

Powhatan Road Metropolitan District No. 1

Financial Statements

Year Ended December 31, 2021

with

Independent Auditors' Report

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HIRATSUKA & ASSOCIATES, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Powhaton Road Metropolitan District No. 1
Arapahoe County, Colorado

Opinion

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District, as of December 31, 2021, and the respective changes in financial position and the budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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 the District, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern 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 opinion. 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 the District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Management has not presented Management's Discussion and Analysis. Such missing information, although not a part of the basic financial statements, is required by GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by the missing information.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Supplemental Information as listed in the table of contents is presented for the purpose of additional analysis and was not a required part of the financial statements.

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

Hiratsuka & Associates, LLP

November 30, 2022
Wheat Ridge, Colorado

Powhatan Road Metropolitan District No. 1

BALANCE SHEET/STATEMENT OF NET POSITION
GOVERNMENTAL FUNDS
December 31, 2021

	<u>General</u>	<u>Capital Projects</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
ASSETS					
Cash and investments	\$ 239,123	\$ -	\$ 239,123	\$ -	\$ 239,123
Cash and investments - restricted	1,503	-	1,503	-	1,503
Receivable from Authority	<u>275,689</u>	<u>-</u>	<u>275,689</u>	<u>-</u>	<u>275,689</u>
Total Assets	<u>\$ 516,315</u>	<u>\$ -</u>	<u>\$ 516,315</u>	<u>-</u>	<u>516,315</u>
LIABILITIES					
Payable to District 7	\$ 4,055	\$ -	\$ 4,055	\$ -	\$ 4,055
Payable to District 2	<u>512,260</u>	<u>-</u>	<u>512,260</u>	<u>-</u>	<u>512,260</u>
Total Liabilities	<u>516,315</u>	<u>-</u>	<u>516,315</u>	<u>-</u>	<u>516,315</u>
FUND BALANCES/NET POSITION					
Fund Balances:					
Restricted:					
Emergencies	1,503	-	1,503	(1,503)	-
Unassigned	<u>(1,503)</u>	<u>-</u>	<u>(1,503)</u>	<u>1,503</u>	<u>-</u>
Total Fund Balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Liabilities and Fund Balance	<u>\$ 516,315</u>	<u>\$ -</u>	<u>\$ 516,315</u>		
Net Position:					
Restricted for:					
Emergencies				1,503	1,503
Unrestricted				<u>(1,503)</u>	<u>(1,503)</u>
Total Net Position				<u>\$ -</u>	<u>\$ -</u>

The notes to the financial statements are an integral part of these statements.

Powhatan Road Metropolitan District No. 1

STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES/STATEMENT OF ACTIVITIES
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2021

	<u>General</u>	<u>Capital Projects</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
EXPENDITURES					
Accounting and audit	\$ 2,390	\$ 9,558	\$ 11,948	\$ (9,558)	\$ 2,390
Management fees	85,470	-	85,470	-	85,470
Insurance	59,963	-	59,963	-	59,963
Legal	23,967	60,132	84,099	(60,132)	23,967
Utilities	34,736	-	34,736	-	34,736
Capital Expenditures	-	1,461,706	1,461,706	(1,461,706)	-
Landscape maintenance	27,870	-	27,870	-	27,870
Miscellaneous expenses	2,987	3,000	5,987	-	5,987
Snow removal	8,040	-	8,040	-	8,040
Transfer to Authority	263,062	60,190	323,252	-	323,252
Repay Property Owner advances - principal	-	69,575	69,575	(69,575)	-
Property Owner - interest	-	395,425	395,425	(7,753)	387,672
Total Expenditures	<u>508,485</u>	<u>2,059,587</u>	<u>2,568,072</u>	<u>(1,608,725)</u>	<u>959,347</u>
GENERAL REVENUES					
Transfer from District 2	139,800	440,219	580,019	-	580,019
Transfer from District 3	4,354	-	4,354	-	4,354
Transfer from District 7	177,932	-	177,932	-	177,932
Interest income	269	-	269	-	269
Total General Revenues	<u>322,355</u>	<u>440,219</u>	<u>762,574</u>	<u>-</u>	<u>762,574</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(186,130)	(1,619,368)	(1,805,498)	1,608,725	(196,773)
OTHER FINANCING SOURCES (USES)					
Transfer net assets to Authority	-	-	-	(7,183,745)	(7,183,745)
Property Owner advances	-	1,461,706	1,461,706	(1,461,706)	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>1,461,706</u>	<u>1,461,706</u>	<u>(8,645,451)</u>	<u>(7,183,745)</u>
NET CHANGES IN FUND BALANCES	(186,130)	(157,662)	(343,792)	343,792	
CHANGE IN NET POSITION				(7,380,518)	(7,380,518)
FUND BALANCES/NET POSITION:					
BEGINNING OF YEAR	186,130	157,662	343,792	7,036,726	7,380,518
END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The notes to the financial statements are an integral part of these statements.

