

VILLAGE EAST METROPOLITAN DISTRICT NO.3

WELD COUNTY, COLORADO

FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITORS' REPORT

December 31, 2021



Crady, Puca & Associates

Certified Public Accountants & Consultants

VILLAGE EAST METROPOLITAN DISTRICT NO.3
WELD COUNTY, COLORADO

Table of Contents

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT.....	i-ii
Basic Financial Statements:	
Government – wide Financial Statements:	
Statement of Net Position.....	1
Statement of Activities.....	2
Fund Financial Statements:	
Balance Sheet – Governmental Funds	3
Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds	4
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of the Governmental Funds to the Statement of Activities.....	5
Notes to Financial Statements.....	6-18
Required supplementary information:	
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund.....	19
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Operations Fund.....	20
Supplementary Information:	
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Debt Service Fund	21



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
of the Village East Metropolitan District No.3

Opinions

We have audited the accompanying financial statements of the governmental activities and each major fund of the Village East Metropolitan District No.3 as of and for the year ended December 31, 2021, and related notes to the financial statements, which collectively comprise Village East Metropolitan District No.3'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 Village East Metropolitan District No.3 as of December 31, 2021, and the respective changes in financial position 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 our report. We are required to be independent of Village East Metropolitan District No.3, 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 Village East Metropolitan District No.3's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

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 generally accepted auditing standards 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 generally accepted auditing standards, 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 Village East Metropolitan District No.3'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 Village East Metropolitan District No.3'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.

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, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinions on the basic financial statements are not affected by this missing information.

Accounting principles generally accepted in the United States of America require budgetary comparison information be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Village East Metropolitan District No. 3's basic financial statements. The individual fund budgetary comparison schedule on page 21 is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

The individual budgetary comparison 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 individual fund budgetary schedule is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Crady, Puca & Associates

Aurora, Colorado
June, 24 2022

GOVERNMENT-WIDE FINANCIAL STATEMENTS

VILLAGE EAST METROPOLITAN DISTRICT NO. 3
Statement of Net Position
December 31, 2021

	Total Governmental Activities
Assets:	
Cash and investments - unrestricted	\$ 13,812
Accounts receivable - residents	17,377
Due from county treasurer	735
Property tax receivable	190,180
Cash and investments - restricted	277,234
Capital assets:	
Depreciable, net	<u>1,130,156</u>
Total assets	<u>1,629,494</u>
Liabilities:	
Accounts payable	5,456
Accrued interest	103,248
Bonds payable:	
Due within one year	25,000
Due in more than one year	1,875,000
Developer payable:	
Due in more than one year	<u>6,237,280</u>
Total liabilities	<u>8,245,984</u>
Deferred inflows of resources:	
Unavailable revenue - prepaid assessments	15,191
Unavailable revenue - property taxes	<u>190,180</u>
Total deferred inflows of resources	<u>205,371</u>
Net position:	
Net investment in capital assets	-
Restricted for emergencies	4,820
Restricted for operations and capital reserves	102,293
Restricted for debt service	173,736
Unrestricted	<u>(7,102,710)</u>
Total net position	<u>\$ (6,821,861)</u>

The accompanying notes are an integral part of this financial statement.

VILLAGE EAST METROPOLITAN DISTRICT NO. 3
Statement of Activities
For the Year Ended December 31, 2021

	Total Governmental Activities
Expenditures:	
Governmental activities:	
Accounting and audit	\$ 22,088
Legal	7,836
Insurance and bonds	3,062
Dues	541
Treasurer fees	2,660
Bank fees	13
Trustee fees	5,500
District management services	17,239
Utilities	9,410
Landscape and maintenance	56,722
Miscellaneous	687
Depreciation	54,686
Interest on long-term debt	109,042
Total expenditures	289,486
Program Revenues:	
Homeowner assessments	130,680
Total program revenues	130,680
Net program income (expense)	(158,806)
General Revenues:	
Property and specific ownership taxes	186,092
Interest income	243
Other income	3,345
Total general revenues	189,680
Change in net position	30,874
Net position, beginning of year	(6,852,735)
Net position, end of year	\$ (6,821,861)

The accompanying notes are an integral part of this financial statement.

