

Holland Creek Metropolitan District

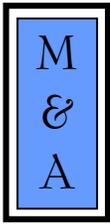
Financial Statements

December 31, 2019

**Holland Creek Metropolitan District
Financial Statements
December 31, 2019**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors Holland Creek Metropolitan District

We have audited the accompanying financial statements of the governmental activities, business-type activities, and each major fund of the Holland Creek Metropolitan District (the "District"), as of and for the year ended December 31, 2019, which collectively comprise the District's basic financial statements as listed in the table of contents, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Holland Creek Metropolitan District as of December 31, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Member: American Institute of Certified Public Accountants

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Emphasis of a Matter

As discussed in Note IV.B. to the financial statements, the District has recorded an allowance for doubtful accounts of \$5,230,496 on the Net Capital and Service Obligation Receivable from Red Sky Ranch Metropolitan District based on financial projections and assumptions through 2030, including assessed valuation, the state of the economy, and stable real estate prices in the area. There is a significant risk that the current projections, assumptions, estimated and actual assessed valuation amounts may vary from year to year, and that these variations may be material to the estimates of the allowance for doubtful accounts. The resulting variations in the allowance for doubtful accounts cannot be estimated at this time and may also be material to the financial statements of the District from year to year until 2030. Our opinion is not modified with respect to this matter.

Other Matters

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

The budgetary comparison information in Section E is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. The budgetary comparison 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 statement or to 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The individual fund budgetary comparisons found in Section F presented for purposes of additional analysis and are not a required part of the basic financial statements. The individual fund budgetary comparisons found in Section F are the responsibility of management and were derived from and relate 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 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 financial statements or to 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.

McMahan and Associates, L.L.C.

McMahan and Associates, L.L.C.

June 16, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

Holland Creek Metropolitan District
Statement of Net Position
December 31, 2019

	Governmental Activities	Business-type Activities	Total
Assets:			
Cash and investments	2,262,771	832,881	3,095,652
Accounts receivable - RSRMD	151,513	-	151,513
Accounts receivable - Other	18,605	2,906	21,511
Property tax receivable	2,899	-	2,899
Accrued interest	1,102	-	1,102
Prepaid expenses	395	-	395
Net capital and service obligation receivable from (prepaid by) RSRMD	6,876,802	(832,436)	6,044,366
Capital assets, net	686,431	3,009,578	3,696,009
Total Assets	10,000,518	3,012,929	13,013,447
Liabilities:			
Accounts payable	70,188	-	70,188
Unearned revenue	-	3,351	3,351
Bonds payable	6,310,000	-	6,310,000
Note payable to VR Holdings, Inc.	3,961,554	-	3,961,554
Interest payable to VR Holdings, Inc.	3,860,295	-	3,860,295
Total Liabilities	14,202,037	3,351	14,205,388
Deferred Inflow of Resources:			
Unavailable property tax revenue	2,899	-	2,899
Total Deferred Inflow of Resources	2,899	-	2,899
Net Position:			
Net investment in capital assets	686,431	3,009,578	3,696,009
Restricted for emergencies	11,313	-	11,313
Restricted for impact fees	330,600	-	330,600
Unrestricted	(5,232,762)	-	(5,232,762)
Total Net Position	(4,204,418)	3,009,578	(1,194,840)

The accompanying notes are an integral part of these financial statements.

