund - The debt service fund accounts for the servicing of general long-term debt and revenues generated and received by the District to be used in payment of long-term debt.

Capital projects fund - The capital projects fund accounts for financial resources to be used for the acquisition and construction of capital equipment and facilities.

Budgets

In accordance with state budget law, the District holds public hearings in the fall each year to approve the budget and appropriate funds for the ensuing year. The appropriation is at the total fund expenditures, fund balance remaining, 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, 2021.

The District incurred expenditures in excess of appropriations for the year ended December 31, 2021, in the general and debt service funds which may be a violation of state budget law.

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.

See independent auditor's report.

STERLING RANCH METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 and attaches as an enforceable lien 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, at the taxpayer's election, in February and June in equal installments. Delinquent taxpayers are notified in August and sales of the tax liens on delinquent properties are generally held in November or December. The County Treasurer remits the taxes collected to the District monthly.

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

Infrastructure assets

Costs of certain engineering, feasibility, environmental and other infrastructure costs are capitalized as infrastructure assets, and are not depreciated. Upon completion of the infrastructure assets and acceptance, the assets will be contributed to the County.

Amortization

Original issue premium

In the government-wide financial statements, bond discounts 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 discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

See independent auditor's report.

STERLING RANCH METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenues) until that time. The District has one item that qualifies for reporting in this category. Accordingly, that item, deferred property tax revenues, is deferred and recognized as an inflow of resources in the period the amounts become available.

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 balances

Fund balance for governmental funds is 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 is 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.

See independent auditor's report.

STERLING RANCH METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund balances (continued)

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 policy to use the most restrictive classification first.

The District's General Fund had a deficit fund balance as of December 31, 2021. This deficit was eliminated with an advance received from the developer in 2022.

3. CASH AND INVESTMENTS

Cash and investments as of December 31, 2021, are classified in the accompanying financial statements as follows:

Statement of net position:

Cash and investments	\$ 4,003
Cash and investments - restricted	<u>14,109,649</u>
	<u><u>\$ 14,113,652</u></u>

The carrying amounts of cash and investments, which equal estimated fair value, as of December 31, 2021, are as follows:

Deposits with financial institutions	\$ 6,203
Investments	<u>14,107,449</u>
	<u><u>\$ 14,113,652</u></u>

See independent auditor's report.

STERLING RANCH METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021

3. CASH AND INVESTMENTS (CONTINUED)

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. The 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 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.

As of December 31, 2021, the District's cash deposits had a bank balance of \$262,516 and a book balance of \$6,203.

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 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 disclosure requirements or subject to investment custodial credit risk for investments that are in the possession of another party.

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

See independent auditor's report.

STERLING RANCH METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021

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 US and certain US government agency securities
- Certain international agency securities
- General obligation and revenue bonds of US local government entities
- Bankers' acceptances of certain banks
- Commercial paper
- Written repurchase agreements collateralized by certain authorized securities
- Certificates of deposit in Colorado PDPA approved banks or savings banks
- Certain money market funds
- Guaranteed investment contracts
- Local government investment pools

As of December 31, 2021, the District had the following in investments:

<u>Investment</u>	<u>Maturity</u>	<u>Amount</u>
Colorado Surplus Asset Trust (CSAFE)	Weighted average under 60 days	<u>\$ 14,107,449</u>

Investments (continued)

CSAFE

The District invested in the Colorado Surplus Asset Fund Trust ("CSAFE" or "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. CSAFE may invest in US Treasury securities, repurchase agreements collateralized by US 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 District records its investments in CSAFE using the amortized cost method. There are no unfunded commitments, the redemption frequency is daily and there is no redemption notice period.

See independent auditor's report.