FUND FINANCIAL STATEMENTS

VILLAGE EAST METROPOLITAN DISTRICT NO. 3
Balance Sheet
Governmental Funds
December 31, 2021

	General Fund	Operations Fund	Debt Service Fund	Total Governmental Funds
Assets:				
Cash and investments - unrestricted	\$ 13,812	\$ -	\$ -	\$ 13,812
Accounts receivable - residents	-	17,377	-	17,377
Due from county treasurer	105	-	630	735
Property tax receivable	27,171	-	163,009	190,180
Cash and investments - restricted	-	104,128	173,106	277,234
Total assets	\$ 41,088	\$ 121,505	\$ 336,745	\$ 499,338
Liabilities:				
Accounts payable	\$ 5,456	\$ -	\$ -	\$ 5,456
Total liabilities	5,456	-	-	5,456
Deferred inflows of resources:				
Unavailable revenue - prepaid assessments	-	15,191	-	15,191
Unavailable revenue - property taxes	27,171	-	163,009	190,180
Total deferred inflows of resources	27,171	15,191	163,009	205,371
Fund balance:				
Restricted for emergencies	799	4,021	-	4,820
Restricted for debt service	-	-	173,736	173,736
Restricted for operations and capital replacements	-	102,293	-	102,293
Unassigned	7,662	-	-	7,662
Total fund balance	8,461	106,314	173,736	288,511
Total liabilities, deferred inflows of resources, and fund balances	\$ 41,088	\$ 121,505	\$ 336,745	\$ 499,338

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

Total fund balance - governmental funds	288,511
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds.	1,130,156
Long-term liabilities are not due and payable in the current period, and therefore, are not reported in the funds.	(8,240,528)
Net position of governmental activities	\$ (6,821,861)

The accompanying notes are an integral part of this financial statement.

VILLAGE EAST METROPOLITAN DISTRICT NO. 3
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
December 31, 2021

	General Fund	Operations Fund	Debt Service Fund	Total Governmental Funds
Revenues:				
Property tax	\$ 25,313	\$ -	\$ 151,887	\$ 177,200
Specific ownership tax	1,270	-	7,622	8,892
Homeowner assessments	-	130,680	-	130,680
Interest income	50	-	193	243
Other income	-	3,345	-	3,345
Total revenues	26,633	134,025	159,702	320,360
Expenditures:				
Current:				
General government:				
Accounting and audit	14,009	8,079	-	22,088
Legal	4,126	3,710	-	7,836
Insurance and bonds	3,062	-	-	3,062
Dues	541	-	-	541
Treasurer fees	380	-	2,280	2,660
Bank fees	-	-	13	13
Trustee fees	-	-	5,500	5,500
District management services	-	17,239	-	17,239
Utilities	-	9,410	-	9,410
Landscape and maintenance	-	56,722	-	56,722
Miscellaneous	12	675	-	687
Debt service:				
Principal	-	-	20,000	20,000
Interest	-	-	85,805	85,805
Total expenditures	22,130	95,835	113,598	231,563
Net change in fund balance	4,503	38,190	46,104	88,797
Fund balance, beginning of year	3,958	68,124	127,632	199,714
Fund balance, end of year	\$ 8,461	\$ 106,314	\$ 173,736	\$ 288,511

The accompanying notes are an integral part of this financial statement.

VILLAGE EAST METROPOLITAN DISTRICT NO. 3
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund
Balance of the Governmental Funds to the Statement of Activities
December 31, 2021

	Total Governmental Funds
	<hr/>
Net change in fund balance of the governmental funds	\$ 88,797
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeds capital outlays in the current year.	(54,686)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal on long-term debt consumes the current financial resources of governmental funds. This amount is the net effect of these differences in the treatment of long-term debt.	20,000
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 the governmental funds.	<u>(23,237)</u>
Change in net position of governmental activities	<u><u>\$ 30,874</u></u>

The accompanying notes are an integral part of this financial statement.

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

The accounting policies of the Village East Metropolitan District No. 3 (the District) conform to accounting principles generally accepted in the United States of America as applicable to governments (US GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of such significant policies consistently applied in the preparation of the financial statements.