**Holland Creek Metropolitan District
Statement of Activities
For the Year Ended December 31, 2019**

	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Position</u>			
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Functions/Programs							
Governmental Activities:							
General government	139,064	-	-	-	(139,064)		(139,064)
Public works	451,682	-	129,102	-	(322,580)		(322,580)
Intergovernmental agreement	182,298	-	658,967	194,906	671,575		671,575
Interest expense	415,264	-	-	-	(415,264)		(415,264)
Total Governmental Activities	<u>1,188,308</u>	<u>-</u>	<u>788,069</u>	<u>194,906</u>	<u>(205,333)</u>		<u>(205,333)</u>
Business-type Activities:							
Water and sanitation	848,852	307,963	-	4,925		(535,964)	(535,964)
Intergovernmental agreement	233,336	-	-	-		(233,336)	(233,336)
Total Business-type Activities	<u>1,082,188</u>	<u>307,963</u>	<u>-</u>	<u>4,925</u>		<u>(769,300)</u>	<u>(769,300)</u>
Total	<u>2,270,496</u>	<u>307,963</u>	<u>788,069</u>	<u>199,831</u>	<u>(205,333)</u>	<u>(769,300)</u>	<u>(974,633)</u>
General revenues:							
Property and specific ownership tax					2,096	-	2,096
Sales tax					153,445	-	153,445
Investment earnings					62,545	12,659	75,204
Transfers					(200,000)	200,000	-
Total General Revenues and Transfers					<u>18,086</u>	<u>212,659</u>	<u>230,745</u>
Change in Net Position					(187,247)	(556,641)	(743,888)
Net Position - Beginning					<u>(4,017,171)</u>	<u>3,566,219</u>	<u>(450,952)</u>
Net Position - Ending					<u>(4,204,418)</u>	<u>3,009,578</u>	<u>(1,194,840)</u>

The accompanying notes are an integral part of these financial statements.

FUND FINANCIAL STATEMENTS

**Holland Creek Metropolitan District
Balance Sheet
Governmental Funds
December 31, 2019**

	General	Debt Service	Total Governmental Funds
Assets:			
Cash and investments	2,262,771	-	2,262,771
Accounts receivable - RSRMD	142,933	8,580	151,513
Accounts receivable - Other	18,605	-	18,605
Property tax receivable	2,899	-	2,899
Accrued interest	1,102	-	1,102
Prepaid expenses	395	-	395
Due to (from) other funds	1,754	(1,754)	-
Total Assets	2,430,459	6,826	2,437,285
Liabilities, Deferred Inflow of Resources, and Fund Balances:			
Liabilities:			
Accounts payable	63,483	6,705	70,188
Total Liabilities	63,483	6,705	70,188
Deferred Inflow of Resources:			
Unavailable property tax revenue	2,899	-	2,899
Total Deferred Inflow of Resources	2,899	-	2,899
Fund Balances:			
Nonspendable	395	-	395
Restricted for ERFPD	330,600	-	330,600
Restricted for emergencies	11,313	-	11,313
Assigned - Capital replacements	170,000	-	170,000
Assigned - Infrastructure Replacement	1,610,000	-	1,610,000
Assigned - Other	200,265	121	200,386
Unassigned	41,504	-	41,504
Total Fund Balances	2,364,077	121	2,364,198
Total Liabilities, Deferred Inflow of Resources, and Fund Balances	2,430,459	6,826	

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

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds.	686,431
Net amounts due from Red Sky Ranch Metropolitan District for capital and service costs are not currently available financial resources and, therefore, are not reported in the funds.	6,876,802
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	(14,131,849)
Net Position of Governmental Activities	(4,204,418)

The accompanying notes are an integral part of these financial statements.

Holland Creek Metropolitan District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2019

	<u>General</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
Revenues:			
Property and specific ownership tax	2,096	-	2,096
Sales tax	153,445	-	153,445
RSRMD intergovernmental agreement	658,967	194,906	853,873
Investment income	62,545	-	62,545
RSRPOA and VR gatehouse contributions	127,429	-	127,429
Other revenues	1,673	-	1,673
Total Revenues	<u>1,006,155</u>	<u>194,906</u>	<u>1,201,061</u>
Expenditures:			
General government	121,729	17,335	139,064
Public works	255,387	-	255,387
Debt service	-	177,571	177,571
Total Expenditures	<u>377,116</u>	<u>194,906</u>	<u>572,022</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>629,039</u>	<u>-</u>	<u>629,039</u>
Other Financing Sources (Uses):			
Transfers to other funds	<u>(200,000)</u>	<u>-</u>	<u>(200,000)</u>
Total Other Financing Sources	<u>(200,000)</u>	<u>-</u>	<u>(200,000)</u>
Net Change in Fund Balances	429,039	-	429,039
Fund Balances - Beginning	1,935,038	121	1,935,159
Fund Balances - Ending	<u>2,364,077</u>	<u>121</u>	<u>2,364,198</u>

The accompanying notes are an integral part of these financial statements.

