

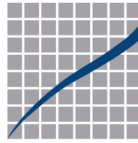
ARABIAN ACRES METROPOLITAN DISTRICT

FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

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BiggsKofford
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Arabian Acres Metropolitan District
Florissant, Colorado

Opinions

We have audited the accompanying financial statements of the business-type activities of Arabian Acres Metropolitan District ("District"), as of and for the years ended December 31, 2021 and 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the District as of December 31, 2021 and 2020, 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.

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 the report. We are required to be independent of the District and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of 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 District's ability to continue as a going concern for a reasonable period of time.

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

Other Matters

Required Supplementary Information

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

Supplementary Information

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

BiggsKofford, P.C.

Colorado Springs, Colorado
July 26, 2022

BASIC FINANCIAL STATEMENTS

ARABIAN ACRES METROPOLITAN DISTRICT
STATEMENTS OF NET POSITION
DECEMBER 31, 2021 AND 2020

<u>ASSETS</u>	<u>2021</u>	<u>2020</u>
Current assets:		
Cash and investments	\$ 568,979	\$ 631,491
Cash and investments - restricted	106,400	120,240
Receivable from County Treasurer	871	1,996
Accounts receivable, net	11,313	31,069
Property taxes receivable	142,292	122,827
Total current assets	<u>829,855</u>	<u>907,623</u>
Non-current assets:		
Capital assets, net	4,191,649	4,124,899
Total non-current assets	<u>4,191,649</u>	<u>4,124,899</u>
Total assets	<u>\$ 5,021,504</u>	<u>\$ 5,032,522</u>
<u>LIABILITIES</u>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 10,800	\$ 340,862
Retainage payable	-	107,100
Accrued interest payable	7,427	9,885
Current maturities of bonds and notes payable	119,791	99,918
Total current liabilities	<u>138,018</u>	<u>557,765</u>
Non-current liabilities:		
Bonds and notes payable, net of current portion	<u>2,161,608</u>	<u>2,059,142</u>
Total liabilities	<u>2,299,626</u>	<u>2,616,907</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>		
Deferred property taxes	<u>142,292</u>	<u>122,843</u>
Total deferred inflows of resources	<u>142,292</u>	<u>122,843</u>
<u>NET POSITION</u>		
Invested in capital assets, net	2,141,767	2,227,707
Restricted for:		
Debt service	97,000	110,500
Emergency reserve	9,400	9,740
Unrestricted	<u>331,419</u>	<u>(55,175)</u>
Total net position	<u>2,579,586</u>	<u>2,292,772</u>
Total liabilities and net position	<u>\$ 5,021,504</u>	<u>\$ 5,032,522</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, 2021 AND 2020