Powhatan Road Metropolitan District No. 1

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

For the Year Ended December 31, 2021

	Original & Final		Variance
	Budget	Actual	Favorable (Unfavorable)
REVENUES			
Transfer from District 2	\$ 325,909	\$ 139,800	\$ (186,109)
Transfer from District 3	-	4,354	4,354
Transfer from District 7	-	177,932	177,932
Interest income	-	269	269
	<u>325,909</u>	<u>322,355</u>	<u>(3,554)</u>
EXPENDITURES			
Accounting and audit	15,000	2,390	12,610
Management fees	80,000	85,470	(5,470)
Insurance	50,000	59,963	(9,963)
Legal	75,000	23,967	51,033
Maintenance and repairs	32,500	-	32,500
Landscape maintenance	95,200	27,870	67,330
Miscellaneous expenses	825	2,987	(2,162)
Snow removal	35,000	8,040	26,960
Utilities	276,500	34,736	241,764
Transfer to Authority	-	263,062	(263,062)
Contingency	16,686	-	16,686
Emergency reserve	19,801	-	19,801
	<u>696,512</u>	<u>508,485</u>	<u>188,027</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(370,603)</u>	<u>(186,130)</u>	<u>184,473</u>
OTHER FINANCING SOURCES (USES)			
Property Owner advances	80,000	-	(80,000)
	<u>80,000</u>	<u>-</u>	<u>(80,000)</u>
NET CHANGE IN FUND BALANCE	<u>(290,603)</u>	<u>(186,130)</u>	<u>104,473</u>
FUND BALANCE:			
BEGINNING OF YEAR	290,603	186,130	(104,473)
END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The notes to the financial statements are an integral part of these statements.

Powhaton Road Metropolitan District No. 1

Notes to Financial Statements December 31, 2021

Note 1: Summary of Significant Accounting Policies

The accounting policies of the Powhaton Road Metropolitan District No. 1 (“District”), located in Arapahoe County, Colorado, conform to the accounting principles generally accepted in the United States of America (“GAAP”) as applicable to governmental units. 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 the more significant policies consistently applied in the preparation of financial statements.

Definition of Reporting Entity

The District was initially organized as Sand Creek Ranch Metropolitan District No. 1 on February 23, 2004 as a quasi-municipal organization established under the State of Colorado Special District Act. On May 13, 2013 an order was recorded to change the name of the District from Sand Creek Ranch Metropolitan District No. 1 to Powhaton Road Metropolitan District No. 1. The District was organized in conjunction with Powhaton Road Metropolitan District No. 2 (formerly known as Sand Creek Ranch Metropolitan District No. 2) (“District No. 2”), Powhaton Road Metropolitan District No. 3 (formerly known as Sand Creek Ranch Metropolitan District No. 3) (“District No. 3”), Powhaton Road Metropolitan District No. 4 (formerly known as Starfall Metropolitan District No. 1) (“District No. 4”), Powhaton Road Metropolitan District No. 5 (formerly known as Starfall Metropolitan District No. 2) (“District No. 5”), Powhaton Road Metropolitan District No. 6 (formerly known as Trails at First Creek Metropolitan District No. 1) (“District No. 6”), and Powhaton Road Metropolitan District No. 7 (formerly known as Trails at First Creek Metropolitan District No. 2) (“District No. 7” and, together with the District, District No. 2, District No. 3, District No. 4, District No. 5, District No. 6 and District No. 7, the “Districts”) pursuant to an Amended and Restated Service Plan for the Districts approved by the City Council of the City of Aurora on July 22, 2013 (the “Service Plan”). The Districts were formed for the purpose of financing the construction of part or all of the Public Improvements for the use and benefit of all anticipated inhabitants and taxpayers of the Districts. The District is governed by an elected Board of Directors. The District operates as the “coordinating district” pursuant to the District IGA and revenues will be generated by transfers from all other associated Districts (the “financing districts”).