**Holland Creek Metropolitan District
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
To the Statement of Activities
For the Year Ended December 31, 2019**

Net Change in Fund Balances of Governmental Funds	429,039
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p>	
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay during the year.</p>	(196,295)
<p>The net change in accrued interest at the end of the year is neither a source nor a use of current financial resources. As such, the change is not reported in the funds.</p>	(237,693)
<p>Changes in the amount of the capital and service obligation due from Red Sky Ranch Metropolitan District do not consume current financial resources and, therefore, are not reported in governmental funds.</p>	
<p>Other changes</p>	<u>(182,298)</u>
Change in Net Position of Governmental Activities	<u><u>(187,247)</u></u>

The accompanying notes are an integral part of these financial statements.

Holland Creek Metropolitan District
Statement of Net Position
Proprietary Fund - Water and Sanitation Fund
December 31, 2019

Assets:

Current Assets:

Equity in pooled cash	832,881
Accounts receivable, net of allowance for uncollectible accounts	<u>2,906</u>
Total Current Assets	<u>835,787</u>

Non-current Assets:

Property, plant and equipment, net of accumulated depreciation	<u>3,009,578</u>
Total Non-current Assets	<u>3,009,578</u>

Total Assets	<u>3,845,365</u>
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Liabilities:

Current Liabilities:

Unearned revenue	<u>3,351</u>
Total Current Liabilities	<u>3,351</u>

Non-current Liabilities:

Prepayment of net capital and service obligation from RSRMD	<u>832,436</u>
Total Non-current Liabilities	<u>832,436</u>

Total Liabilities	<u>835,787</u>
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Net Position:

Investment in capital assets	<u>3,009,578</u>
Total Net Position	<u>3,009,578</u>

The accompanying notes are an integral part of these financial statements.

Holland Creek Metropolitan District
Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Fund - Water and Sanitation Fund
For the Year Ended December 31, 2019

Operating Revenues:	
Water and sewer fees	307,109
Lease revenue	855
Total Operating Revenues	307,964
 Operating Expenses:	
Operations	149,177
Water lease	42,201
Repairs and maintenance	32,970
Depreciation	624,505
Total Operating Expenses	848,853
Operating (Loss)	(540,889)
 Non-Operating Revenues (Expenses):	
Investment income	12,659
Change in net capital and service obligations prepaid by RSRMD	(233,336)
Total Non-Operating (Expenses)	(220,677)
(Loss) Before Contributions and Transfers	(761,566)
 Contributions and Transfers:	
Tap and plant investment fees	4,925
Transfers in (out)	200,000
Total Contributions and Transfers	204,925
Change in Net Position	(556,641)
Net Position - Beginning	3,566,219
Net Position - Ending	3,009,578

The accompanying notes are an integral part of these financial statements.

**Holland Creek Metropolitan District
Statement of Cash Flows
Proprietary Fund - Water and Sanitation Fund
For the Year Ended December 31, 2019**

Cash Flows From Operating Activities:	
Cash received from customers and others	309,273
Cash paid for goods and services	<u>(259,027)</u>
Net Cash (Used) by Operating Activities	<u>50,246</u>
Cash Flows From Non-Capital Financing Activities:	
Transfer from (to) other fund	200,000
Net Cash Provided by Non-Capital Financing Activities	<u>200,000</u>
Cash Flows From Capital Financing Activities:	
Cash paid for capital acquisitions	(67,864)
Tap and plant investment fees received	4,925
Net Cash (Used) by Capital Financing Activities	<u>(62,939)</u>
Cash Flows From Investing Activities:	
Interest received	12,659
Net Cash Provided by Investing Activities	<u>12,659</u>
Net Change in Cash and Cash Equivalents	199,966
Cash and Cash Equivalents - Beginning of Year	<u>632,915</u>
Cash and Cash Equivalents - End of Year	<u><u>832,881</u></u>
Reconciliation of Operating (Loss) to	
Net Cash (Used) by Operating Activities:	
Operating (loss)	<u>(540,889)</u>
Adjustments to reconcile operating (loss) to net cash (used) by operating activities:	
Decrease (increase) in accounts receivable	(2,041)
Increase (decrease) in accounts payable	(34,680)
Increase (decrease) in unearned revenue	3,351
Depreciation expense	624,505
Total Adjustments	<u>591,135</u>
Net Cash (Used) by Operating Activities	<u><u>50,246</u></u>
Non-cash Investing, Capital, and Financing Transactions:	
Change in service and capital obligations	<u>(233,336)</u>
Total Non-cash Investing, Capital, and Financing Transactions	<u><u>(233,336)</u></u>