<u>OPERATING REVENUES</u>	<u>2021</u>	<u>2020</u>
Water sales	\$ 288,483	\$ 361,905
Other operating revenues	15,127	6,142
<u>Total operating revenues</u>	<u>303,610</u>	<u>368,047</u>
<u>OPERATING EXPENSES</u>		
Depreciation and amortization	49,131	40,549
District management	55,000	55,600
Fees, dues, and subscriptions	8,955	13,702
Insurance	14,838	15,416
ORC fees	40,800	42,371
Other expenses	8,826	26,181
Professional fees	13,839	11,492
Purchased services	14,300	27,775
Repairs and maintenance	38,053	13,820
Utilities	9,416	11,991
<u>Total operating expenses</u>	<u>253,158</u>	<u>258,897</u>
<u>Operating income</u>	<u>50,452</u>	<u>109,150</u>
<u>NON-OPERATING REVENUES (EXPENSES)</u>		
Property taxes	117,682	115,674
Specific ownership taxes	13,475	12,898
County Treasurer fees	(3,525)	(3,475)
Grant revenues	166,133	1,331,262
Interest income	269	2,283
Interest expense	(57,672)	(62,230)
<u>Net non-operating revenues</u>	<u>236,362</u>	<u>1,396,412</u>
<u>Change in net position</u>	<u>286,814</u>	<u>1,505,562</u>
<u>Total net position, beginning of year</u>	<u>2,292,772</u>	<u>787,210</u>
<u>Total net position, end of year</u>	<u>\$ 2,579,586</u>	<u>\$ 2,292,772</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, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Cash received from user fees and surcharges	\$ 323,366	\$ 348,028
Cash paid for goods and services	(534,089)	(235,616)
Net change in cash from operating activities	(210,723)	108,975
<u>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</u>		
Cash received from general and specific tax revenues	128,741	125,078
Grant proceeds	166,133	1,331,262
Net change in cash from non-capital financing activities	294,874	1,456,340
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>		
Acquisitions and construction of capital assets	(222,981)	(1,961,004)
Proceeds from issuance of debt	242,808	889,413
Payments on bonds and notes payable	(120,469)	(73,729)
Accrued interest payable	(2,458)	3,585
Interest expense	(57,672)	(62,230)
Net change in cash from capital and related financing activities	(160,772)	(1,203,965)
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Interest income	269	2,283
Net change in cash from investing activities	269	2,283
Net change in cash and investments	(76,352)	363,633
Cash and investments, beginning of year	751,731	388,098
Cash and investments, end of year	<u>\$ 675,379</u>	<u>\$ 751,731</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, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
<u>RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES</u>		
Operating income	\$ 50,452	\$ 109,150
Adjustments to reconcile operating income to net change in cash from operating activities:		
Depreciation and amortization	49,131	40,549
Decrease (increase) in operating assets:		
Accounts receivable, net	19,756	(19,871)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued liabilities	(330,062)	(20,853)
<u>Net change in cash from operating activities</u>	<u>\$ (210,723)</u>	<u>\$ 108,975</u>
<u>NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES</u>		
Acquisitions and construction of capital assets through accounts payable and retainage payable	<u>\$ -</u>	<u>\$ 439,788</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, 2021 AND 2020

1. DEFINITION OF REPORTING ENTITY

Arabian Acres Metropolitan District ("District"), a quasi-municipal corporation and political subdivision of the state of Colorado, was formed in October 2003, and is governed pursuant to provisions of the Colorado Special District Act. The District's service area is located in Teller County, Colorado ("County"). The District was organized 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 and potential for the organization to provide specific financial benefits or burdens and fiscal dependency.

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

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, 2021 AND 2020

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 amended its annual budget for the year ended December 31, 2021.

Cash and investments

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, 2021 AND 2020

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, 2021 and 2020, 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 January 1 of each year. The levy is normally set by December 15 and attaches as an enforceable lien as of January 1 of the following year. The County Treasurer collects the determined taxes during the ensuing calendar year. The taxes are payable by April or, at the taxpayer's election, in February and June in equal installments. Delinquent taxpayers are notified in August and sales of the tax liens on delinquent properties are generally held in November or December. The County Treasurer remits the taxes collected to the District monthly.

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

Capital assets

Capital assets, which include property, equipment and water distribution systems, are defined by the District as assets with an initial individual cost of more than \$1,000 and a useful life greater than one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Contributed capital assets are recorded at estimated acquisition value at the date of contribution. Depreciation expense has been computed using the straight-line method over the estimated economic useful lives of the assets 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, 2021 AND 2020

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

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. There was no impact on the change in net position due to these reclassifications.

See independent auditor's report.

ARABIAN ACRES METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

3. CASH AND INVESTMENTS

Cash and investments as of December 31, 2021 and 2020, are classified in the accompanying financial statements as follows:

	2021	2020
Cash and investments	\$ 568,979	\$ 631,491
Cash and investments - restricted	106,400	120,240
	\$ 675,379	\$ 751,731

The carrying amounts of cash and investments, which equal estimated fair value, as of December 31, 2021 and 2020, are as follows:

	2021	2020
Deposits with financial institutions	\$ 358,828	\$ 449,178
Investments	316,551	302,553
	\$ 675,379	\$ 751,731

Deposits with financial institutions

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

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

As of December 31, 2021, the District's cash deposits had a bank balance of \$360,395 and a book balance of \$358,828. As of December 31, 2020, the District's cash deposits had a bank balance of \$456,143 and a book balance of \$449,178.

