

ARABIAN ACRES METROPOLITAN DISTRICT

FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Arabian Acres Metropolitan District
Florissant, Colorado

We have audited the accompanying financial statements of Arabian Acres Metropolitan District ("District") as of and for the years ended December 31, 2020 and 2019, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Arabian Acres Metropolitan District as of December 31, 2020 and 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The supplementary information as identified in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

BiggsKofford, P.C.

Colorado Springs, Colorado
July 26, 2021

ARABIAN ACRES METROPOLITAN DISTRICT
STATEMENTS OF NET POSITION
DECEMBER 31, 2020 AND 2019

<u>ASSETS</u>	<u>2020</u>	<u>2019</u>
Current assets:		
Cash and investments	\$ 641,231	\$ 277,598
Cash and investments - restricted	110,500	110,500
Accounts receivable - County Treasurer	1,996	1,961
Accounts receivable, less allowance for doubtful accounts	31,069	11,198
Property taxes receivable	122,827	121,647
Total current assets	<u>907,623</u>	<u>522,904</u>
Non-current assets:		
Capital assets, net	4,124,899	1,764,656
Total non-current assets	<u>4,124,899</u>	<u>1,764,656</u>
Total assets	<u>\$ 5,032,522</u>	<u>\$ 2,287,560</u>
<u>LIABILITIES</u>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 340,862	\$ 29,027
Retainage payable	107,100	-
Accrued interest payable	9,885	6,300
Current maturities of bonds and notes payable	99,918	74,511
Total current liabilities	<u>557,765</u>	<u>109,838</u>
Non-current liabilities:		
Bonds and notes payable, net of current portion	2,059,142	1,268,865
Total liabilities	<u>2,616,907</u>	<u>1,378,703</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>		
Deferred property taxes	122,843	121,647
Total deferred inflows of resources	<u>122,843</u>	<u>121,647</u>
<u>NET POSITION</u>		
Invested in capital assets, net	2,227,707	659,656
Restricted for:		
Emergency reserves	9,740	10,800
Debt service	110,500	110,500
Unrestricted	(55,175)	6,254
Total net position	<u>2,292,772</u>	<u>787,210</u>
Total liabilities and net position	<u>\$ 5,032,522</u>	<u>\$ 2,287,560</u>

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

ARABIAN ACRES METROPOLITAN DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES
IN NET POSITION
YEARS ENDED DECEMBER 31, 2020 AND 2019

<u>OPERATING REVENUES</u>	<u>2020</u>	<u>2019</u>
Water sales	\$ 361,905	\$ 285,687
Other operating revenue	6,142	4,640
<u>Total operating revenues</u>	<u>368,047</u>	<u>290,327</u>
 <u>OPERATING EXPENSES</u>		
Depreciation and amortization	40,549	31,648
District management	55,600	54,632
Fees, dues and subscriptions	13,702	11,137
Insurance	15,416	6,409
ORC fees	42,371	38,834
Other expenses	26,181	71,316
Professional fees	11,492	22,366
Purchased services	27,775	24,817
Repairs and maintenance	13,820	23,391
Utilities	11,991	10,571
<u>Total operating expenses</u>	<u>258,897</u>	<u>295,121</u>
<u>Operating income (loss)</u>	<u>109,150</u>	<u>(4,794)</u>
 <u>NON-OPERATING REVENUES (EXPENSES)</u>		
Property taxes	115,674	88,093
Specific ownership taxes	12,898	13,068
County Treasurer fees	(3,475)	(2,644)
Grant revenue	1,331,262	333,889
Interest income	2,283	9,286
Interest expense	(62,230)	(60,737)
<u>Net non-operating revenues</u>	<u>1,396,412</u>	<u>380,955</u>
<u>Change in net position</u>	<u>1,505,562</u>	<u>376,161</u>
<u>Total net position, beginning of year</u>	<u>787,210</u>	<u>411,049</u>
<u>Total net position, end of year</u>	<u>\$ 2,292,772</u>	<u>\$ 787,210</u>