On March 24, 2021 the Districts, together with Powhaton Road Metropolitan District Nos. 8-11 (f/k/a Sun Meadows Metropolitan District Nos. 1-4) (together with the “Districts” the “Powhaton Districts”) approved the Agreement Establishing the Powhaton Community Authority (“Establishment Agreement”) whereby the Powhaton Districts created the “Powhaton Community Authority” (“Authority”). The Authority was organized to incur financial obligations on behalf of the Powhaton Districts and to provide any services permitted by the Service Plans for the Powhaton Districts.

Powhatan Road Metropolitan District No. 1

Notes to Financial Statements December 31, 2021

On April 14, 2021, the Powhatan Districts and the Authority also approved the “Operating Agreement”. The Operating Agreement, consistent with the Establishment Agreement, establishes the procedures by which the Authority will undertake the ownership, operation, maintenance and repair of public improvements, ongoing covenant enforcement, design review and maintenance services, as well as certain administrative services on behalf of all of the Powhatan Districts. As a result, the Districts terminated the District Coordinating Services IGA and the District transferred all operations to the Authority.

As required by GAAP, these financial statements present the activities of the District, which is legally separate and financially independent of other state and local governments. The District follows the GASB Statement No. 61, *The Financial Reporting Entity: Omnibus, which amended* GASB Statement No. 14, *The Financial Reporting Entity* and GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, which provides guidance for determining which governmental activities, organizations and functions should be included within the financial reporting entity. GASB sets forth the financial accountability of a governmental organization’s elected governing body as the basic criterion for including a possible component governmental organization in a primary government’s legal entity.

Financial accountability includes, but is not limited to, appointment of a voting majority of the organization’s governing body, ability to impose its will on the organization, a potential for the organization to provide specific financial benefits or burdens and fiscal dependency. The pronouncements also require including a possible component unit if it would be misleading to exclude it.

The District is not financially accountable for any other organization. The District has no component units as defined by the GASB.

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

Basis of Presentation

The accompanying financial statements are presented per GASB Statement No. 34 - Special Purpose Governments.

The government-wide financial statements (i.e. the governmental funds balance sheet/statement of net position and the governmental funds statement of revenues, expenditures, and changes in fund balances/statement of activities) report information on all of the governmental activities of the District. The statement of net position reports all financial and capital resources of the District. The difference between the (a) assets and deferred outflows of resources and the (b) liabilities and deferred inflows of resources of the District is reported as net position. The statement of activities demonstrates the degree to which expenditures/expenses of the governmental funds are supported by general revenues. For the most part, the effect of interfund activity has been removed from these statements.

Powhatan Road Metropolitan District No. 1

Notes to Financial Statements
December 31, 2021

The statement of activities demonstrates the degree to which the direct and indirect expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are collected.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The material sources of revenue subject to accrual are Property Owner advances. Expenditures, other than interest on long-term obligations, are recorded when the liability is incurred or the long-term obligation is paid.

The District reports the following major governmental funds:

General Fund - The General Fund is the general operating fund of the District. It is used to account for all financial resources not accounted for and reported in another fund.

Capital Projects Fund – The Capital Projects Fund is used to account for all financial resources that are restricted, committed or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other assets.

Powhaton Road Metropolitan District No. 1

Notes to Financial Statements December 31, 2021

Budgetary Accounting

Budgets are adopted on a non-GAAP basis for the governmental funds. In accordance with the State Budget Law of Colorado, the District's Board of Directors holds public hearings in the fall of each year to approve the budget and appropriate the funds for the ensuing year. The District's Board of Directors can modify the budget by line item within the total appropriation without notification. The appropriation can only be modified upon completion of notification and publication requirements. The budget includes each fund on its basis of accounting unless otherwise indicated. The appropriation is at the total fund expenditures level and lapses at year end.