See independent auditor's report.

ARABIAN ACRES METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

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, 2021, the District had the following investments:

<u>Investment</u>	<u>Maturity</u>	<u>Amount</u>
Colorado Local Government Liquid Asset Trust (COLOTRUST)	Weighted average under 60 days	<u>\$ 316,551</u>

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

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

See independent auditor's report.

ARABIAN ACRES METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

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, 2021 AND 2020

4. CAPITAL ASSETS

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

	<u>Balance 1/1/2021</u>	<u>Additions/ Reclass- ifications</u>	<u>Dispositions Reclass- ifications</u>	<u>Balance 12/31/21</u>
Capital assets, not being depreciated:				
Land	\$ 101,000	\$ -	\$ -	\$ 101,000
Water rights	172,588	-	-	172,588
Construction in progress	<u>2,400,792</u>	<u>115,881</u>	<u>-</u>	<u>2,516,673</u>
 Total capital assets, not being depreciated	 <u>2,674,380</u>	 <u>115,881</u>	 <u>-</u>	 <u>2,790,261</u>
 Capital assets, being depreciated:				
Water distribution system and equipment	<u>1,965,264</u>	<u>-</u>	<u>-</u>	<u>1,965,264</u>
 Total capital assets, being depreciated	 <u>1,965,264</u>	 <u>-</u>	 <u>-</u>	 <u>1,965,264</u>
 Less accumulated depreciation:				
Water distribution system and equipment	<u>(514,745)</u>	<u>(49,131)</u>	<u>-</u>	<u>(563,876)</u>
 Total accumulated depreciation	 <u>(514,745)</u>	 <u>(49,131)</u>	 <u>-</u>	 <u>(563,876)</u>
 Capital assets, net	 <u><u>\$4,124,899</u></u>	 <u><u>\$ 66,750</u></u>	 <u><u>\$ -</u></u>	 <u><u>\$ 4,191,649</u></u>

See independent auditor's report.

ARABIAN ACRES METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

4. CAPITAL ASSETS (CONTINUED)

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

	<u>Balance 1/1/2020</u>	<u>Additions/ Reclass- ifications</u>	<u>Dispositions Reclass- ifications</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 process	<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>\$1,764,656</u>	<u>\$ 658,784</u>	<u>\$ -</u>	<u>\$ 4,124,899</u>

Depreciation expense for the years ended December 31, 2021 and 2020 totaled \$49,131 and \$40,549, respectively.

See independent auditor's report.

ARABIAN ACRES METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

5. LONG-TERM OBLIGATIONS

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

	<u>Balance 1/1/2021</u>	<u>Additions</u>	<u>Repayments/ Defeasance</u>	<u>Balance 12/31/21</u>	<u>Due Within One Year</u>
General obligation bonds					
Series 2007 Bonds	\$ 1,040,000	\$ -	\$ 70,000	\$ 970,000	\$ 75,000
Subtotal	<u>1,040,000</u>	<u>-</u>	<u>70,000</u>	<u>970,000</u>	<u>75,000</u>
Other debt					
NRWA Note Payable	47,408	-	9,800	37,608	10,098
CWCB Note Payable	214,460	-	20,551	193,909	-
CWRD Note Payable	<u>857,192</u>	<u>242,808</u>	<u>20,118</u>	<u>1,079,882</u>	<u>34,693</u>
Subtotal	<u>1,119,060</u>	<u>242,808</u>	<u>50,469</u>	<u>1,311,399</u>	<u>44,791</u>
Total long-term obligations	<u><u>\$ 2,159,060</u></u>	<u><u>\$ 242,808</u></u>	<u><u>\$ 120,469</u></u>	<u><u>\$ 2,281,399</u></u>	<u><u>\$ 119,791</u></u>

See independent auditor's report.