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

ARABIAN ACRES METROPOLITAN DISTRICT
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Cash received from user fees and surcharges	\$ 348,176	\$ 304,968
Cash paid for goods and services	(235,616)	(240,151)
Net change in cash from operating activities	<u>112,560</u>	<u>64,817</u>
<u>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</u>		
Cash received from general and specific tax revenues	125,078	97,566
Grant proceeds	1,331,262	333,889
Net change in cash from non-capital financing activities	<u>1,456,340</u>	<u>431,455</u>
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>		
Acquisitions and construction of capital assets	(1,961,004)	(631,034)
Proceeds from issuance of debt	889,413	182,239
Payments on bonds and notes payable	(73,729)	(75,185)
Interest expense	(62,230)	(60,737)
Net change in cash from capital and related financing activities	<u>(1,207,550)</u>	<u>(584,717)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Interest income	<u>2,283</u>	<u>9,286</u>
Net change in cash from investing activities	<u>2,283</u>	<u>9,286</u>
Net change in cash and investments	<u>363,633</u>	<u>(79,159)</u>
Cash and investments, beginning of year	<u>388,098</u>	<u>467,257</u>
Cash and investments, end of year	<u>\$ 751,731</u>	<u>\$ 388,098</u>

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

ARABIAN ACRES METROPOLITAN DISTRICT
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
<u>RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES</u>		
Operating income (loss)	\$ 109,150	\$ (4,794)
Adjustments to reconcile operating income (loss) to net change in cash from operating activities:		
Depreciation and amortization	40,549	31,648
Decrease (increase) in operating assets:		
Accounts receivable	(19,871)	14,641
Prepaid expense	-	6,409
Increase (decrease) in operating liabilities:		
Accounts payable and accrued liabilities	(20,853)	15,380
Accrued interest payable	3,585	1,533
Net change in cash from operating activities	<u>\$ 112,560</u>	<u>\$ 64,817</u>
<u>NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES</u>		
Acquisitions and construction of capital assets through accounts payable and retainage payable	<u>\$ 439,788</u>	<u>\$ -</u>

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

ARABIAN ACRES METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

1. DEFINITION OF REPORTING ENTITY

Arabian Acres Metropolitan District ("District"), a quasi-municipal corporation, is governed pursuant to provisions of the Colorado Special District Act. The District's service area is located in Teller County, Colorado. The District was formed primarily for the purpose of acquiring the water system for the use and benefit of the District's residents, taxpayers and property owners, and for providing for the design, purchase, operation, maintenance and extension of the water system. The District may provide additional services or facilities that may be provided by a metropolitan district, within and outside the District's boundaries, in accordance with its service plan.

The District follows Governmental Accounting Standards Board ("GASB") accounting pronouncements which provide guidance for determining which governmental activities, organizations and functions should be included within the financial reporting entity. GASB pronouncements set forth the financial accountability of a governmental organization's elected governing body as the basic criterion for including a possible component governmental organization in a primary government's legal entity. Financial accountability includes, but is not limited to, appointment of a voting majority of the organization's governing body, ability to impose its will on the organization, a potential for the organization to provide specific financial benefits or burdens and fiscal dependency.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the District conform to accounting principles generally accepted in the United States of America ("US GAAP") as applicable to governmental units accounted for as a proprietary enterprise fund. The enterprise fund is used since the District's powers are related to those operated in a manner similar to a private utility system where net income and capital maintenance are appropriate determinations of accountability.

Basis of accounting

The District's records are maintained on the accrual basis of accounting. Revenue is recognized when earned and expenses are recognized when the liability is incurred. Depreciation is computed and recorded as an operating expense. Expenditures for capital assets are shown as increases in assets.

See independent auditor's report.

ARABIAN ACRES METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of accounting (continued)

The District distinguishes between operating revenues and expenses and non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the District's purpose of providing water and sanitation services to its customers. Operating revenues consist of charges to customers for services provided. Operating expenses include the cost of service, administrative expenses, and depreciation of assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses or capital contributions.

Use of estimates

The preparation of financial statements in accordance with US GAAP requires the District to use estimates and assumptions. Those estimates and assumptions affect the reported balances of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses. Actual results could vary from the estimates.

Budgets and budgetary accounting

In accordance with state budget law, the District's board of directors holds public hearings in the fall 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 appropriation is at the total fund expenditures level and lapses at year end.

The District incurred expenditures in excess of appropriations for the years ended December 31, 2020, which may be in violation of the local government budget law.