Assets, Liabilities and Net Position

Fair Value of Financial Instruments

The District's financial instruments include cash and cash equivalents, accounts receivable and accounts payable. The District estimates that the fair value of all financial instruments at December 31, 2021, does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying balance sheet. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

Deposits and Investments

The District's cash and cash equivalents are considered to be cash on hand and short-term investments with maturities of three months or less from the date of acquisition. Investments for the government are reported at fair value.

The District follows the practice of pooling cash and investments of all funds to maximize investment earnings. Except when required by trust or other agreements, all cash is deposited to and disbursed from a minimum number of bank accounts. Cash in excess of immediate operating requirements is pooled for deposit and investment flexibility. Investment earnings are allocated periodically to the participating funds based upon each fund's average equity balance in the total cash.

Estimates

The preparation of these financial statements in conformity with GAAP requires the District management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial 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. The District does not have any items that qualify for reporting in this category.

Powhatan Road Metropolitan District No. 1

Notes to Financial Statements December 31, 2021

In addition to liabilities, the statement of financial 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. The District does not have any items that qualify for reporting in this category.

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items), are reported in the applicable governmental activities columns in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the life of the asset are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable using the straight-line method. Depreciation on property that will remain assets of the District is reported on the Statement of Activities as a current charge. Improvements that will be conveyed to other governmental entities are classified as construction in progress and are not depreciated. Land and certain landscaping improvements are not depreciated. During 2021, all of the Districts Capital Assets were transferred to the Authority for ownership, operations and maintenance

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities.

Fund Equity

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. Because circumstances differ among governments, not every government or every governmental fund will present all of these components. The following classifications make the nature and extent of the constraints placed on a government's fund balance more transparent:

Nonspendable Fund Balance

Nonspendable fund balance includes amounts that cannot be spent because they are either not spendable in form (such as inventory or prepaids) or are legally or contractually required to be maintained intact.

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Notes to Financial Statements
December 31, 2021

Restricted Fund Balance

The restricted fund balance includes amounts restricted for a specific purpose by external parties such as grantors, bondholders, constitutional provisions or enabling legislation.

The restricted fund balance in the General Fund represents Emergency Reserves that have been provided as required by Article X, Section 20 of the Constitution of the State of Colorado. A total of \$1,503 of the General Fund balance has been restricted in compliance with this requirement.

Committed Fund Balance

The portion of fund balance that can only be used for specific purposes pursuant to constraints imposed by a formal action of the government's highest level of decision-making authority, the Board of Directors. The constraint may be removed or changed only through formal action of the Board of Directors.

Assigned Fund Balance

Assigned fund balance includes amounts the District intends to use for a specific purpose. Intent can be expressed by the District's Board of Directors or by an official or body to which the Board of Directors delegates the authority.

Unassigned Fund Balance

Unassigned fund balance includes amounts that are available for any purpose. Positive amounts can be reported only in the General Fund, all funds can report negative amounts.

For the classification of Governmental Fund balances, the District considers an expenditure to be made from the most restrictive first when more than one classification is available.

Net Position

Net Position represents the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources. The District can report three categories of net position, as follows:

Net investment in capital assets – consists of net capital assets, reduced by outstanding balances of any related debt obligations and deferred inflows of resources attributable to the acquisition, construction, or improvement of those assets and increased by balances of deferred outflows or resources related to those assets.

Restricted net position – net position is considered restricted if their use is constrained to a particular purpose. Restrictions are imposed by external organizations such as federal or state laws. Restricted net position is reduced by liabilities and deferred inflows of resources related to the restricted assets.

Powhaton Road Metropolitan District No. 1

Notes to Financial Statements
December 31, 2021

Unrestricted net position – consists of all other net position that does not meet the definition of the above two components and is available for general use by the District.

When an expense is incurred for purposes for which both restricted and unrestricted net position are available, the District will use the most restrictive net position first.