ARABIAN ACRES METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

5. LONG-TERM OBLIGATIONS (CONTINUED)

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

	<u>Balance 1/1/2020</u>	<u>Additions</u>	<u>Repayments/ Defeasance</u>	<u>Balance 12/31/20</u>	<u>Due within one year</u>
General obligation bonds					
Series 2007					
2007 Series					
Bonds	\$ 1,105,000	\$ -	\$ 65,000	\$ 1,040,000	\$ 70,000
Subtotal	<u>1,105,000</u>	<u>-</u>	<u>65,000</u>	<u>1,040,000</u>	<u>70,000</u>
Other debt					
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>
Subtotal	<u>238,376</u>	<u>889,413</u>	<u>8,729</u>	<u>1,119,060</u>	<u>29,918</u>
Total long-term obligations	<u>\$ 1,343,376</u>	<u>\$ 889,413</u>	<u>\$ 73,729</u>	<u>\$ 2,159,060</u>	<u>\$ 99,918</u>

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.

See independent auditor's report.

ARABIAN ACRES METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

5. LONG-TERM OBLIGATIONS (CONTINUED)

Series 2007 Water Revenue Refunding Bonds (continued)

Events of default for the bonds

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

- i. Payment of the principal on any bond is not made by the District when due.
- ii. Payment of the interest on any bond is not made by the District when due.
- iii. The District defaults in the performance of any other of its material covenants in the bond resolution, and such default continues for 60 days after written notice specifying such default and requiring the same to be remedied is given to the District by the owners of 50% in aggregate principal amount of the bonds then outstanding.
- iiii. The District files a petition under the federal bankruptcy laws or other applicable bankruptcy laws seeking to adjust the obligation represented by the bonds.

Upon the occurrence and continuance of an event of default, the trustee may protect and enforce the rights of any owner by proper legal or equitable remedy deemed most effectual including, without limitation, mandamus, specific performance of any covenants, injunctive relief, or requiring the board of directors to act as if it were the trustee of an express trust, or any combination of such remedies; provided however, that acceleration of any payments due with respect to any bond shall not be a remedy available to the owner of any such bond.

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

Years Ending December 31,	Principal	Interest	Total
2022	75,000	48,500	123,500
2023	80,000	44,750	124,750
2024	85,000	40,750	125,750
2025	85,000	36,500	121,500
2026	90,000	32,250	122,250
2027-2030	555,000	81,500	636,500
	<u>\$ 970,000</u>	<u>\$ 284,250</u>	<u>\$ 1,254,250</u>

See independent auditor's report.

ARABIAN ACRES METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

5. LONG-TERM OBLIGATIONS (CONTINUED)

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.

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

<u>Years Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 10,098	\$ 991	\$ 11,089
2023	10,405	684	11,089
2024	10,722	367	11,089
2025	6,383	64	6,447
	<u>\$ 37,608</u>	<u>\$ 2,106</u>	<u>\$ 39,714</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, 2021 AND 2020

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:

Years Ending December 31,	Principal	Interest	Total
2022	\$ 34,693	\$ 6,541	\$ 41,234
2023	34,896	6,367	41,264
2024	35,041	6,210	41,251
2025	35,216	6,017	41,233
2026	35,393	5,841	41,233
2027-2031	179,638	26,540	206,179
2032-2036	184,180	22,004	206,184
2037-2041	188,837	17,328	206,165
2042-2045	193,611	12,548	206,159
2042-2045	158,377	6,316	164,695
	<u>\$1,079,882</u>	<u>\$ 115,712</u>	<u>\$ 1,195,596</u>

6. NET POSITION

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

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, 2021 and 2020, the District had an investment in capital assets, net of related debt calculated as follows:

	<u>2021</u>	<u>2020</u>
Invested in capital assets, net of related debt:		
Capital assets, net	\$ 4,191,649	\$ 4,124,899
Revenue bonds and note payable	(2,049,882)	(1,897,192)
Invested in capital assets, net of related debt	<u>\$ 2,141,767</u>	<u>\$ 2,227,707</u>

See independent auditor's report.