Cash and equivalents

For purposes of the statements of cash flows, the District considers cash and all highly liquid debt instruments with initial maturities of three months or less to be cash equivalents.

See independent auditor's report.

ARABIAN ACRES METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts receivable

Accounts receivable of the District consist of water sales receivable. Accounts receivable are unsecured and are stated at the amount the District expects to collect. The District maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. Management considers the following factors when determining the collectability of specific customer accounts: customer creditworthiness, past transaction history with the customer, current economic industry trends and changes in customer payment terms. If the financial condition of the District's customers were to deteriorate, adversely affecting their ability to make payments, additional allowances would be required. As of December 31, 2020 and 2019, management considers accounts receivable to be fully collectible and no allowance for doubtful accounts has been recorded.

Property taxes

Property taxes are levied by the District's board of directors. The levy is based on assessed valuations determined by the County Assessor generally as of December 1 of each year. The levy is normally set by December 15 by certification to the County Commissioners to place tax liens on individual properties as of January 1 of the following year. The County Treasurer collects the determined taxes during the ensuing calendar year. The taxes are payable by April or if in equal installments, at the taxpayer's election, in February and June. Delinquent taxpayers are notified in August and generally sales of the tax liens on delinquent properties are held in November. The County Treasurer remits the taxes collected monthly to the District.

Property taxes, net of estimated uncollectible taxes, are recorded initially as deferred property taxes in the year they are levied and measurable. The deferred property taxes are recorded as revenues in the year they are available or collected. All property tax revenues are pledged for bond repayment.

Capital assets

Assets with useful lives exceeding one year and cost or fair value at contribution of \$1,000 or greater are capitalized. Purchased capital assets are recorded at historical cost. Contributed capital assets are recorded at their fair value on the date received. Additions, improvements, and other capital outlays that significantly extend the life of an asset are capitalized. Depreciation is computed using the straight-line method over estimated useful lives as follows:

Water distribution system and equipment	40 years
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See independent auditor's report.

ARABIAN ACRES METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital assets (continued)

Maintenance and repairs are expensed as incurred. At the time of retirement or disposition of depreciable property, the related cost and accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected as non-operating revenue or expense.

Water rights

The cost of water rights includes acquisition cost and legal and engineering costs related to the development and augmentation of those rights. Since the rights have a perpetual life, they are not amortized. All other costs, including costs incurred for the protection of those rights, are expensed.

Deferred inflows of resources

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The District reports unavailable revenues from one source, property taxes. This amount is deferred and recognized as an inflow of resources in the year the property taxes are levied and budgeted for.

Revenues and expenses

Operating revenues consist of charges for services and are recognized as earned. Operating expenses include the cost of service, administrative expenses, and depreciation of assets and are recorded as incurred.

Net position

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

Reclassifications

Certain prior period balances and amounts have been reclassified to conform with the current period financial statement presentation. These reclassifications have no effect on previously reported change in net position.

See independent auditor's report.

ARABIAN ACRES METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

3. CASH AND INVESTMENTS

Cash and equivalents and investments are reflected for the December 31, 2020 and 2019 statements of net position and statements of cash flows as follows:

	2020	2019
Cash and investments	\$ 641,231	\$ 277,598
Cash and investments - restricted	110,500	110,500
	\$ 751,731	\$ 388,098

The carrying amounts of cash and investments for the District, which equals fair value, as of December 31, 2020 and 2019 are as follows:

	2020	2019
Deposits with financial institutions	\$ 449,178	\$ 99,438
Investments	302,553	288,660
	\$ 751,731	\$ 388,098

Deposits with financial institutions

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

At December 31, 2020, the District had cash deposits with a bank balance of \$456,143 and a carrying balance of \$449,178. At December 31, 2019, the District had cash deposits with a bank balance of \$148,178 and a carrying balance of \$99,438.

See independent auditor's report.

ARABIAN ACRES METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

3. CASH AND INVESTMENTS (CONTINUED)

Investments

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

The District generally limits its concentration of investments to those below which are believed to have minimal credit risk, minimal interest rate risk and no foreign currency risk. Additionally, the District is not subject to concentration risk disclosure requirements or subject to investment custodial credit risk for investments that are in the possession of another party.

