

VALAGUA METROPOLITAN DISTRICT
FINANCIAL STATEMENTS AND REPORT OF
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

December 31, 2020

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**INDEPENDENT AUDITOR'S REPORT**

May 21, 2021

Board of Directors
Valagua Metropolitan District

We have audited the accompanying financial statements of the governmental activities, and each major fund of Valagua Metropolitan District (the District) as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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



Board of Directors
Valagua Metropolitan District
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Emphasis of Matter

As discussed in Note D to the financial statement, the District drew down all of its Bond reserve account in 2014, and in 2015 and going forward, the District will continue to be unable to meet its annual debt service obligations.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Valagua Metropolitan District's basic financial statements. The Debt Service Fund budgetary schedule is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Debt Service Fund budgetary schedule is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

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

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

Valagua Metropolitan District

Management's Discussion and Analysis December 31, 2020

As management of the Valagua Metropolitan District ("District"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended December 31, 2020.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

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

The Statement of Net Position presents information on all the District's assets, deferred outflows, liabilities, and deferred inflows with the difference between the amounts reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating, however because the District has conveyed the majority of its capital assets to the Town of Gypsum, it has a substantial negative net position.

The Statement of Activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (i.e. uncollected taxes). The government-wide financial statements can be found on pages 6 and 7 of this report.

Fund financial statements: A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories: governmental funds and proprietary funds. The District has no proprietary funds.

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. The District has two governmental funds, the General Fund and the Debt Service Fund. The governmental funds provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. The governmental funds financial statements and reconciliations are located on pages 8 through 11 of this report.

The District adopts an annual appropriated budget for its General and Debt Service Funds. A budgetary comparison statement has been provided for the General Fund on page 12 and a budgetary comparison schedule for the Debt Service Fund on page 24 to demonstrate compliance with these budgets.

Notes to the Financial Statements: The notes provide additional information that is essential to gain a full understanding of the data provided in the government-wide and fund financial statements. The Notes to the Financial Statements can be found on pages 13 through 23 of this report.

Government-wide Financial Analysis

The following tables show condensed financial information derived from the government-wide financial statements of the District which compares 2020 to 2019:

Valagua Metropolitan District's Net Position

	<u>2020</u>	<u>2019</u>
Assets:		
Current assets	\$ 658,717	\$ 634,906
Capital and other non-current assets	1,118,616	1,172,031
Total Assets	<u>1,777,333</u>	<u>1,806,937</u>
Liabilities:		
Current liabilities	1,558	1,092
Long-term liabilities	31,960,879	29,855,092
Total Liabilities	<u>31,962,437</u>	<u>29,856,184</u>
Deferred Inflows	<u>295,879</u>	<u>296,554</u>
Net Position:		
Net Investment In Capital Assets	(685,142)	(631,727)
Restricted	2,174	1,984
Unrestricted	(29,798,015)	(27,716,058)
Total Net Position	<u>\$ (30,480,983)</u>	<u>\$ (28,345,801)</u>
Revenues:		
Property and other taxes	\$ 311,249	\$ 261,783
Interest	2,570	8,133
Total Revenues	<u>313,819</u>	<u>269,916</u>
Expenses:		
General government	49,019	41,440
Public works	58,635	60,085
Interest expense	2,341,347	2,184,702
Total Expenses	<u>2,449,001</u>	<u>2,286,227</u>
Change in Net Position	(2,135,182)	(2,016,311)
Net Position - Beginning	(28,345,801)	(26,329,490)
Net Position - Ending	<u>\$ (30,480,983)</u>	<u>\$ (28,345,801)</u>

The District's main activity is servicing of the Series 2008 Bonds. In previous years the District also conveyed a portion of its infrastructure to the Town of Gypsum which contributes to the negative net position of the District since only a small portion of the infrastructure but all of the debt from financing the assets is reported by the District.

Financial Analysis of the District's Funds

The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The majority of the District's fund balance is reported in the General Fund and is available for future spending by the District.

Budget Variances: During 2020, the District was not required to amend the 2020 budget due to being favorable to budget in operating expenditures. Budget to actual comparisons are provided on page 12 for the General Fund and page 24 for the Debt Service Fund.