Reporting Entity

The District is a quasi-municipal corporation organized by a court order dated March 6, 2009 and operated pursuant to provisions set forth in the Colorado Special District Act. The District was organized concurrently with Village East Metropolitan District No. 1 ("District No.1") and Village East Metropolitan District No. 2 ("District No. 2"). The District was established for the primary purpose of funding, constructing, owning and operating certain public infrastructure and assisting in the coordination of metropolitan district services and facilities to support the needs of a planned residential development in Weld County, Colorado.

The District is to convey the completed public improvements, other than parks and recreation and non-potable water, to the Town of Windsor or other appropriate jurisdictions.

The District complies with GASB accounting pronouncements, which provide guidance for determining which governmental activities, organizations, and functions should be included within the financial reporting entity. It defines component units as legally separate entities for which the elected officials of the primary government are financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading. Financial accountability includes, but is not limited to, appointment of a voting majority of the organization's governing body, ability to impose its will on the organization, a potential for the organization to provide specific financial benefits or burdens, and fiscal dependency.

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

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

Basis of Presentation

While separate government-wide and fund financial statements are presented, they are interrelated. The government-wide financial statements (i.e. the statement of net position and the statement of activities) report information on all of the governmental activities of the District which are financed primarily by property taxes and homeowner assessments.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by general and program revenues. Direct expenses are those that are clearly identifiable within a specific function or program. Program revenues include 1) fees or charges to citizens and other governmental entities that receive or directly benefit from services provided by a given function or program, and 2) grants, contributions and other revenues that are restricted to use in the operational or capital requirements of a specific function or program. Other revenues not directly related to a particular function or program, if any, are reported separately as general revenues. The District does not have proprietary or fiduciary funds.

1. **Summary of Significant Accounting Policies (continued)**

Basis of Presentation (continued)

The fund financial statements provide information about the government's funds.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current *financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues available if they are collected within 60 days of the end of the current fiscal period except for homeowner assessments. Homeowner assessments are recognized as revenues when the assessment is incurred. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. The exceptions to this general rule are that principal and interest on general long-term debt are recognized when due. General capital asset acquisitions are reported as expenditures in governmental funds.

The District reports the following major governmental funds:

General Fund – is the District's primary operating fund. It accounts for all financial resources of the District not accounted for in another fund.

Operations Fund – the operations fund is a special revenue fund which accounts for fees collected and related expenditures for services provided to homeowners.

Debt Service Fund - accounts for payments on general obligation bond debt and developer debt.

1. **Summary of Significant Accounting Policies (continued)**

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

Deposits and Investments

The District records certain investments at fair value. Investments held in the local government investment pool are reported at net asset value as allowed under US GAAP.

The District may at times follow the practice of pooling cash and investments of all funds to maximize investment earnings. Except when required by regulations or other agreements, all cash is deposited and disbursed from a minimum number of bank accounts. Cash in excess of immediate operating requirements may be pooled for deposit and flexibility. As applicable, investment earnings are allocated periodically.

Fair Value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The District categorizes its fair value within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted market prices in active markets for identical assets; level 2 inputs are significant other observable inputs; and level 3 inputs are significant unobservable inputs. At December 31, 2021, the District did not hold any investments required to be reported under fair value.

Accounts Receivable

Accounts receivable consist of homeowners assessments earned as of December 31, 2021. The District considers all receivables collectible as of December 31, 2021.

Property Taxes

Property taxes are levied annually and attach as an enforceable lien on property as of January 1. At the option of the taxpayer, property taxes may be paid in full or in two equal installments. The first of such installment is to be paid as of February 28 and the second installment is to be paid no later than June 15. If elected to be paid in full, the amount is to be paid no later than April 30. If payments are not made timely, delinquent interest accrues. If the taxes are not paid within subsequent statutory periods, the property tax lien will be sold at public auction. The County bills and collects the property taxes and remits collections to the District on a monthly basis. No provision has been made for uncollected taxes, as all taxes are deemed collectible.

Property taxes are recorded initially as deferred inflows in the year they are levied and measurable since they are not normally available nor are they budgeted as a resource until the subsequent year. These amounts are recorded as revenue in the subsequent year when they are available or collected.