The accompanying notes are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

**Holland Creek Metropolitan District
Notes to the Financial Statements
December 31, 2019**

I. Summary of Significant Accounting Policies

Holland Creek Metropolitan District (the "District") was organized on December 29, 2000, contemporaneously with the Red Sky Ranch Metropolitan District as a quasi-municipal corporation and political subdivision of the State of Colorado. The District was formed primarily to finance, construct, operate, and maintain the basic public infrastructure for Red Sky Ranch Metropolitan District in an area of approximately 780 acres of land near Wolcott, Colorado.

The District's financial statements are prepared in accordance with generally accepted accounting principles ("GAAP"). The Governmental Accounting Standards Board ("GASB") is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The more significant accounting policies established by GAAP used by the District are discussed below.

A. Reporting Entity

The District is governed by an elected Board which is responsible for setting policy, appointing administrative personnel and adopting an annual budget in accordance with the provisions of the Colorado Special District Act.

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

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

B. Government-wide and Fund Financial Statements

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

1. Government-wide Financial Statements

In the government-wide Statement of Net Position, the governmental activities columns are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net position is reported in three parts; net investment in capital assets; restricted; and unrestricted net position.

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

Holland Creek Metropolitan District
Notes to the Financial Statements
December 31, 2019
(Continued)

I. Summary of Significant Accounting Policies (continued)

B. Government-wide and Fund Financial Statements (continued)

1. Government-wide Financial Statements (continued)

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

2. Fund Financial Statements

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

The District reports the following governmental funds:

The *General Fund* is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

The *Debt Service Fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

The District reports the following proprietary or business-type fund:

The *Water and Sanitation Fund* accounts for the activities of the District's water and sanitation operations. These operations include the purchase and delivery of water, and construction, maintenance and operation of the District's water and sanitation equipment.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

1. Long-term Economic Focus and Accrual Basis

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

Holland Creek Metropolitan District
Notes to the Financial Statements
December 31, 2019
(Continued)

I. Summary of Significant Accounting Policies (continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)

2. Current Financial Focus and Modified Accrual Basis

The governmental fund financial statements use the current financial focus and are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or soon enough thereafter (60 days) to be used to pay liabilities of the current period. Expenditures are generally recognized when the related liability is incurred. The exception to this general rule is that principal and interest on general long-term debt, if any, is recognized when due.

3. Financial Statement Presentation

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise funds are charges to customers for sales and services. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Financial Statement Accounts

1. Cash, Cash Equivalents, and Investments

Cash and cash equivalents are defined as deposits that can be withdrawn at any time without notice or penalty and investments with maturities of three months or less.

Investments are stated at fair value or net asset value, depending on the investment (see Note IV.A.). The change in fair value of investments is recognized as an increase or decrease to investment assets and investment income.

Holland Creek Metropolitan District
Notes to the Financial Statements
December 31, 2019
(Continued)

I. Summary of Significant Accounting Policies (continued)

D. Financial Statement Accounts (continued)

1. Cash, Cash Equivalents, and Investments (continued)

The District follows Colorado statutes specifying specific investment instruments meeting defined rating criteria in which local governments may invest, which include:

- Obligations of the United States and certain U.S. government agency securities
- Certain international agency securities
- General obligation and revenue bonds of U.S. local government entities
- Banker's acceptances of certain banks
- Commercial paper
- Written repurchase agreements collateralized by certain authorized securities
- Certain money market mutual funds
- Guaranteed investment contract
- Local government investment pools

2. Receivables

Receivables are reported net of an allowance for uncollectible accounts. At December 31, 2019, the allowance on the Net Capital and Service Obligation Receivable is \$5,230,496; all other receivables are considered to be collectible and no allowance is recorded.

3. Property Taxes

Property taxes are assessed in one year as a lien on the property, but not collected by governmental units until the subsequent year. In accordance with accounting principles generally accepted in the United States of America, the assessed but uncollected property taxes have been recorded as a receivable and deferred inflow of resources.