Capital Assets: During 2020 the District assets depreciated by \$53,415 and there were no new capital additions. For more detail on capital assets see Note C on page 19.

Long-Term Debts: During 2008, the District issued \$21,000,000 in Series 2008 General Obligation Limited Tax Bonds, the proceeds of which were used to repay both the 2006 and 2007 Series bond anticipation notes as well as to provide additional funding for future infrastructure. During 2020 the District made only a small portion of the required interest payments on the debt, which caused the shortfall to add to the balances that is accruing to future years. For more detail on long-term debt see Note D on page 20.

Economic Conditions and Outlook: The County Assessor reassesses the value of the property in the District effective January 1, of even numbered years. Due to the decline in real estate values within the District, the assessed valuation of the District has declined by 80% since the issuance of the 2008 Bonds. Due to these declines, the mill levy of the District was raised to the maximum of 65 mills (as further adjusted to offset the effects of the Gallagher amendment), which is still inadequate to fund the operating and debt service costs of the District. Additional information related to the decline can be found in the Schedule of Assessed Valuation, Mill Levy and Property Taxes Collected on page 25 of this report.

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

Valagua Metropolitan District
STATEMENT OF NET POSITION

December 31, 2020

	Governmental Activities
ASSETS	
Equity in pooled cash and investments	
Unrestricted	\$ 358,837
Receivables	
Property taxes receivable	295,879
Due from county treasurer	1,192
Prepaid expenses	2,809
Non-current assets	
Infrastructure to be conveyed to others	788,377
Capital assets	
Roads and easements, net	20,620
Parks and recreation, net	63,632
Water system, net	98,752
Sewer system, net	147,235
	1,777,333
LIABILITIES	
Accounts payable	1,558
Accrued interest	10,960,879
Non-current liabilities, due within one year	
Bonds	1,375,000
Non-current liabilities, due in more than one year	
Bonds	19,625,000
	31,962,437
DEFERRED INFLOWS OF RESOURCES	
Property taxes	295,879
Total deferred inflows of resources	295,879
NET POSITION	
Net investment in capital assets	(685,142)
Restricted for emergencies	2,174
Unrestricted	(29,798,015)
Total net position	\$ (30,480,983)

The accompanying notes are an integral part of this statement.

Valagua Metropolitan District
STATEMENT OF ACTIVITIES
Year ended December 31, 2020

Function/Programs	Expenses	Program Revenues Contributions	Governmental Activities
Governmental activities			
General government	\$ 49,019	\$ -	\$ (49,019)
Public works	58,635	-	(58,635)
Interest expense	2,341,347	-	(2,341,347)
Total governmental activities	\$ 2,449,001	\$ -	(2,449,001)
	General revenues		
	Property tax revenue		311,249
	Interest earnings		2,570
	Total general revenues		313,819
	Change in net position		(2,135,182)
	Net position - beginning		(28,345,801)
	Net position - ending		\$ (30,480,983)

The accompanying notes are an integral part of this statement

Valagua Metropolitan District

BALANCE SHEET - GOVERNMENTAL FUNDS

December 31, 2020

	General	Debt Service	Total Governmental Funds
ASSETS			
Equity in pooled cash and investments			
Unrestricted	\$ 357,940	\$ 897	\$ 358,837
Receivables			
Property taxes receivable	66,930	228,949	295,879
Due from county treasurer	270	922	1,192
Prepaid expenses	2,809	-	2,809
Total assets	<u>427,949</u>	<u>230,768</u>	<u>658,717</u>
LIABILITIES			
Accounts payable	1,558	-	1,558
Total liabilities	<u>1,558</u>	<u>-</u>	<u>1,558</u>
DEFERRED INFLOWS OF RESOURCES			
Property taxes	66,930	228,949	295,879
Total deferred inflows of resources	<u>66,930</u>	<u>228,949</u>	<u>295,879</u>
FUND EQUITY			
Nonspendable	2,809	-	2,809
Restricted for emergencies	2,174	-	2,174
Restricted for debt service	-	1,819	1,819
Unassigned	354,478	-	354,478
Total fund equity	<u>\$ 359,461</u>	<u>\$ 1,819</u>	<u>\$ 361,280</u>

The accompanying notes are an integral part of this statement.