1. Summary of Significant Accounting Policies (continued)

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (continued)

Capital Assets

Capital assets, which include parks and recreation and infrastructure assets, are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the District as assets with an initial cost of \$5,000 or more and an estimated useful life in excess of one year. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at the estimated fair value at the date of donation. Capital expenditures for projects are capitalized as constructed.

Normal maintenance and repairs that do not add value to assets or materially extend the life of assets are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the capital assets. Depreciation is reported as a current charge in the statement of activities.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Parks and recreation	25
Non-potable water Infrastructure	25

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. In the current year, the District did not have any items in this reporting category.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time frame. The District has two items that qualify for reporting in this category, *unavailable revenue – prepaid assessments and unavailable revenue-property taxes*. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Long-Term Obligations

In the government-wide financial statements, long-term debt is reported as a liability in the applicable governmental activity.

1. **Summary of Significant Accounting Policies (continued)**

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (continued)

Fund Balance

In the fund financial statements, governmental funds report aggregate amounts for five classes of fund balances on the constraints imposed on the use of these resources. The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not spendable in form which include items such as prepaid items or inventories; or (b) legally or contractually required to be maintained intact.

The spendable portion of the fund balance comprises the remaining four classifications: restricted, committed, assigned, and unassigned.

Restricted fund balance. This classification reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed fund balance. These amounts can only be used for specific purposes pursuant to constraints imposed by formal resolutions of the District's Board of Directors, the District's highest level of decision-making authority.

Assigned fund balance. This classification reflects the amounts constrained by the District's intent to be used for specific purposes, but are neither restricted nor committed. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as nonspendable and are neither restricted nor committed. As of December 31, 2021, the District had not adopted a policy designating District personnel to determine amounts that may be assigned.

Unassigned fund balance. This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. Although not included in a formal policy, the District considers decreases in fund balance to first reduce committed, then assigned, and then unassigned balances, in that order.

Net Position

Net position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors, laws or regulations of other governments.

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted-net position and unrestricted-net position in the government-wide financial statements, a flow assumption must be made about the order in which resources are considered to be applied. It is the District's policy to consider restricted-net position to have been depleted before unrestricted-net position is applied.

1. **Summary of Significant Accounting Policies (continued)**

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (continued)

Use of Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. **Stewardship, Compliance, and Accountability**

Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with US GAAP. State law requires the District to adopt annual appropriated budgets for all funds.

The District conforms to the following procedures, in compliance with Colorado Revised Statutes, in establishing the budgetary data reflected in the financial statements:

On or before October 15 of each year, the District's accountant submits to the Board of Directors a recommended budget which details the necessary property taxes needed along with other available revenues to meet the District's operating requirements.

After a required publication of "Notice of Proposed Budget" and a public hearing, the District adopts the proposed budget and an appropriating resolution, which legally appropriates expenditures for the upcoming year.

Prior to December 15, the District computes and certifies to the County Commissioners a rate of levy that derives the necessary property taxes as computed in the proposed budget.

The budget and the appropriating resolution are adopted prior to December 31.

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) it may approve supplemental appropriations to the extent of revenues in excess of the estimated revenues in the budget; (c) it may approve emergency appropriations; and (d) it may approve the reduction of appropriations for which originally estimated revenues are insufficient. The budget is only amended in conformity with Colorado Revised Statutes which allows the District to amend the budget and adopt a supplementary appropriation if money for a specific purpose, other than ad valorem taxes, becomes available to meet a contingency.

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

VILLAGE EAST METROPOLITAN DISTRICT NO. 3
Notes to Financial Statements
December 31, 2021

2. Stewardship, Compliance, and Accountability (continued)

TABOR Amendment - Revenue and Spending Limitation 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 that apply to the State of Colorado and local governments. Spending and revenue limits are determined based upon inflation and local growth. Fiscal Year Spending is generally defined as expenditures plus reserve increases with certain exceptions. Revenue in excess of the Fiscal Year Spending limit must be refunded unless the voters approve retention of such revenue.