Note 2: Note 2: Cash and Investments

As of December 31, 2021, cash is classified in the accompanying financial statements as follows:

Statement of Net Position:	
Cash and investments	\$ 239,123
Cash and investments – Restricted	<u>1,503</u>
Total	<u>\$ 240,626</u>

Cash and investments as of December 31, 2021, consist of the following:

Deposits with financial institutions	\$ 9,416
Investments – COLOTRUST	<u>231,210</u>
	<u>\$ 240,626</u>

Deposits

Custodial Credit Risk

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 least equal to 102% of the aggregate uninsured deposits. The State Commissioners for banks and financial services are required by statute to monitor the naming of eligible depositories and reporting of the uninsured deposits and assets maintained in the collateral pools.

The District follows state statutes for deposits. None of the District’s deposits were exposed to custodial credit risk.

Powhaton Road Metropolitan District No. 1

Notes to Financial Statements December 31, 2021

Investments

Certain investments are measured at 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 prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The District's investments are not required to be categorized within the fair value hierarchy. This investment's value for COLOTRUST is calculated using the net asset value method (NAV) per share.

Credit Risk

The District has not adopted a formal investment policy; however the District follows state statutes regarding investments. Colorado statutes specify the types of investments meeting defined rating and risk criteria in which local governments may invest. These investments include obligations of the United States and certain U.S. Government agency entities, certain money market funds, guaranteed investment contracts, and local government investment pools.

Custodial and Concentration of Credit Risk

None of the District's investments are subject to custodial or concentration of credit risk.

Interest Rate Risk

Colorado revised statutes limit investment maturities to five years or less unless formally approved by the Board of Directors.

As of December 31, 2021, the District had the following investment:

COLOTRUST

The local government investment pool, Colorado Local Government Liquid Asset Trust ("COLOTRUST") is rated AAAM by Standard & Poor's with a weighted average maturity of under 60 days. COLOTRUST is an investment trust/joint venture established for local government entities in Colorado to pool surplus funds. The State Securities Commissioner administers and enforces all State statutes governing the Trust. COLOTRUST records its investments at fair value and the District records its investment in COLOTRUST using the net asset value method. The Trust operates similarly to a money market fund with each share maintaining a value of \$1.00. The COLOTRUST offers shares in three portfolios, one of which is COLOTRUST PLUS+. 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. There are no unfunded commitments and there is no redemption notice period. At December 31, 2021, the District had \$231,210 invested in COLOTRUST PLUS+.

Powhatan Road Metropolitan District No. 1

Notes to Financial Statements
December 31, 2021

Note 3: Capital Assets

An analysis of the changes in capital assets for the year ended December 31, 2021, follows:

Governmental Type Activities:	Balance 1/1/2021	Additions	Transfers	Balance 12/31/2021
<u>Capital assets not being depreciated:</u>				
Construction in progress	\$ 16,586,228	\$ 1,531,396	\$ 18,117,624	\$ -
Total capital assets not being depreciated	16,586,228	1,531,396	18,117,624	-
Government type assets, net	<u>\$ 16,586,228</u>	<u>\$ 1,531,396</u>	<u>\$ 18,117,624</u>	<u>\$ -</u>

During 2021, the District transferred ownership and maintenance responsibility for all capital improvements to the Authority.

Note 4: Long Term Debt

A description of the long-term obligations as of December 31, 2021, is as follows:

Infrastructure Acquisition and Reimbursement Agreement

On February 16, 2017, the District entered into an Infrastructure Acquisition and Reimbursement Agreement (“Acquisition Agreement”) with the Melcor/TCAurora, LLC, (“Property Owner”). The Acquisition Agreement sets forth the procedures for the District’s acquisition of public infrastructure and reimbursement to the Property Owner for costs related to the provision of public infrastructure. The Property Owner agreed to either construct certain public improvements which would then be acquired by the District or initially fund the construction and installation of such improvements by the District. Per this agreement the District agreed to reimburse the Property Owner for the advances plus interest at 8% per annum. During 2021, all amounts due under this agreement were transferred to the Authority and this agreement was terminated.

Funding and Reimbursement Agreement

The District entered into a Funding and Reimbursement Agreement (Operations & Maintenance) dated as of February 16, 2017 with the Property Owner (the “Operations Funding Agreement”). Pursuant to the Operations Funding Agreement, the Property Owner agreed to make a loan to the District in an amount not to exceed \$300,000 (“Maximum Loan Amount”) during the years 2017, 2018 and 2019 for the purpose of funding general operating, administrative and maintenance costs of the Districts. The District acknowledged that the Property Owner made advances under prior agreements with the Districts in the amount of \$370,370 and to the District from 2014 through the date of the Operations Funding Agreement of \$49,088 (collectively, the “Prior Costs”).