Valagua Metropolitan District

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION

December 31, 2020

Amounts reported for governmental activities in the Statement of Net Position are different because:

Total fund balance - governmental funds	\$ 361,280
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	330,239
Infrastructure to be conveyed to others are not financial resources and, therefore, are not reported in the funds.	788,377
Long-term liabilities such as bonds and notes are not due and payable in the current period and, therefore, are not reported in the funds.	(21,000,000)
Accrued interest and fees are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(10,960,879)</u>
Net Position of Governmental Activities	<u><u>\$ (30,480,983)</u></u>

The accompanying notes are an integral part of this statement.

Valagua Metropolitan District

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

Year ended December 31, 2020

	General	Debt Service	Total Governmental Funds
Revenues			
Property tax	\$ 67,078	\$ 229,448	\$ 296,526
Specific ownership tax	3,331	11,392	14,723
Interest	2,055	515	2,570
Total revenues	<u>72,464</u>	<u>241,355</u>	<u>313,819</u>
Expenditures			
Current			
General government	42,127	6,892	49,019
Public works	5,220	-	5,220
Debt service			
Interest	-	235,560	235,560
Total expenditures	<u>47,347</u>	<u>242,452</u>	<u>289,799</u>
Excess of Revenues Over (Under) Expenditures	25,117	(1,097)	24,020
Fund Balance - January 1	<u>334,344</u>	<u>2,916</u>	<u>337,260</u>
Fund Balance - December 31	<u>\$ 359,461</u>	<u>\$ 1,819</u>	<u>\$ 361,280</u>

The accompanying notes are an integral part of this statement.

Valagua Metropolitan District

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year ended December 31, 2020

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

Net Change in Fund Balances - Governmental Funds \$ 24,020

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 and
reported as depreciation expense. This is the amount by which depreciation expense
exceeded capital additions in the current period (\$53,415 - \$0.) (53,415)

Governmental funds do not record the amount of interest and fees on long-term debt that
has accrued since the end of the year. However, these liabilities are reported in the
statement of net position and the related expense is reported in the statement of activities.
This is the amount by which accrued interest and fees increased over the prior year. (2,105,787)

Change in Net Position of Governmental Activities \$ (2,135,182)

The accompanying notes are an integral part of this statement.

Valagua Metropolitan District

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

Year ended December 31, 2020

	Original and Final Budget	Actual	Variance With Final Budget Favorable (Unfavorable)
Revenues			
Property taxes	\$ 67,085	\$ 67,078	\$ (7)
Specific ownership taxes	2,900	3,331	431
Interest income	6,500	2,055	(4,445)
Total revenues	<u>76,485</u>	<u>72,464</u>	<u>(4,021)</u>
Expenditures			
General government			
Accounting and audit	25,450	24,717	733
Legal fees	10,000	3,515	6,485
Treasurers fees	2,013	2,015	(2)
Insurance, election, and other	8,515	8,630	(115)
Bond and letter of credit fees	3,250	3,250	-
Public works			
Weed and pest control	16,600	5,220	11,380
Contingency	20,000	-	20,000
Total expenditures	<u>85,828</u>	<u>47,347</u>	<u>38,481</u>
Excess of Revenues Over (Under) Expenditures	(9,343)	25,117	34,460
Fund Balance - January 1	322,050	334,344	12,294
Fund Balance - December 31	<u>\$ 312,707</u>	<u>\$ 359,461</u>	<u>\$ 46,754</u>

The accompanying notes are an integral part of this statement.

Valagua Metropolitan District

NOTES TO FINANCIAL STATEMENTS

December 31, 2020

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Organization

The Valagua Metropolitan District (the “District”) was established on November 22, 2003, as a quasi-municipal corporation and political subdivision of the State of Colorado. The District was formed to construct and acquire systems for water, sanitation, storm drainage, streets, safety, transportation, landscaping, parks and recreation, telecommunication, pest control, fire protection, and public improvements in an area of approximately 963 acres of land in the Town of Gypsum in Eagle County, Colorado.