TABOR 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 must be at least 3% of Fiscal Year Spending (excluding bonded debt service, federal grants and sales of assets). The District has reserved a portion of its December 31, 2021 year-end fund balance in the General Fund and Operations Fund for emergencies as required under TABOR totaling \$4,820 which is the approximate required reserve at December 31, 2021.

On November 4, 2008, a majority of the District's electors authorized the District to collect and spend or retain in a reserve all current levied taxes and fees of the District without regard to any limitations under Article X, Section 20 of the Colorado Constitution.

The District's management believes it is in compliance with the provisions of TABOR, as it is currently understood. However, TABOR is complex and subject to interpretation. Many of the provisions may not become fully understood without judicial review.

3. Detailed Notes on the Funds

Deposits and Investments

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

Cash and investments - unrestricted	\$ 13,812
Cash and investments - restricted	<u>277,234</u>
	<u>\$ 291,046</u>

The following is a summary of deposits and investments held by the District at December 31, 2021:

<u>Type</u>	<u>Ratings per Standards & Poor's</u>	<u>Carrying Value</u>
Deposits with financial institutions		\$ 68,540
COLOTRUST PLUS+	AAAm	<u>222,506</u>
Total		<u>\$ 291,046</u>

3. **Detailed Notes on the Funds (continued)**

Cash Deposits

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

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

Investments

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

As of December 31, 2021, the District invested in the Colorado Local Governmental Liquid Asset Trust (COLOTRUST), a local government investment vehicle established for local governmental entities in Colorado to pool surplus funds. COLOTRUST offers three investment options, one of which is COLOTRUST PLUS+. As an investment pool, COLOTRUST operates under the Colorado Revised Statutes (24-75-701) and is overseen by the Colorado Securities Commissioner. COLOTRUST PLUS+ may invest in U.S. Treasuries, government agencies, the highest-rated commercial paper, certain corporate securities, certain money market funds, and certain repurchase agreements, and limits its investments to those allowed by State statutes. Purchases and redemptions are available daily at a net asset value (NAV) of \$1.00. A designated custodial bank provides safekeeping and depository services to COLOTRUST in connection with the direct investment and withdrawal function of COLOTRUST. The custodian's internal records identify the investments owned by participating governments.

COLOTRUST PLUS+ records its investment at fair value and the District records its investment in COLOTRUST PLUS+ using the net asset value. There are no unfunded commitments and there is no redemption notice period. The weighted average maturity is 60 days or less.

Custodial Credit Risk: At December 31, 2021, all of the District's deposits and investments were insured by the Federal Deposit Insurance Corporation or held in eligible public depositories as required by PDPA.

Interest Rate Risk: Colorado Revised Statutes (CRS) limit investment maturities to five years or less unless formally approved by the Board. In accordance with CRS, the District manages its exposure to declines in fair value by limiting the weighted average maturity of its investments.

VILLAGE EAST METROPOLITAN DISTRICT NO. 3
Notes to Financial Statements
December 31, 2021

3. Detailed Notes on the Funds (continued)

Investments (continued)

Credit Risk: Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. The District follows the general provisions of the CRS which limits the District's exposure to credit risk. CRS specify investment instruments meeting defined rating and risk criteria in which local governmental entities may invest. The allowed investments may include but are not limited to the following:

- Certain money market funds
- Local government investment pools

Capital Assets

Capital asset activity for the year ended December 31, 2021 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets being depreciated:				
Parks and recreation	\$ 756,864	\$ -	\$ -	\$ 756,864
Non-potable water Infrastructure	610,261	-	-	610,261
Total capital assets being depreciated	<u>1,367,125</u>	<u>-</u>	<u>-</u>	<u>1,367,125</u>
Less accumulated depreciation for:				
Parks and recreation	(100,915)	(30,275)	-	(131,190)
Non-potable water Infrastructure	(81,368)	(24,411)	-	(105,779)
Total accumulated depreciation	<u>(182,283)</u>	<u>(54,686)</u>	<u>-</u>	<u>(236,969)</u>
Total capital assets being depreciated, net	<u>1,184,842</u>	<u>(54,686)</u>	<u>-</u>	<u>1,130,156</u>
Capital assets, net	<u>\$ 1,184,842</u>	<u>\$ (54,686)</u>	<u>\$ -</u>	<u>\$ 1,130,156</u>

Depreciation expense of \$54,686 was charged to general government.