4. Capital Assets

Capital assets, which include land, buildings, equipment, vehicles, and infrastructure assets, are reported in the applicable governmental or business-type activity columns in the government-wide financial statements as well as the proprietary fund financial statements. The District defines capital assets as assets with an initial cost of \$5,000 or more and an estimated useful life in excess of two years. Such assets are recorded at historical cost. Donated capital assets are recorded at estimated fair value at the date of donation.

**Holland Creek Metropolitan District
Notes to the Financial Statements
December 31, 2019
(Continued)**

I. Summary of Significant Accounting Policies (continued)

D. Financial Statement Accounts (continued)

4. Capital Assets (continued)

Infrastructure, buildings, and equipment are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Water, sewer, and storm systems	3-20
Infrastructure	15
Buildings	10-20
Equipment and vehicles	4-7

5. Long-term Capital and Service Obligations Receivable

Red Sky Ranch Metropolitan District (“Red Sky”) is obligated under the District Facilities Construction and Service Agreement (Note V.B.) to reimburse the District over time for the cost of the infrastructure constructed (capital obligation) as well as operating and maintenance costs (service obligation) by the District. These items represent the portion of the obligations not yet been paid by Red Sky as of December 31, 2019.

6. Long-term Debt

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt is reported as a liability in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position.

7. Interfund Transactions

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

8. Deferred Outflows and Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then. The District doesn't have any items that qualify for reporting in this category at December 31, 2019.

Holland Creek Metropolitan District
Notes to the Financial Statements
December 31, 2019
(Continued)

I. Summary of Significant Accounting Policies (continued)

D. Financial Statement Accounts (continued)

8. Deferred Outflows and Inflows of Resources (continued)

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

9. Fund Balance

The District classifies governmental fund balances as follows:

Non-spendable - includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual requirements.

Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.

Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority which is the Board of Directors.

Assigned – includes spendable fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund balance may be assigned by the Board of Directors or its management designee.

Unassigned - includes residual positive fund balance within the General Fund which has not been classified within the other above-mentioned categories. Unassigned fund balance may also include negative balances for any governmental fund if expenditures exceed amounts restricted, committed, or assigned for those specific purposes.

The District uses restricted amounts first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as in grant agreements requiring dollar for dollar spending. Additionally, the District first uses committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

The District does not have a formal minimum fund balance policy. However, the District's budget includes a calculation of a targeted reserve positions and management reports the targeted amount annually to Board of Directors.

**Holland Creek Metropolitan District
Notes to the Financial Statements
December 31, 2019
(Continued)**

I. Summary of Significant Accounting Policies (continued)

E. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the District's management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amount of revenues and expenditures or expenses during the reporting period. Actual results could differ from those estimates.

II. Reconciliation of Government-wide and Fund Financial Statements

A. Explanation of certain differences between the governmental fund Balance Sheet and the government-wide Statement of Net Position

The governmental fund Balance Sheet includes a reconciliation between *fund balance – governmental funds* and *net position of governmental activities* as reported in the government-wide Statement of Net Position.

One element of that reconciliation explains, "capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds." The details of this \$686,431 difference are capital asset cost of \$12,522,829 and accumulated depreciation of \$11,836,398 as discussed in Note IV.B.

The second element of that reconciliation explains, "net amounts due from Red Sky Ranch Metropolitan District for capital and service costs are not currently available financial resources and, therefore, are not report in the funds." The details of this \$6,876,802 difference are accounts receivable of \$12,107,298 and an allowance for doubtful accounts of \$5,230,496 as discussed in Note V.B.

Another element of that reconciliation explains, "Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds."

The details of this negative \$14,131,849 difference are as follows:

Bonds payable	6,310,000
Note payable to VR Holdings, Inc.	3,961,554
Interest payable to VR Holdings, Inc.	<u>3,860,295</u>
Total Long-term Liabilities	<u><u>14,131,849</u></u>

B. Explanation of certain differences between the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balance and the government-wide Statement of Activities

The governmental fund Statement of Revenues, Expenditures and Changes in Fund Balance includes a reconciliation between *net change in fund balances of governmental funds* and *changes in net position of governmental activities* as reported in the government-wide Statement of Activities. One element of this reconciliation explains, "Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense". The details of this \$196,295 difference are capital outlay of \$24,250 less \$220,545 of depreciation expense.