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

2. Reporting Entity

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

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

3. Government-wide and Fund Financial Statements

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

Valagua Metropolitan District

NOTES TO FINANCIAL STATEMENTS

December 31, 2020

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Government-wide Financial Statements

In the government-wide Statement of Net Position, the governmental activities columns are reported on a full accrual, economic resource basis, which recognizes all long-term assets, receivables, and deferred outflows of resources as well as long-term debt, obligations, and deferred inflows of resources. The District's net position is reported in categories based on their restrictions.

The government-wide focus is on the sustainability of the District as an entity and the change in the District's net position resulting from the current year's activities.

Fund Financial Statements

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

4. Fund Accounting

The District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The District currently has two funds, the General Fund and the Debt Service Fund, both of which are governmental funds.

Governmental Funds

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

The District reports the following major governmental funds:

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

Valagua Metropolitan District

NOTES TO FINANCIAL STATEMENTS

December 31, 2020

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

5. Measurement Focus and Basis of Accounting

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

Long-Term Economic Focus and Accrual Basis

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

Current Financial Focus and Modified Accrual Basis

The governmental fund financial statements use the current financial focus and are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. “Available” means collectible within the current period or within 60 days after year-end. Expenditures are generally recognized when the related liability is incurred. The exception to this general rule is that principal and interest on long-term debt, if any, is recognized when due and able to be paid from available reserves.

6. Intergovernmental Revenues

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

7. Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, deferred inflows of resources, 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.

Valagua Metropolitan District

NOTES TO FINANCIAL STATEMENTS

December 31, 2020

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

8. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. The District defines capital assets as assets with an initial, individual cost of more than \$5,000.

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

	<u>Estimated lives</u>
Roads and easement improvements	15 years
Parks and recreation	15-20 years
Water	20 years
Sewer	20 years

Costs related to the construction of assets including engineering, legal, surveying and landscaping that were incurred from the beginning of construction until the assets were substantially complete were capitalized.

9. Interfund Transactions

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

10. Stewardship, Compliance, and Accountability

Budgets and Budgetary Accounting

In the fall of each year, the District's Board of Directors formally adopts a budget with appropriations by fund for the ensuing year pursuant to the Colorado Local Budget Law. The budgets for the governmental funds are adopted on a basis consistent with generally accepted accounting principles ("GAAP").

As required by the Colorado statutes, the District followed by the following timetable in approving and enacting a budget for the ensuing years:

Valagua Metropolitan District

NOTES TO FINANCIAL STATEMENTS

December 31, 2020

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

- (1) For the 2020 budget year, prior to August 25, 2019, the County Assessor sent the District the assessed valuation of all taxable property within the District's boundaries.
- (2) On or before October 15, 2019, the District's accountant submitted to the District's Board of Directors a recommended budget which detailed the necessary property taxes needed along with other available revenues to meet the District's operating requirements.
- (3) The Board held a public hearing on the proposed budget and capital program no later than 45 days prior to the close of the fiscal year.
- (4) For the 2020 budget, prior to December 15, 2019, the District computed and certified to the County Commissioners a rate of levy that derived the necessary property taxes as computed in the proposed budget.
- (5) For the 2020 budget, the final budget and appropriating resolution was adopted prior to December 31, 2019.
- (6) After adoption of the budget resolution, the District may make the following changes: a) it may transfer appropriated monies between funds or between spending agencies within a fund, as determined by the original appropriation level; b) supplemental appropriations to the extent of revenues in excess of those estimated in the budget; c) emergency appropriations; and d) reduction of appropriations for which originally estimated revenues are insufficient.

The level of control in the budget at which expenditures exceed appropriations is at the fund level. All appropriations lapse at year end. No supplemental appropriations were made during 2020.

Valagua Metropolitan District

NOTES TO FINANCIAL STATEMENTS

December 31, 2020

NOTE B – CASH AND INVESTMENTS

Deposits

State statutes require that any public depository which accepts and holds public funds maintain, as security for public deposits accepted and held by it, not insured by federal depository insurance, eligible collateral having a market value, at all times, equal to at least 102 percent of the amount of public deposits. Banking institutions are monitored by the State of Colorado Banking Commission and must report monthly on all public deposits held. Pledged collateral must be held in joint custody of the bank and of the Public Deposit Protection Act in a safekeeping account held by a third party, usually the Federal Reserve Bank. The pledged collateral cannot be released unless approval is obtained from the banking commission. Savings and Loan institutions are monitored by the State of Colorado Commissioner of Savings and Loan Associations and must report quarterly on all public deposits held. Pledged collateral, usually in the form of mortgages, must be held by a third party institution for the benefit of the commissioner. As of December 31, 2020, the District had cash deposits of \$5,475 which was covered by federal depository insurance.