Long-Term Obligations

Changes in long-term obligations for the year ended December 31, 2021 are as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
General obligation bonds:					
Series 2017A Senior Bonds	\$ 1,675,000	\$ -	\$ (20,000)	\$ 1,655,000	\$ 25,000
Series 2017B Subordinate Bonds	245,000	-	-	245,000	-
Direct borrowings and direct placements:					
Developer debt – operations	14,000	-	-	14,000	-
Developer debt – capital	<u>6,223,280</u>	<u>-</u>	<u>-</u>	<u>6,223,280</u>	<u>-</u>
Governmental activities long-term debt	<u>\$ 8,157,280</u>	<u>\$ -</u>	<u>\$ (20,000)</u>	<u>\$ 8,137,280</u>	<u>\$ 25,000</u>

3. Detailed Notes on the Funds (continued)

General Obligation Bonds

On September 7, 2017, the District issued \$1,725,000 of General Obligation Limited Tax Bonds Series 2017A ("2017A Senior Bonds") and \$245,000 of Subordinate General Obligation Limited Tax Bonds Series 2017B ("2017B Subordinate Bonds") to finance public improvements, pay cost of issuance of the 2017A Senior Bonds and the 2017B Subordinate Bonds, and fund capitalized interest. The 2017A Senior Bonds bear interest at a rate of 5%, payable semiannually on each June 1 and December 1, commencing on December 1, 2017, and maturing on December 1, 2046. The 2017B Subordinate Bonds bear interest at a rate of 7.75%, payable annually on December 15, commencing on December 15, 2017, to the extent that pledged revenue is available, maturing on December 15, 2046.

The 2017A Senior Bonds are subject to a mandatory sinking fund redemption commencing on December 1, 2019 and 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, commencing on December 1, 2022, upon payment of par, accrued interest, and a redemption premium that ranges between 0% and 3%. The Series 2017B Subordinate 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, commencing on December 15, 2022, upon payment of par, accrued interest, and a redemption premium that ranges between 0% and 3%. The 2017B Subordinate Bonds are cash flow bonds and are subject to mandatory redemption from subordinate pledged revenue, if any, on deposit in the subordinate bond fund.

The 2017A Senior Bonds are secured by the Senior Required Mill Levy, the portion of the Specific Ownership Tax which is collected as a result of the Senior Required Mill Levy, capital fees (if any), and any other legally available funds as determined by the District. In connection with the 2017A Senior Bonds, the District is required to fund a Senior Surplus Fund to a maximum amount of \$172,500. As of December 31, 2021, \$172,509 was in the Surplus Fund.

The 2017B Subordinate Bonds are secured by the Subordinate Required Mill Levy, the portion of the Specific Ownership Tax which is collected as a result of the Subordinate Required Mill Levy, capital fees (if any), any other legally available funds as determined by the District, and any amounts remaining in the Senior Surplus Fund after termination of the fund.

Events of default as defined in the Series 2017A and 2017B Bond Indentures are 1) the failure of the District to impose the required mill levy, or apply the pledged revenue as required by the Indentures, 2) the default by the District in the performance or observance of any other of the covenants, agreements, or conditions of the Indentures or bond resolutions, other than as described in the Indentures, and failure to remedy the same after notice thereof pursuant to the indentures, 3) the filing of a petition under the federal bankruptcy laws or other applicable laws seeking to adjust the obligations represented by the Bonds.

Failure to pay the principal of or interest on the Series 2017A and 2017B Bonds when due shall not, of itself, constitute an event of default under the indentures. In addition, the District shall not be required to impose the subordinate required mill levy for the payment of the 2017B Bonds after December 2055. Remedies available in the event of default include 1) receivership, 2) suit for judgment, and 3) mandamus or other suits. Acceleration of the Series 2017A or 2017B Bonds is not an available remedy for an event of default.