**Holland Creek Metropolitan District
Notes to the Financial Statements
December 31, 2019
(Continued)**

III. Stewardship, Compliance, and Accountability

A. Budgetary Information

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

Net Change in Net Position - Non-GAAP Basis	233,336
 Reconciliation to GAAP Basis:	
Capitalized expenses	67,864
Decrease (increase) in service and capital obligations	(233,336)
Depreciation	(624,505)
Total Adjustments	(789,977)
 Net Change in Net Position - GAAP Basis	 (556,641)

As required by Colorado statutes, the District followed the following timetable in approving and enacting a budget for 2019:

- (1) For the 2019 budget year, prior to August 25, 2018, the County Assessor sent to the District the certified assessed valuation of all taxable property within the District's boundaries and prior to December 10, 2018, the County Assessor sent the final recertified assessed valuation to the District.
- (2) On or before October 15, 2018, the District's accountant submitted to the District's Board of Directors a recommended budget which detailed the necessary property taxes needed along with other available revenues to meet the District's operating requirements.
- (3) A public hearing on the proposed budget and capital program was held by the Board no later than 45 days prior to the close of the fiscal year.
- (4) For the 2019 budget, prior to December 15, 2018, the District computed and certified to the County Commissioners a rate of levy that derived the necessary property taxes as computed in the proposed budget.
- (5) For the 2019 budget, the final budget and appropriating resolution was adopted prior to December 31, 2018.

After adoption of the budget resolution, the District may make the following changes: a) it may transfer appropriated monies between funds or between spending agencies within a fund, as determined by the original appropriation level; b) it may approve supplemental appropriations to the extent of revenues in excess of the estimated in the budget; c) it may approve emergency appropriations; and d) it may reduce appropriations for which originally estimated revenues are insufficient.

Holland Creek Metropolitan District
Notes to the Financial Statements
December 31, 2019
(Continued)

III. Stewardship, Compliance, and Accountability (continued)

A. Budgetary Information (continued)

Taxes levied in one year are collected in the succeeding year. Thus, taxes certified in 2018 were collected in 2019 and taxes certified in 2019 will be collected in 2020. Taxes are due on January 1st in the year of collection; however, they may be paid in either one installment (no later than April 30th) or two equal installments (not later than February 28th and June 15th) without interest or penalty. Taxes which are not paid within the prescribed time bear interest at the rate of one percent (1%) per month until paid. Unpaid amounts and the accrued interest thereon become delinquent on June 15th.

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

B. TABOR Amendment

In November 1992, Colorado voters amended Article X of the Colorado Constitution by adding Section 20; commonly known as the Taxpayer's Bill of Rights ("TABOR"). TABOR contains revenue, spending, tax and debt limitations that apply to the State of Colorado and local governments. TABOR requires, with certain exceptions, advance voter approval for any new tax, tax rate increase, mill levy above that for the prior year, extension of any expiring tax, or tax policy change directly causing a net tax revenue gain to any local government. Any revenues earned in excess of the fiscal year spending limit must be refunded in the next fiscal year, unless voters approve retention of such excess revenue.

Except for refinancing bonded debt at a lower interest rate or adding new employees to existing pension plans, TABOR requires advance voter approval for the creation of any multiple-fiscal year debt or other financial obligation unless adequate present cash reserves are pledged irrevocably and held for payments in all future fiscal years.

TABOR also requires local governments to establish an emergency reserve to be used for declared emergencies only. Emergencies, as defined by TABOR, exclude economic conditions, revenue shortfalls, or salary or fringe benefit increases. The reserve is calculated at 3% of fiscal year spending. Fiscal year spending excludes bonded debt service and enterprise spending. The District has reserved \$11,313 which is the approximate required reserve at December 31, 2019.

**Holland Creek Metropolitan District
Notes to the Financial Statements
December 31, 2019
(Continued)**

III. Stewardship, Compliance, and Accountability (continued)

B. TABOR Amendment (continued)

On November 7, 2000, the District's voters approved an increase in debt up to \$89,993,047 for the acquisition, construction, or otherwise providing infrastructure and mosquito control. Voters also approved a related increase in taxes up to \$100,792,210, annually, or by such lesser annual amount as may be necessary to pay the District's debt. In addition, the District's voters approved taxes to be increased \$1,500,000 annually, or by such lesser amount as may be necessary to pay for the District's operations, maintenance, and other expenses. All debt and tax increases constitute voter-approved revenue changes and are to be collected and spent by the District without regard to any spending, revenue-raising, or other limitation contained within Article X, Section 20 of the Colorado Constitution, and without limiting in any year the amount of other revenues that may be collected and spent by the District.