STERLING RANCH METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021

4. INFRASTRUCTURE ASSETS

Infrastructure asset activity for the year ended December 31, 2021, is as follows:

	Balance 1/1/2021	Additions/ Reclass- ifications	Dispositions/ Reclass- ifications	Balance 12/31/21
Infrastructure assets	\$ 1,169,170	\$ 5,454,557	\$ -	\$ 6,623,727

5. LONG-TERM OBLIGATIONS

The following is a summary of long-term debt of the District during the year ended December 31, 2021:

	Balance 1/1/2021	Additions	Repayments/ Accretion	Balance 12/31/21	Due within one year
General obligation bonds					
Series 2020					
Bonds	\$ 22,560,000	\$ -	\$ -	\$ 22,560,000	\$ -
Series 2020					
Premium	63,104	-	(2,780)	60,324	-
Subtotal	22,623,104	-	(2,780)	22,620,324	-
Other debt					
Developer advance -					
Capital	179,650	45,180	-	224,830	-
Accrued interest:					
Developer advance -					
Capital	-	17,980	-	17,980	-
Subtotal	179,650	63,160	-	242,810	-
Total long-term obligations	\$ 22,802,754	\$ 63,160	\$ (2,780)	\$ 22,863,134	\$ -

See independent auditor's report.

STERLING RANCH METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
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5. LONG-TERM OBLIGATIONS (CONTINUED)

Series 2020 General Obligation Limited Tax Bonds

On December 1, 2020, the District issued Series 2020 General Obligation Limited Tax Bonds ("Series 2020 Bonds") for the purpose of: (i) financing the cost of acquisition, construction, and installation of certain public improvements; (ii) funding the initial deposit to the surplus fund; (iii) funding the capitalized interest on the bonds; and (iv) paying other costs incurred in connection with the issuance of the Series 2020 Bonds. The Series 2020 Bonds were issued in the amounts as follows: (a) \$7,705,000, plus an original issue premium of \$63,104; bearing interest at 5.000%; and maturing on December 1, 2040; and (b) \$14,855,000; bearing interest at 5.125%; and maturing on December 1, 2050. The interest on the Series 2020 Bonds is calculated on the basis of a 360-day year of twelve 30-day months, payable to the extent of pledged revenues available on each June 1 and December 1.

The District is required to maintain bond payment, surplus, and project cash accounts. The purpose of the surplus cash account is to provide adequate funding to meet principal and interest requirements if the bond account does not have enough funding. The surplus account is required to be maintained as long as the bonds are outstanding.

The Series 2020 Bonds are secured and payable from pledged revenue consisting of monies derived by the District from the following sources, net of any collection costs: (a) the required mill levy; (b) capital fees; (c) portion of the specific ownership tax which is collected as a result of imposition of the required mill levy; and (d) any other legally available monies which the District determines to be treated as pledged revenue. The Series 2020 Bonds are also secured by amounts held by the trustee in the surplus fund. Required mill levy means an ad valorem mill levy imposed upon all taxable property within the District each year in an amount sufficient to pay the principal, premium, and interest on the bonds as they become due and payable. The maximum required mill levy is 50.000 mills, adjusted for changes in the ratio of actual value to assessed value of property within the District. For collection year 2021, the District levied 44.531 mills for the debt service fund.

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STERLING RANCH METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021

5. LONG-TERM OBLIGATIONS (CONTINUED)

Series 2020 General Obligation Limited Tax Bonds (continued)

Optional redemption

The Series 2020 Bonds are subject to redemption prior to maturity, at the option of the District, as a whole or in integral multiples of \$1,000, in any order of maturity and in whole or partial maturities, on December 1, 2025, and on any date thereafter, upon payment of par, accrued interest, and a redemption premium on the principal amount redeemed, as follows:

Date of Redemption	Redemption Premium
December 1, 2025 to November 30, 2026	3.00%
December 1, 2026 to November 30, 2027	2.00%
December 1, 2027 to November 30, 2028	1.00%
December 1, 2028 and thereafter	0.00%

Events of default

The occurrence of any one or more of the following events or the existence of any one or more of the following conditions constitutes an event of default under the indenture:

- i. The District fails or refuses to impose the required mill levy or to apply the pledge revenue as required by the indenture.
- ii. The District defaults in the performance or observance of any of the covenants, agreements, or conditions on the part of the District in the indenture or the bond resolution.
- iii. The District files a petition under the federal bankruptcy laws or other applicable bankruptcy laws seeking to adjust the obligation represented by the bonds.