VILLAGE EAST METROPOLITAN DISTRICT NO. 3
Notes to Financial Statements
December 31, 2021

3. Detailed Notes on the Funds (continued)

General Obligation Bonds (continued)

The following is a summary of the annual long-term debt principal and interest requirements for the 2017A Senior Bonds. Because of the uncertainty of the timing of the principal and interest payments on the 2017B Subordinate Bonds, no schedule of principal and interest payments is presented.

Year Ending December 31,	Principal	Interest	Total
2022	\$ 25,000	\$ 82,750	\$ 107,750
2023	25,000	81,500	106,500
2024	30,000	80,250	110,250
2025	30,000	78,750	108,750
2026	35,000	77,250	112,250
2027-2031	210,000	358,250	568,250
2032-2036	305,000	296,500	601,500
2037-2041	425,000	208,750	633,750
2042-2046	570,000	89,250	659,250
Total	\$ 1,655,000	\$ 1,353,250	\$ 3,008,250

At December 31, 2021, the District had total authorized debt of \$126,500,000 of which \$1,970,000 has been issued, leaving an authorized but unissued balance of \$124,530,000. Per the District's Service Plan, the District cannot issue debt in excess of \$13,390,000 without the approval of the Town.

Developer Obligations

On December 9, 2016, the District entered into an agreement with the Developer to fund the operations costs shortfall of the District through December 31, 2017. Interest is to be accrued on this obligation at 8% per annum from the date of the advance. As of December 31, 2021, the District owes the Developer \$14,000 in principal plus \$5,404 of accrued interest under this agreement.

In August 2017, the District approved a resolution regarding the acceptance of district eligible costs for public improvements funded by the Developer. The resolution approved eligible costs for developer reimbursement in the amount of \$7,972,305. During 2017, the District issued 2017A Senior Bonds and the 2017A Subordinate Bonds and paid \$1,749,025 to the Developer under this resolution. As of December 31, 2021, the District is obligated to the Developer for \$6,223,280 under this resolution. The resolution provides for payments subject to annual appropriations and does not guarantee future payments. No interest is to be accrued.

VILLAGE EAST METROPOLITAN DISTRICT NO. 3
Notes to Financial Statements
December 31, 2021

4. Related party

One member of the Board of Directors, who resigned from the board in November 2021, was associated with the Developer and may have had conflicts of interest in dealing with the District during the year. Management believes that all potential conflicts, if any, have been disclosed to the Board. The District has entered into various funding agreements with the Developer, see Note 3.

5. Risk Management

The District is exposed to various risks of loss related to workers compensation, general liability, unemployment, torts, theft of, damage to, and destruction of assets, and errors and omissions. The District has elected to participate in the Colorado Special Districts Property and Liability Pool ("the Pool"). The Pool is an organization created by intergovernmental agreement to provide common liability and casualty insurance coverage to its members at a cost that is considered economically appropriate. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

The District pays annual premiums to the Pool for auto, public official's liability, property and general liability coverage. In the event aggregated losses incurred by the Pool exceed its amounts recoverable from reinsurance contracts and its accumulated reserves, the District may be called upon to make additional contributions to the Pool on the basis proportionate to other members. Any excess funds which the Pool determines are not needed for purposes of the Pool may be returned to the members pursuant to a distribution formula. During the year ended December 31, 2021, the Pool has made no distributions nor required additional contributions from the District.

6. Reconciliation of Government-Wide and Fund Financial Statements

Explanation of Differences between the Governmental Funds Balance Sheet and the Government-Wide Statement of Net Position

The governmental funds balance sheet includes a reconciliation between fund balance-total governmental funds and net position-governmental activities as reported in the government-wide statement of net position. Explanation of the reconciling items is as follows:

Capital assets of \$1,367,125, less accumulated depreciation of \$236,969 or a net book value of \$1,130,156 are not financial resources and therefore are not reported in the funds.

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds. The details of this difference are as follows:

Bonds payable	\$ (1,900,000)
Developer debt	(6,237,280)
Accrued interest on bonds and developer debt	(103,248)
Net adjustment	<u>\$ (8,240,528)</u>

6. **Reconciliation of Government-Wide and Fund Financial Statements (continued)**

Explanation of Differences between the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances and the Government-Wide Statement of Activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net position of governmental activities as reported in the government-wide statement of activities. Explanation of the reconciling items is as follows:

Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense or ultimately conveyed to the Town. The details of this difference are as follows:

Depreciation expense – district services	\$ <u>(54,686)</u>
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The issuance of long-term debt (e.g. bonds payable) 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. The details of this difference are as follows:

Principal payment on general obligation bonds	\$ <u>20,000</u>
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Another element of the reconciliation states that “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 difference is due to additional accrued interest on the general obligation bonds and developer debt of (\$23,237).