Powhatan Road Metropolitan District No. 1

Notes to Financial Statements
December 31, 2021

Pursuant to the Operations Funding Agreement, reimbursement for Prior Costs will be in accordance with the Operations Funding Agreement, except that any Prior Costs reimbursed will not be included in the calculation of the Maximum Loan Amount. Upon request of the Property Owner, the District has agreed to issue one or more reimbursement notes, bonds or other instruments (the “Reimbursement Obligations”) in an aggregate amount not to exceed the Maximum Loan Amount to evidence the District’s obligation to repay the funds loaned under the Operations Funding Agreement. Each loan advance will accrue simple interest at the rate of 8% per annum from the date any such advance is made until the earlier of the date the Reimbursement Obligation is issued to evidence such advance, or the date of repayment of such amount. The term for repayment of this obligation is not to extend beyond 40 years from the date of the Operations Funding Agreement.

Upon issuance of any such Reimbursement Obligation, unless otherwise consented to by the Property Owner, any interest accrued on any previously advanced amount will be added to the amount of the loan advance and reflected as principal of the Reimbursement Obligation and will thereafter accrue interest as provided in such Reimbursement Obligation. Under the Operations Funding Agreement, the District intends to repay advances (including the Prior Costs) from revenues of the District net of any debt service or current operations and maintenance costs of the District. During 2021, all amounts due under this agreement were transferred to the Authority and this agreement was terminated.

The following is an analysis of changes in long-term debt for the period ending December 31, 2021:

	Balance 1/1/2021	Additions	Deletions	Transfers	Balance 12/31/2021
Property Owner- Capital	\$ 8,332,218	\$ 1,461,707	\$ 69,575	\$ 9,724,350	\$ -
Property Owner- Operations	490,507	-	-	490,507	-
Accrued interest - Capital	369,733	368,103	395,425	342,411	-
Accrued interest - Operations	357,044	19,567	-	376,611	-
Total	<u>\$ 9,549,502</u>	<u>\$ 1,849,377</u>	<u>\$ 465,000</u>	<u>\$ 10,933,879</u>	<u>\$ -</u>

Debt Authorization

As of December 31, 2021, the District had remaining voted debt authorization of approximately \$856,500,000. The District has not budgeted to issue new debt during 2021. Per the District’s Service Plan, the Districts , cannot issue aggregate debt in excess of \$200,000,000.

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Notes to Financial Statements
December 31, 2021

Note 5: District Agreements

District Coordinating Services IGA

The Districts entered in to a District Coordinating Services Agreement dated October 10, 2017 and made effective as of January 1, 2017 (the “District IGA”) for the purpose of establishing their respective obligations with respect to coordination, oversight and funding of certain administrative costs of the Districts and costs related to the continued operation and maintenance of certain of the Public Improvements within the Districts. On August 12, 2021, the District Coordinating Services IGA was terminated.

Operating Agreement

On April 14, 2021, the Powhaton Districts and the Authority approved the “Operating Agreement”. The Operating Agreement, consistent with the Establishment Agreement, establishes the procedures by which the Authority will undertake the ownership, operation, maintenance and repair of public improvements, ongoing covenant enforcement, design review and maintenance services, as well as certain administrative services on behalf of all of the Powhaton Districts.

Note 6: Tax, Spending and Debt Limitations

Article X, Section 20 of the Colorado Constitution, commonly known as the Taxpayer Bill of Rights (“TABOR”), contains tax, spending, revenue and debt limitations which apply to the State of Colorado and all local governments.

Spending and revenue limits are determined based on the prior year’s Fiscal Year Spending adjusted for allowable increases based upon inflation and local growth. Fiscal Year Spending is generally defined as expenditures plus reserve increases with certain exceptions. Revenue in excess of the Fiscal Year Spending limit must be refunded unless the voters approve retention of such revenue.