Investments

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

The District had invested \$353,361 in CSAFE, an investment vehicle established for local government entities in Colorado to pool surplus funds. CSAFE operates similarly to a money market fund and each share is equal in value to \$1.00. A designated custodial bank provides safekeeping and depository services to CSAFE in connection with the direct investment and withdrawal functions of CSAFE. Substantially all securities owned by CSAFE are held by the Federal Reserve Bank in the account maintained for the custodial bank. The custodian's internal records identify the investments owned by CSAFE. CSAFE carries a Standard & Poor's AAAM rating. There is no custodial, interest rate or foreign currency risk exposure. CSAFE operates like a 2a7-like external investment pool in the fair value hierarchy established by GASB 72. The underlying investments held by CSAFE, and the District's investment in CSAFE, are valued at amortized cost which approximates fair value. There are no limitations on withdrawals.

The District had invested \$1 in UMB Corporate Trust Services for its debt and bond proceeds. The UMB investments consisted of funds held in CSAFE and money market accounts. There is no custodial, interest rate or foreign currency risk exposure.

Valagua Metropolitan District

NOTES TO FINANCIAL STATEMENTS

December 31, 2020

NOTE C – CAPITAL ASSETS

The following is a summary of changes in capital assets for the year ended December 31, 2020:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated				
Infrastructure to be conveyed	\$ 788,377	\$ –	\$ –	\$ 788,377
Capital assets, being depreciated				
Roads/easements	87,637	–	–	87,637
Parks and recreation	224,911	–	–	224,911
Water system	282,157	–	–	282,157
Sewer system	<u>420,676</u>	–	–	<u>420,676</u>
Total capital assets being depreciated	1,015,381	–	–	1,015,381
Less accumulated depreciation for:				
Roads/easements	61,175	5,842	–	67,017
Parks and recreation	148,848	12,431	–	161,279
Water system	169,297	14,108	–	183,405
Sewer system	<u>252,407</u>	<u>21,034</u>	–	<u>273,441</u>
Total accumulated depreciation	<u>631,727</u>	<u>53,415</u>	–	<u>685,142</u>
Total capital assets being depreciated, net	<u>383,654</u>	<u>(53,415)</u>	–	<u>330,239</u>
Governmental activities capital assets, net	<u>\$ 1,172,031</u>	<u>\$ (53,415)</u>	<u>\$ –</u>	<u>\$ 1,118,616</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

 Public works \$ 53,415

At fiscal year-end December 31, 2020, the district considers the \$788,377 balance as infrastructure to be conveyed; these assets consists of underlying water and sewer construction during the initial development of the District. The intent is to convey the infrastructure to another government once development is more substantially complete. The assets are being treated as construction in progress during this time and are not being depreciated.

Valagua Metropolitan District

NOTES TO FINANCIAL STATEMENTS

December 31, 2020

NOTE D – LONG-TERM DEBT

2008 General Obligation Bonds

In June of 2008 the District issued \$21,000,000 in Series 2008 General Obligation Limited Tax Bonds. The bonds bear interest at a fixed rate of 7.75%. Interest is due in semi-annual installments on June 1 and December 1 and principal payments, beginning in 2014, are due on December 1.

The Bonds were issued to pay off the 2006 and 2007 Limited Tax General Obligation Bond Anticipation Notes, to pay off the obligation to the District's Developer for costs incurred during construction, to provide additional funding for future infrastructure, and to cover the issuance costs and funding of required reserves.

Pursuant to the Indenture of Trust, the District is required to levy a minimum of 30 mills and a maximum of 50 mills for payment of the bonds, both of which are subject to adjustments for changes in the assessment ratio as set by the Colorado legislature.