It is acknowledged that, due to the limited nature of the pledged revenue, the failure to pay the principal of or interest on the bonds when due does not, in itself, constitute an event of default under the indenture.

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STERLING RANCH METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021

5. LONG-TERM OBLIGATIONS (CONTINUED)

Series 2020 General Obligation Limited Tax Bonds (continued)

Remedies

Upon the occurrence and continuance of an event of default, the trustee has the following rights and remedies which may be pursued:

i. Receivership: Upon the filing of a bill in equity or other commencement of judicial proceedings to enforce the rights of the trustee and of the owners, the trustee is entitled to as a matter of right to the appointment of a receiver or receivers of the trust estate, and of the revenues, income, product, and profits thereof pending such proceedings, subject however, to constitutional limitations inherent in the sovereignty of the District; but notwithstanding the appointment of any receiver or other custodian, the trustee is to be entitled to the possession and control of any cash, securities, or other instruments at the time held by, or payable or deliverable under the provisions of the indenture to the trustee.

ii. Suit for judgment: The trustee may proceed to protect and enforce its rights and the rights of the owners by suit, action, or special proceedings as the trustee, being advised by counsel, deems appropriate.

iii. Mandamus or other suit: The trustee may proceed by mandamus or any other suit, action, or proceeding at law or in equity, to enforce all rights of the owners.

Notwithstanding the foregoing, acceleration is not to be an available remedy for an event of default.

See independent auditor's report.

STERLING RANCH METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021

5. LONG-TERM OBLIGATIONS (CONTINUED)

Series 2020 General Obligation Limited Tax Bonds (continued)

The District's long-term obligations on the 2020 Series Bonds mature as follows:

Year Ending December 31,	Principal Payments	Interest/ Accretion	Total
2022	\$ -	\$ 1,146,569	\$ 1,146,569
2023	-	1,146,569	1,146,569
2024	-	1,146,569	1,146,569
2025	-	1,146,569	1,146,569
2026	-	1,146,569	1,146,569
2027-2031	1,525,000	5,635,095	7,160,095
2032-2036	2,940,000	5,079,345	8,019,345
2037-2041	4,185,000	4,226,095	8,411,095
2042-2046	5,860,000	3,002,737	8,862,737
2047-2050	8,050,000	1,198,995	9,248,995
Total	<u>\$ 22,560,000</u>	<u>\$ 24,875,112</u>	<u>\$ 47,435,112</u>

Developer advances

In October 2015, the District entered into a reimbursement agreement with the developer under which the District will reimburse the developer for the cost of acquisition improvements that benefit the District and development within the District. The District agreed to repay such advances plus simple interest at a rate set forth at the time of the initial issuance. The interest rate established in the reimbursement agreement set at the prime rate plus 2%. As of December 31, 2021, the developer advances payable totaled \$224,830 and accrued interest related to the developer advance totaled \$17,980.

See independent auditor's report.

STERLING RANCH METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021

6. NET POSITION

The District has a net position consisting of two components: restricted and unrestricted.

Restricted net position includes balances with external restrictions 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, 2021, as follows:

Restricted net position:	
Debt service (Note 5)	\$ 4,129,272
Capital projects (Note 4)	10,164,798
Emergency reserve (Note 10)	<u>2,200</u>
Total restricted net position	<u>\$ 10,166,998</u>

The District's unrestricted net position as of December 31, 2021, totaled a deficit of \$16,392,949. This deficit amount was a result of the District's responsibility for the repayment of general obligation bonds issued to fund infrastructure.

7. RELATED PARTIES

The members of the board of directors are officers, employees or associated with the developer and may have conflicts of interest in dealing with the District.

8. ECONOMIC DEPENDENCY

The District has not yet established a revenue base sufficient to pay operational and capital expenditures and meet debt service requirements. Until an independent revenue base is established, continuation of operations in the District and construction of public improvements will be dependent upon funding by a developer.