ARABIAN ACRES METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

6. NET POSITION (CONTINUED)

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, 2021 and 2020 as follows:

	2021	2020
Restricted net position:		
Debt service (Note 5)	\$ 97,000	\$ 110,500
Emergencies (Note 8)	9,400	9,740
Total restricted net position	\$ 106,400	\$ 120,240

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, 2021 and 2020.

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.

See independent auditor's report.

ARABIAN ACRES METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

8. TAX, SPENDING AND DEBT LIMITATIONS

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, 2021

	Budget		Actual Amounts	Variance with Final Budget
	Original	Final		
<u>OPERATING REVENUES</u>				
Water sales	\$ 307,503	\$ 306,100	\$ 288,483	\$ (17,617)
Other operating revenues	-	23,073	15,127	(7,946)
<u>Total revenues</u>	307,503	329,173	303,610	(25,563)
<u>OPERATING EXPENDITURES</u>				
Advertising and promoting	1,000	-	-	-
Capital outlay	178,751	547,405	115,881	431,524
Contingency	22,000	2,000	-	2,000
Depreciation and amortization	-	-	49,131	(49,131)
District management	55,000	46,900	55,000	(8,100)
Fees, dues, and subscriptions	10,800	9,350	8,955	395
Insurance	8,000	8,000	14,838	(6,838)
ORC fees	48,000	40,800	40,800	-
Other expenses	19,200	14,560	8,826	5,734
Professional fees	25,100	15,100	13,839	1,261
Purchased services	10,000	8,000	14,300	(6,300)
Repairs and maintenance	15,000	27,500	38,053	(10,553)
Utilities	12,500	9,500	9,416	84
<u>Total operating expenditures</u>	405,351	729,115	369,039	360,076
<u>NON-OPERATING REVENUES AND EXPENDITURES</u>				
Property taxes	122,843	117,461	117,682	221
Specific ownership taxes	8,599	13,941	13,475	(466)
County Treasurer's fees	(1,842)	(3,517)	(3,525)	(8)
Grant revenue	-	166,133	166,133	-
Interest income	8,500	500	269	(231)
Interest expense	(52,869)	(56,070)	(57,672)	(1,602)
Debt principal payments	(107,414)	(123,606)	(120,469)	3,137
Debt proceeds	-	-	242,808	242,808
Transfer in (out) other funds	-	(48,096)	-	48,096
<u>Total non-operating revenues and expenditures</u>	(22,183)	66,746	358,701	291,955
Excess (deficit) of revenue over expenditures - budgetary basis	<u>\$ (120,031)</u>	<u>\$ (333,196)</u>	<u>\$ 293,272</u>	<u>\$ 626,468</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, 2021

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, 2021 is presented below.

Total revenue per financial statements (operating and non-operating revenue)		\$ 601,169
Add:		
Loan proceeds		242,808
Revenue accruals and non-cash adjustments at December 31, 2020		39,439
Less:		
Revenue accruals and non-cash adjustments at December 31, 2021		(39,439)
Total actual revenue and receipts per the budget		<u>\$ 843,977</u>
Total expenses and capital expenditures per financial statements		
		\$ 314,355
Add:		
Principal payments on long-term debt		120,469
Capital outlay		115,881
Depreciation expense		(49,131)
Expense accruals and non-cash adjustments at December 31, 2021		49,131
Total actual expenses and capital expenditures per the budget		<u>\$ 550,705</u>

See independent auditor's report.