In the event that the revenues generated from the 30 mill minimum levy are insufficient to pay the upcoming years' debt service, rather than increasing the mill levy, the District has the option to transfer funds previously designated for capital projects to cover such shortfall, thus allowing the mill levy to stay lower than would otherwise be required. However, beginning in 2012, no funds were available for this purpose.

In the event that the revenues generated by the Required Mill Levy, combined with other pledged revenues and amounts available in the Capital Projects Fund, Bond Fund, Surplus Fund and Debt Service Guaranty Fund, if any, are insufficient to pay the debt service when due, unpaid principal shall remain outstanding and unpaid interest shall compound semiannually on each scheduled interest payment date until December 1, 2037. If any unpaid amounts remain on December 1, 2037, the final maturity date of the Bonds, the District is required to continue to levy the Required Mill Levy until such time as all balances are brought current. Due to the limited nature of the pledged revenue for repayment of the Bonds, so long as the District imposes the Required Mill Levy and applies the pledged revenue as required by the Indenture of Trust, the inability to pay the principal of or interest on the Bonds when due shall not, in and of itself, constitute an event of default.

During 2014, the District drew down all of its Bond reserve accounts and became unable to meet its annual debt service obligations. In 2020, \$2,105,787 of interest and \$310,000 of principal was unable to be paid, bringing the accumulated past due balance for interest to \$10,825,254 and past due principal to \$1,025,000.

Valagua Metropolitan District

NOTES TO FINANCIAL STATEMENTS

December 31, 2020

NOTE D – LONG-TERM DEBT – CONTINUED

The following is a summary of transactions for the Bonds for the year ended December 31, 2020:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
2008 General Obligation				
Bonds	\$ 21,000,000	\$ _____	\$ _____	\$ 21,000,000

Debt service requirements for the Bonds are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021-including past due balances	1,375,000	12,452,754	13,827,754
2022	440,000	1,520,938	1,960,938
2023	495,000	1,486,838	1,981,838
2024	590,000	1,448,475	2,038,475
2025	655,000	1,402,750	2,057,750
2026-2030	4,895,000	6,088,400	10,983,400
2031-2035	8,145,000	3,715,738	11,860,738
2036-2037	4,405,000	518,475	4,923,475
	<u>\$ 21,000,000</u>	<u>\$ 28,634,368</u>	<u>\$ 49,634,368</u>

NOTE E – COMMITMENTS AND CONTINGENCIES

During the normal course of business, the District may incur claims and other assertions against it from various agencies and individuals. Management of the District and their legal representatives have disclosed that there are no material outstanding claims against the District at December 31, 2020.

NOTE F – RISK MANAGEMENT

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

Valagua Metropolitan District

NOTES TO FINANCIAL STATEMENTS

December 31, 2020

NOTE F – RISK MANAGEMENT – CONTINUED

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

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

NOTE G – TABOR AMENDMENT

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

Prior elections of the District authorized \$21,000,000 in debt for capital projects and the refunding of the same \$21,000,000 of debt. The Service Plan also limits the total debt of the District to \$21,000,000. Therefore, with the issuance of the \$21,000,000 in Series 2008 Bonds, the District has \$0 authorized but unissued debt remaining.

TABOR also requires local governments to establish emergency reserves to be used for declared emergencies only. Emergencies, as defined by TABOR, exclude economic conditions, revenue shortfalls, or salary or fringe benefit increases. These reserves are required to be 3% or more of the fiscal year spending (excluding bonded debt service) for fiscal years ended after December 31, 1994. At December 31, 2020, the District had a \$2,174 required emergency reserve.

Valagua Metropolitan District

NOTES TO FINANCIAL STATEMENTS

December 31, 2020

NOTE G – TABOR AMENDMENT – CONTINUED

Under TABOR, the initial base for local government spending and revenue limits is December 31, 1992 fiscal year spending. The District's first year of operations ended December 31, 2003. Future spending and revenue limits are determined based on the prior year's fiscal year spending adjusted for inflation in the prior calendar year plus annual local growth. Fiscal year spending is generally defined as expenditures and reserve increases with certain exceptions. Revenue, if any, in excess of the fiscal year spending limit must be refunded in the next fiscal year unless voters approve retention of such revenue.