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

Colorado statutes specify investment instruments meeting defined rating and risk criteria in which local governments may invest which include:

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

As of December 31, 2020, the District had the following investments:

<u>Investments</u>	<u>Maturity</u>	<u>Amount</u>
Colorado Local Government Liquid Asset Trust (COLOTRUST)	Weighted average under 60 days	<u>\$ 302,553</u>

As of December 31, 2019, the District had the following investments:

<u>Investments</u>	<u>Maturity</u>	<u>Amount</u>
Colorado Local Government Liquid Asset Trust (COLOTRUST)	Weighted average under 60 days	<u>\$ 288,660</u>

See independent auditor's report.

ARABIAN ACRES METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

3. CASH AND INVESTMENTS (CONTINUED)

Investments (continued)

COLOTRUST

The District invested in the Colorado Local Government Liquid Asset Trust ("COLOTRUST" or "Trust"), an investment vehicle established for local government entities in Colorado to pool surplus funds. The State Securities Commissioner administers and enforces all state statutes governing the Trust. The Trust operates similarly to a money market fund and each share is equal in value to \$1. The Trust offers shares in two portfolios, COLOTRUST PRIME and COLOTRUST PLUS+. Both portfolios may invest in US Treasury securities and repurchase agreements collateralized by US Treasury securities. COLOTRUST PLUS+ may also invest in certain obligations of U.S. government agencies, highest rated commercial paper and any security allowed under CRS 24-75-601. A designated custodial bank serves as custodian for the Trust's portfolios pursuant to a custodian agreement. The custodian acts as safekeeping agent for the Trust's investment portfolios and provides services as the depository in connection with direct investments and withdrawals. The custodian's internal records segregate investments owned by the Trust. COLOTRUST is rated AAAM by Standard & Poor's. COLOTRUST records its investments at fair value and the District records its investments in COLOTRUST at net asset value as determined by fair value. There are no unfunded commitments, the redemption frequency is daily, and there is no redemption notice period.

See independent auditor's report.

ARABIAN ACRES METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

4. CAPITAL ASSETS

District capital asset activity for the year ended December 31, 2020 is as follows:

	<u>Balance 01/01/20</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Balance 12/31/20</u>
Capital assets, not being depreciated:				
Land	\$ 101,000	\$ -	\$ -	\$ 101,000
Water rights	172,588	-	-	172,588
Construction in progress	<u>699,333</u>	<u>2,400,792</u>	<u>(699,333)</u>	<u>2,400,792</u>
 Total capital assets, not being depreciated	 <u>972,921</u>	 <u>2,400,792</u>	 <u>(699,333)</u>	 <u>2,674,380</u>
Capital assets, being depreciated:				
Water distribution system and equipment	<u>1,265,931</u>	<u>699,333</u>	<u>-</u>	<u>1,965,264</u>
 Total capital assets, being depreciated	 <u>1,265,931</u>	 <u>699,333</u>	 <u>-</u>	 <u>1,965,264</u>
Less accumulated depreciation:				
Water distribution system and equipment	<u>(474,196)</u>	<u>(40,549)</u>	<u>-</u>	<u>(514,745)</u>
 Total accumulated depreciation	 <u>(474,196)</u>	 <u>(40,549)</u>	 <u>-</u>	 <u>(514,745)</u>
 Capital assets, net	 <u><u>\$1,764,656</u></u>	 <u><u>\$3,059,576</u></u>	 <u><u>\$ (699,333)</u></u>	 <u><u>\$ 4,124,899</u></u>

See independent auditor's report.

ARABIAN ACRES METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

4. CAPITAL ASSETS (CONTINUED)

District capital asset activity for the year ended December 31, 2019 is as follows:

	Balance 01/01/19	Additions	Dispositions	Balance 12/31/19
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Capital assets, not being depreciated:				
Land	\$ 101,000	\$ -	\$ -	\$ 101,000
Water rights	172,588	-	-	172,588
Construction in process	<u>68,299</u>	<u>631,034</u>	<u>-</u>	<u>699,333</u>
 Total capital assets, not being depreciated	 <u>341,887</u>	 <u>631,034</u>	 <u>-</u>	 <u>972,921</u>
 Capital assets, being depreciated:				
Water distribution system and equipment	 <u>1,265,931</u>	 <u>-</u>	 <u>-</u>	 <u>1,265,931</u>
 Total capital assets, being depreciated	 <u>1,265,931</u>	 <u>-</u>	 <u>-</u>	 <u>1,265,931</u>
 Less accumulated depreciation:				
Water distribution system and equipment	 <u>(442,548)</u>	 <u>(31,648)</u>	 <u>-</u>	 <u>(474,196)</u>
 Total accumulated depreciation	 <u>(442,548)</u>	 <u>(31,648)</u>	 <u>-</u>	 <u>(474,196)</u>
 Capital assets, net	 <u><u>\$1,165,270</u></u>	 <u><u>\$ (31,648)</u></u>	 <u><u>\$ -</u></u>	 <u><u>\$ 1,764,656</u></u>