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 ("Pool") as of December 31, 2021. 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.

See independent auditor's report.

STERLING RANCH METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021

9. RISK MANAGEMENT (CONTINUED)

The District pays annual premiums to the Pool for liability, property 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.

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 within the state of Colorado.

Spending and revenue limits are determined based on the prior 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. Revenues in excess of the fiscal year spending limit must be refunded unless the voters approve retention of such revenues.

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.

On November 2, 2010, the District's voters approved for an annual increase in taxes of \$5,000,000 for general operations and maintenance without limitation of rate. This election question allowed the District to collect and spend the additional revenue without regard to any spending, revenue raising, or other limitations contained within TABOR.

District management believes the District 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 likely require judicial interpretation.

See independent auditor's report.

STERLING RANCH METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021

11. RESTATEMENT

The District restated its fund balance as of January 1, 2021, to account for bonds payable and developer advances in the proper funds, as follows:

	General Fund	Debt Service Fund	Capital Projects Fund
Fund balances, as originally stated	\$ (4,924)	\$ 20,882,661	\$ -
Bond issuance costs	-	690,343	(690,343)
Bond issuance proceeds	-	(22,560,000)	22,560,000
Developer advances	-	(176,100)	176,100
Transfers (to) from other funds	2,852	6,456,024	(6,458,876)
Fund balances, as restated, as of January 1, 2021	\$ (2,072)	\$ 5,292,928	\$ 15,586,881

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See independent auditor's report.

SUPPLEMENTARY INFORMATION

STERLING RANCH METROPOLITAN DISTRICT NO. 1
DEBT SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
YEAR ENDED DECEMBER 31, 2021

	Budget		Actual Amounts	Variance
	Original	Final		
<u>REVENUES</u>				
Property taxes	\$ 6,000	\$ 2,894	\$ 2,909	\$ 15
Specific ownership tax	500	250	339	89
Investment income	3,000	1,800	2,003	203
Total revenues	9,500	4,944	5,251	307
<u>EXPENDITURES</u>				
Bank charges	-	350	-	350
County Treasurer's fees	84	60	44	16
Interest expense	1,146,569	1,146,569	1,146,883	(314)
Trustee fees	-	-	4,000	(4,000)
Total expenditures	1,146,653	1,146,979	1,150,927	(3,948)
Excess of revenues over (under) expenditures	(1,137,153)	(1,142,035)	(1,145,676)	(3,641)
Net change in fund balance	\$ (1,137,153)	\$ (1,142,035)	(1,145,676)	\$ (3,641)
Fund balance, beginning of year			5,292,928	
Fund balance, end of year			\$ 4,147,252	

See independent auditor's report.

STERLING RANCH METROPOLITAN DISTRICT NO. 1
CAPITAL PROJECTS FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
YEAR ENDED DECEMBER 31, 2021

	Budget		Actual Amounts	Variance
	Original	Final		
REVENUES				
Investment income	\$ 10,000	\$ 6,000	\$ 4,794	\$ (1,206)
Total revenues	10,000	6,000	4,794	(1,206)
EXPENDITURES				
Bank charges	1,500	1,000	-	1,000
Bond issuance costs	-	-	17,500	(17,500)
Capital outlay	-	7,800,000	5,454,557	2,345,443
Total expenditures	1,500	7,801,000	5,472,057	2,328,943
Excess of revenues over (under) expenditures	8,500	(7,795,000)	(5,467,263)	2,327,737
OTHER FINANCING SOURCES (USES)				
Developer advances	-	-	45,180	45,180
Total other financing sources (uses)	-	-	45,180	45,180
Net change in fund balance	<u>\$ 8,500</u>	<u>\$ (7,795,000)</u>	(5,422,083)	<u>\$ 2,372,917</u>
Fund balance, beginning of year			15,586,881	
Fund balance, end of year			<u>\$ 10,164,798</u>	

See independent auditor's report.