TABOR requires local governments to establish Emergency Reserves. These reserves must be at least 3% of Fiscal Year Spending (excluding bonded debt service). Local governments are not allowed to use the emergency reserves to compensate for economic conditions, revenue shortfalls, or salary or benefit increases.

The District’s management believes the District is in compliance with the provisions of TABOR. However, TABOR is complex and subject to interpretation. Many of the provisions, including the interpretation of how to calculate Fiscal Year Spending limits will require judicial interpretation. In November 2003 and November 2004, a majority of the District’s electors authorized the District to collect and spend or retain in a reserve all currently levied taxes and fees of the District without regard to any limitations under Article X, Section 20 of the Colorado Constitution.

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Notes to Financial Statements
December 31, 2021

Note 7: Risk Management

Except as provided in the Colorado Governmental Immunity Act, 24-10-101, et seq., CRS, the District may be exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets; errors or omissions; injuries to agents; and natural disasters. The District has elected to participate in the Colorado Special Districts Property and Liability Pool (“Pool”) which 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 officials’ liability, and 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.

Note 8: Reconciliation of Government-Wide Financial Statements and Fund Financial Statements

The Governmental Funds Balance Sheet/Statement of Net Position includes an adjustments column. The adjustments may have the following elements:

- 1) Capital improvements used in government activities are not financial resources and, therefore are not reported in the funds; and
- 2) long-term liabilities such as bonds payable and accrued bond interest payable are not due and payable in the current period and, therefore, are not reported in the funds.

The Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances/Statement of Activities includes an adjustments column. The adjustments may have the following elements:

- 1) Governmental funds report capital outlays as expenditures, however, in the statement of activities, the costs of those assets are held as construction in process pending transfer to other governmental entities or depreciated over their useful lives;
- 2) governmental funds report interest expense on the modified accrual basis; however, interest expense is reported on the full accrual method on the Statement of Activities;
- 3) governmental funds report Property Owner advances and/or bond proceeds as revenue; and,
- 4) governmental funds report long-term debt payments as expenditures, however, in the statement of activities, the payment of long-term debt is recorded as a decrease of long-term liabilities.

Powhatan Road Metropolitan District No. 1

Notes to Financial Statements
December 31, 2021

Note 9: Transfer of Net Assets

The Operating Agreement transferred responsibility for the Operations of the Districts to the Authority from District No. 1 during 2021. District No. 1 transferred remaining Net Assets to the Authority in July 2021 as shown below.

	<u>Balance</u>
Capital Assets	\$ 18,117,624
Developer Advance Debt	<u>(10,933,879)</u>
Net Assets Transferred	<u>\$ 7,183,745</u>

SUPPLEMENTAL INFORMATION

Powhaton Road Metropolitan District No. 1

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - CAPITAL PROJECTS FUND

For the Year Ended December 31, 2021

	Original & Final <u>Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
REVENUES			
Transfer from Other Districts	\$ 420,000	\$ 440,219	\$ 20,219
Total Revenues	<u>420,000</u>	<u>440,219</u>	<u>20,219</u>
EXPENDITURES			
Accounting and audit	-	9,558	(9,558)
Legal	-	60,132	(60,132)
Capital Expenditures	17,000,000	1,461,706	15,538,294
Miscellaneous expenses	-	3,000	(3,000)
Transfer to District 1	-	60,190	(60,190)
Repay Property Owner advances - principal	420,000	69,575	350,425
Property Owner - interest	<u>-</u>	<u>395,425</u>	<u>(395,425)</u>
Total Expenditures	<u>17,420,000</u>	<u>2,059,587</u>	<u>15,360,413</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	<u>(17,000,000)</u>	<u>(1,619,368)</u>	<u>15,380,632</u>
OTHER FINANCING SOURCES			
Property Owner advances	<u>17,000,000</u>	<u>1,461,706</u>	<u>(15,538,294)</u>
Total Other Financing Sources	<u>17,000,000</u>	<u>1,461,706</u>	<u>(15,538,294)</u>
NET CHANGE IN FUND BALANCE	-	(157,662)	(157,662)
FUND BALANCE:			
BEGINNING OF YEAR	<u>-</u>	<u>157,662</u>	<u>157,662</u>
END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The notes to the financial statements are an integral part of these statements.