Depreciation expense for the years ended December 31, 2020 and 2019 totaled \$40,549 and \$31,648, respectively.

See independent auditor's report.

ARABIAN ACRES METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

5. LONG-TERM OBLIGATIONS

The following is a summary of changes in long-term obligations of the District during the year ended December 31, 2020:

	<u>Balance 01/01/20</u>	<u>Additions</u>	<u>Repayments</u>	<u>Balance 12/31/20</u>	<u>Due within one year</u>
2007 Series Bonds	\$ 1,105,000	\$ -	\$ 65,000	\$ 1,040,000	\$ 70,000
NRWA Note Payable	56,137	-	8,729	47,408	9,800
CWCB Note Payable	182,239	32,221	-	214,460	-
CWRD Note Payable	<u>-</u>	<u>857,192</u>	<u>-</u>	<u>857,192</u>	<u>20,118</u>
	<u>\$ 1,343,376</u>	<u>\$ 889,413</u>	<u>\$ 73,729</u>	<u>\$ 2,159,060</u>	<u>\$ 99,918</u>

The following is a summary of changes in long-term obligations of the District during the year ended December 31, 2019:

	<u>Balance 01/01/19</u>	<u>Additions</u>	<u>Repayments</u>	<u>Balance 12/31/19</u>	<u>Due within one year</u>
2007 Series Bonds	\$ 1,170,000	\$ -	\$ 65,000	\$ 1,105,000	\$ 65,000
NRWA Note Payable	66,149	-	10,012	56,137	9,511
CWCB Note Payable	-	182,239	-	182,239	-
Judgments payable	<u>173</u>	<u>-</u>	<u>173</u>	<u>-</u>	<u>-</u>
	<u>\$ 1,236,322</u>	<u>\$ 182,239</u>	<u>\$ 75,185</u>	<u>\$ 1,343,376</u>	<u>\$ 74,511</u>

See independent auditor's report.

ARABIAN ACRES METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

5. LONG-TERM OBLIGATIONS (CONTINUED)

2007 Series Bonds

On April 4, 2007, the District issued \$1,425,000 of water revenue refunding bonds, series 2007 secured by water revenues and property tax revenues; \$455,000 were issued as serial bonds and \$970,000 were issued as term bonds. The serial bonds carry interest rates of 4.05% to 4.40% per annum and mature between December 1, 2014 and December 1, 2021. The term bonds carry interest rate of 5.00% per annum and mature on December 1, 2030. The term bonds are subject to mandatory sinking fund redemption in prescribed amounts before the maturity dates.

The District is required to maintain a debt service reserve account to be used for the payment of principal and interest of its 2007 series revenue bonds in the event that the District has not provided the Trustee with sufficient funds to make the required payment. The District lacks the required reserve account balance at December 31, 2020.

Following is a summary of the District's future debt service requirements of the 2007 series revenue bonds:

<u>Year ending December 31,</u>	<u>Bond Principal</u>	<u>Bond Interest</u>	<u>Total</u>
2021	\$ 70,000	\$ 51,580	\$ 121,580
2022	75,000	48,500	123,500
2023	80,000	44,750	124,750
2024	85,000	40,750	125,750
2025	90,000	36,500	126,500
2026-2030	<u>640,000</u>	<u>113,750</u>	<u>753,750</u>
	<u>\$1,040,000</u>	<u>\$ 335,830</u>	<u>\$ 1,375,830</u>

NRWA note payable

On August 1, 2015, the District entered into a loan in the amount of \$94,701 in order to ensure an adequate water supply. The note payable to National Rural Water Association Revolving Loan Fund ("NRWA") is due in monthly installments of \$924 with a stated interest rate of 3.00% per annum, maturing on July 1, 2025. The note is secured with an interest in the assets of the District in the amount of the principle balance.