REQUIRED SUPPLEMENTARY INFORMATION

VILLAGE EAST METROPOLITAN DISTRICT NO. 3
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
General Fund
For the Year Ended December 31, 2021

	Original and Final Budget	Actual	Variance with Final
Revenues:			
Property tax	\$ 25,314	\$ 25,313	\$ (1)
Specific ownership tax	1,266	1,270	4
Interest and other income	-	50	50
Total revenues	<u>26,580</u>	<u>26,633</u>	<u>53</u>
Expenditures:			
General government:			
Accounting and audit	17,100	14,009	3,091
Legal	4,400	4,126	274
Insurance and bonds	3,101	3,062	39
Dues	425	541	(116)
Treasurer fees	380	380	-
Miscellaneous	200	12	188
Contingency	1,000	-	1,000
Total expenditures	<u>26,606</u>	<u>22,130</u>	<u>4,476</u>
Net change in fund balance	(26)	4,503	4,529
Fund balance, beginning of year	<u>2,515</u>	<u>3,958</u>	<u>1,443</u>
Fund balance, end of year	<u>\$ 2,489</u>	<u>\$ 8,461</u>	<u>\$ 5,972</u>

The accompanying notes are an integral part of this financial statement.

VILLAGE EAST METROPOLITAN DISTRICT NO. 3
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
Operations Fund
For the Year Ended December 31, 2021

	Original and Final Budget	Actual	Variance with Final
Revenues:			
Homeowner assessments	\$ 130,680	\$ 130,680	\$ -
Other income	5,850	3,345	(2,505)
Total revenues	<u>136,530</u>	<u>134,025</u>	<u>(2,505)</u>
Expenditures:			
General government:			
Accounting and audit	11,500	8,079	3,421
Legal	5,600	3,710	1,890
Insurance	7,770	-	7,770
District management services	20,732	17,239	3,493
Utilities	10,300	9,410	890
Landscape and maintenance	68,020	56,722	11,298
Miscellaneous	-	675	(675)
Contingency	5,000	-	5,000
Total expenditures	<u>128,922</u>	<u>95,835</u>	<u>33,087</u>
Net change in fund balance	7,608	38,190	30,582
Fund balance, beginning of year	<u>46,278</u>	<u>68,124</u>	<u>21,846</u>
Fund balance, end of year	<u>\$ 53,886</u>	<u>\$ 106,314</u>	<u>\$ 52,428</u>

The accompanying notes are an integral part of this financial statement.

SUPPLEMENTARY INFORMATION

VILLAGE EAST METROPOLITAN DISTRICT NO. 3
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
Debt Service Fund
For the Year Ended December 31, 2021

	Original and Final Budget	Actual	Variance with Final
Revenues:			
Property tax	\$ 151,894	\$ 151,887	\$ (7)
Specific ownership tax	7,595	7,622	27
Other income	2,000	-	(2,000)
Interest income	860	193	(667)
Total revenues	<u>162,349</u>	<u>159,702</u>	<u>(2,647)</u>
Expenditures:			
General government:			
Treasurer fees	2,278	2,280	(2)
Bank fees	150	13	137
Trustee fees	5,500	5,500	-
Contingency	2,000	-	2,000
Debt service:			
Principal	20,000	20,000	-
Interest	88,013	85,805	2,208
Total expenditures	<u>117,941</u>	<u>113,598</u>	<u>4,343</u>
Net change in fund balance	44,408	46,104	1,696
Fund balance, beginning of year	<u>128,092</u>	<u>127,632</u>	<u>(460)</u>
Fund balance, end of year	<u>\$ 172,500</u>	<u>\$ 173,736</u>	<u>\$ 1,236</u>

The accompanying notes are an integral part of this financial statement.