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

NOTE H – FUND BALANCES

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

- *Non-spendable fund balance* - The portion of fund balance that cannot be spent because it is either not in spendable form (such as inventory) or is legally or contractually required to be maintained intact.
- *Restricted fund balance* - The portion of fund balance constrained to being used for a specific purpose by external parties (such as grantors or bondholders), constitutional provisions or enabling legislation.
- *Committed fund balance* - The portion of fund balance constrained for specific purposes according to limitations imposed by the District's highest level of decision making authority, the Board, prior to the end of the current fiscal year. The constraint may be removed or changed only through formal action of the Board.
- *Assigned fund balance* - The portion of fund balance set aside for planned or intended purposes. The intended use may be expressed by the Board or other individuals authorized to assign funds to be used for a specific purpose. Assigned fund balances in special revenue funds will also include any remaining fund balance that is not restricted or committed. This classification is necessary to indicate that those funds are, at a minimum intended to be used for the purpose of that particular fund.
- *Unassigned fund balance* - The residual portion of fund balance that does not meet any of the above criteria. The District will only report a positive unassigned fund balance in the General Fund.

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

Valagua Metropolitan District

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

Year ended December 31, 2020

	Original and Final Budget	Actual	Variance With Final Budget Favorable (Unfavorable)
Revenues			
Property taxes	\$ 229,468	\$ 229,448	\$ (20)
Specific ownership taxes	9,800	11,392	1,592
Interest income	12,500	515	(11,985)
Total revenues	<u>251,768</u>	<u>241,355</u>	<u>(10,413)</u>
Expenditures			
General government			
Treasurers fees	6,884	6,892	(8)
Debt service			
Interest expense	235,245	235,560	(315)
Contingency	10,000	-	10,000
Total expenditures	<u>252,129</u>	<u>242,452</u>	<u>9,677</u>
Excess of Revenues Over (Under) Expenditures			
	(361)	(1,097)	(736)
Fund Balance - January 1	1,994	2,916	922
Fund Balance - December 31	<u>\$ 1,633</u>	<u>\$ 1,819</u>	<u>\$ 186</u>

OTHER INFORMATION

Valagua Metropolitan District

SCHEDULE OF ASSESSED VALUATION, MILL LEVY
AND PROPERTY TAXES COLLECTED

December 31, 2020

Calendar Year Ended December 31	Prior Year Assessed Valuation for Current Year Property Tax Levy	Mills Levied	Total Property Taxes		Percent Collected to Levied
			Levied	Collected	
2005	\$ 92,780	15.000	\$ 1,392	\$ 1,392	100%
2006	476,220	15.000	7,143	7,143	100%
2007	6,947,610	40.000	277,904	275,640	99%
2008	22,295,170	40.000	891,807	894,512	100%
2009	22,517,030	45.000	1,013,266	469,675*	46%
2010	15,199,950	45.000	683,998	665,238	97%
2011	14,863,100	45.000	668,840	482,780**	72%
2012	5,613,380	65.000	364,870	565,164**	155%
2013	5,678,390	65.000	369,096	369,087	100%
2014	3,131,800	65.000	203,568	203,566	100%
2015	3,111,430	65.000	202,243	202,236	100%
2016	3,296,630	65.000	214,281	198,351***	93%
2017	3,059,270	65.000	198,853	198,376	100%
2018	3,741,670	66.356****	248,282	247,235	100%
2019	3,730,220	66.390	247,649	247,648	100%
2020	4,472,370	66.308	296,554	296,526	100%
2021	4,461,980	66.311	295,878		

Note:

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

- * During 2009, abatements totaling \$535,770 were approved by the Eagle County Board of Equalization, which when netted out of collections of \$1,013,266 show a substantial decrease in collections.
- ** During 2011, the original developer did not remit property taxes due in the amount of \$184,657 because they were in bankruptcy. These taxes were remitted in 2012.
- *** During 2016, Abatements totaling \$15,377 were approved by the Eagle County Board of Equalization, which when netted out of collections of \$214,281 show a decrease in collections.
- **** Beginning in 2018, as required under the terms of the 2008 Bonds, the debt service mill levy of the District was adjusted to offset the effects of the Gallagher amendment.