See independent auditor's report.

ARABIAN ACRES METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

5. LONG-TERM OBLIGATIONS (CONTINUED)

NRWA note payable (continued)

Following is a summary of the District's future debt service requirements of the NRWA note payable:

<u>Year ending December 31,</u>	<u>Note Principal</u>	<u>Note Interest</u>	<u>Total</u>
2021	\$ 9,800	\$ 1,289	\$ 11,089
2022	10,098	991	11,089
2023	10,406	684	11,090
2024	10,722	367	11,089
2025	6,382	64	6,446
	<u>\$ 47,408</u>	<u>\$ 3,395</u>	<u>\$ 50,803</u>

CWCB note payable

On July 9, 2019, the District entered into a note payable with the Colorado Water Conservation Board ("CWCB") for up to \$214,460. The note bears interest at 1.85% per annum and is secured by an interest in the revenues of the District. Draws on this note are made as expenses are incurred and repayment is required on or before the maturity date on May 1, 2030 and, accordingly no summary of future debt service is provided.

CWRD note payable

On June 15, 2020, the District entered into a loan with Colorado Water Resources & Power Development Authority ("CWRD") in the amount of \$1,500,000 loan to rehabilitate the existing distribution system, construct a new storage tank, improve the existing storage and treatment facilities. The note payable is due in full on or before the maturity date November 1, 2050 with a stated interest rate 0.5% per annum. The loan includes \$400,000 in principal forgiveness upon issuance which is included in grant revenue on the statement of revenues, expenses and changes in net position for the year ended December 31, 2020.

See independent auditor's report.

ARABIAN ACRES METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

5. LONG-TERM OBLIGATIONS (CONTINUED)

CWRD note payable (continued)

Following is a summary of the District's future debt service requirements of the CWRD note payable:

<u>Year ending December 31,</u>	<u>Bond Principal</u>	<u>Bond Interest</u>	<u>Total</u>
2021	\$ 20,118	\$ 3,187	\$ 23,305
2022	34,693	5,371	40,064
2023	34,896	5,197	40,093
2024	35,041	5,036	40,077
2025	35,216	4,848	40,064
2026-2030	178,743	21,589	200,332
2031-2035	183,263	17,073	200,336
2036-2040	187,896	12,477	200,373
2041-2045	<u>147,326</u>	<u>1,484</u>	<u>148,810</u>
	<u>\$ 857,192</u>	<u>\$ 76,262</u>	<u>\$ 933,454</u>

Judgement payable

On August 20, 2014, the District entered into a joint settlement agreement that was accepted and approved by the District Court on September 12, 2014, with two vendors related to nonpayment of outstanding invoices in the amount of \$113,542. The liability was paid in full using a special assessment on the property holders of the District.

6. NET POSITION

The District has net position consisting of three components - invested in capital assets, net of related debt; restricted; and unrestricted.

See independent auditor's report.

ARABIAN ACRES METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

6. NET POSITION (CONTINUED)

Invested in capital assets, net of related debt consist of capital assets, net of accumulated depreciation, plus unspent debt proceeds, and reduced by outstanding balances of bonds, mortgages, notes or other borrowing that are attributable to the acquisition, construction, or improvement of those assets. As of December 31, 2020 and 2019, the District had an investment in capital assets, net of related debt calculated as follows:

	2020	2019
Capital assets, net of accumulated depreciation	\$ 4,124,899	\$ 1,764,656
Revenue bonds and note payable	(1,897,192)	(1,105,000)
	\$ 2,227,707	\$ 659,656

Restricted assets include net assets that are restricted for use either externally by creditors, grantors, contributors, or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The District had restricted net assets as of December 31, 2020 and 2019 as follows:

	2020	2019
Restricted for debt service (Note 5)	\$ 110,500	\$ 110,500
Restricted for emergency reserves (Note 8)	9,740	10,800
Total restricted net position	\$ 120,240	\$ 121,300

Unrestricted net assets consist of net assets that do not meet the definition of invested in capital, net of related debt or restricted net assets.

7. RISK MANAGEMENT

Except as provided in the Colorado Governmental Immunity Act, as amended, the District may be exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to volunteers or contractors; and natural disasters. The District carries commercial insurance for some of these risks of loss. The remaining risks of loss are retained by the District. There were no significant changes in coverage during the years ended December 31, 2020 and 2019.

See independent auditor's report.

ARABIAN ACRES METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

8. TAX, SPENDING AND DEBT LIMITATIONS

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

Spending and revenue limits are determined based on the prior fiscal year spending adjusted for allowable increases based upon inflation and local growth. Fiscal year spending is generally defined as expenditures plus reserve increases with certain exceptions. 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.

Management believes the District is in compliance with the provisions of TABOR. However, TABOR is complex and subject to interpretation. Many of the provisions, including the interpretation of how to calculate fiscal year spending limits, will likely require judicial interpretation.

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See independent auditor's report.

SUPPLEMENTARY INFORMATION

ARABIAN ACRES METROPOLITAN DISTRICT
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET COMPARED TO ACTUAL - MODIFIED CASH BASIS
YEAR ENDED DECEMBER 31, 2020

	Original and and Final Budget	Actual	Favorable (Unfavorable) Variance
<u>OPERATING REVENUES</u>			
Water sales	\$ 331,503	342,034	\$ 10,531
Other operating revenue	-	6,142	6,142
Total revenues	<u>331,503</u>	<u>348,176</u>	<u>16,673</u>
<u>OPERATING EXPENDITURES</u>			
Advertising and promoting	1,000	-	1,000
Capital outlay	2,100,000	2,400,792	(300,792)
Contingency	11,000	-	11,000
District management	50,000	55,600	(5,600)
Fees, dues and subscriptions	16,325	13,702	2,623
Insurance	8,000	15,416	(7,416)
ORC fees	44,000	42,371	1,629
Other expenses	18,550	23,063	(4,513)
Professional fees	29,500	11,492	18,008
Purchased services	30,000	27,775	2,225
Repairs and maintenance	20,000	13,820	6,180
Utilities	12,500	11,991	509
Total operating expenditures	<u>2,340,875</u>	<u>2,616,022</u>	<u>(275,147)</u>
<u>NON-OPERATING REVENUES AND EXPENDITURES</u>			
Grant revenue	1,100,000	1,331,262	231,262
Loan proceeds	1,000,000	857,192	(142,808)
Property taxes	121,647	115,674	(5,973)
Transfer in (out) other funds	28,524	-	(28,524)
Specific ownership taxes	8,515	12,898	4,383
Interest income	2,500	2,283	(217)
CWCB Meter loan	(27,614)	32,221	59,835
Interest expense	(55,986)	(62,230)	(6,244)
Principal payments	(74,511)	(73,729)	782
Total non-operating revenues and expenditures	<u>2,103,075</u>	<u>2,215,571</u>	<u>112,496</u>
Excess (deficit) of revenue over expenditures - budgetary basis	<u>\$ 93,703</u>	<u>\$ (52,275)</u>	<u>\$ (145,978)</u>

See independent auditor's report.

ARABIAN ACRES METROPOLITAN DISTRICT
RECONCILIATION OF AMOUNTS FROM
US GAAP BASIS TO MODIFIED CASH BASIS
YEAR ENDED DECEMBER 31, 2020

The accompanying supplementary Schedule of Revenues and Expenditures - Budget Compared to Actual on page 23 presents comparisons of the legally adopted budget with actual data on a budgetary basis. Because accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with GAAP, a reconciliation of differences in revenues and expenditures for the year ended December 31, 2020 is presented below.

Total revenue per financial statements (operating and non-operating revenue)	\$ 1,830,164
Add:	
Loan proceeds	889,413
Revenue accruals and non-cash adjustments at December 31, 2019	19,568
Less:	
Revenue accruals and non-cash adjustments at December 31, 2020	(39,439)
<u>Total actual revenue and receipts per the budget</u>	<u>\$ 2,699,706</u>
Total expenses and capital expenditures per financial statements	
	\$ 324,602
Add:	
Principal payments on long-term debt	73,729
Capital outlay	2,400,792
Depreciation expense	(40,549)
Expense accruals and non-cash adjustments at December 31, 2020	(6,593)
<u>Total actual expenses and capital expenditures per the budget</u>	<u>\$ 2,751,981</u>

See independent auditor's report.