At December 31, 2019, the District had authorized but unissued debt totaling \$77,993,047.

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

IV. Detailed Notes on all Funds

A. Deposits and Investments

The District's deposits are entirely covered by federal depository insurance ("FDIC") or by collateral held under Colorado's Public Deposit Protection Act ("PDPA"). The FDIC insures the first \$250,000 of the District's deposits at each financial institution. Deposit balances over \$250,000 are collateralized as required by PDPA. The carrying amount of the District's demand deposits was \$2,756,605 at year end.

Fair Value of Investments

The District measures and records its investments using fair value measurement guidelines established by generally accepted accounting principles. These guidelines recognize a three-tiered fair value hierarchy, as follows:

- *Level 1:* Quoted prices for identical investments in active markets;
- *Level 2:* Observable inputs other than quoted market prices; and,
- *Level 3:* Unobservable inputs.

At December 31, 2019, the District had the following recurring fair value measurements:

<u>Investments Measured at Fair Value</u>	<u>Total</u>	<u>Fair Value Measurement Using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Certificates of deposit	339,047	-	339,047	-
<u>Investments Measured at Net Asset Value</u>				
Colotrust	2,717,629			

**Holland Creek Metropolitan District
Notes to the Financial Statements
December 31, 2019
(Continued)**

IV. Detailed Notes on all Funds (continued)

A. Deposits and Investments (continued)

Debt and equity securities classified in Level 1 are valued using prices quoted in active markets for those securities. Debt and equity securities classified in Level 2 are valued using the following approaches:

- U.S. Treasuries, U.S. Agencies, and Commercial Paper: quoted prices for identical securities in markets that are not active;
- Repurchase Agreements, Negotiable Certificates of Deposit, and Collateralized Debt Obligations: matrix pricing based on the securities' relationship to benchmark quoted prices;
- Money Market, Bond, and Equity Mutual Funds: published fair value per share (unit) for each fund.

The Investment Pool represents investments in COLOTRUST. The fair value of the pool is determined by the pool's share price. The District has no regulatory oversight for the pool. At December 31, 2019, the District's investments in Colotrust represented of the District's investment portfolio.

Interest Rate Risk. As a means of limiting its exposure to interest rate risk, the District has invested primarily in COLOTRUST. Funds in COLOTRUST can be withdrawn without notice or penalty.

Credit Risk. The District's investment policy limits investments to those authorized by State statutes as listed in note I.D.1. The District's general investment policy is to apply the prudent-person rule: investments are made as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital, and, in general, avoid speculative investments.

Concentration of Credit Risk. The District diversifies its investments by security type and institution. Financial institutions holding District funds must provide the District a copy of the certificate from the Banking Authority that states that the institution is an eligible public depository.

The District had the following cash and investments with the following maturities:

	Standard & Poor's Rating	Carrying Amounts	Term to Maturity	
			Less than one year	One to five years
<i>Deposits:</i>				
Checking	Not rated	38,976	38,976	-
<i>Investments:</i>				
Certificates of deposit	Not rated	339,047	-	339,047
Investment pool	AAAm	<u>2,717,629</u>	<u>2,717,629</u>	<u>-</u>
		<u>3,095,652</u>	<u>2,756,605</u>	<u>339,047</u>
Financial Statement Captions:				
Cash and investments		3,095,652		

**Holland Creek Metropolitan District
Notes to the Financial Statements
December 31, 2019
(Continued)**

IV. Detailed Notes on all Funds (continued)

A. Deposits and Investments (continued)

The District had invested \$2,717,629 in the Colorado Local Government Liquid Asset Trust (the "Trust"). The Trust is 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, measured at net asset value, and each share is equal in value to \$1.00. Investments consist of U.S. Treasury bills, notes and note strips and repurchase agreements collateralized by U.S. Treasury securities. A designated custodial bank provides safekeeping and depository services in connection with the direct investment and withdrawal functions. Substantially all securities owned are held by the Federal Reserve Bank in the account maintained for the custodial bank.

The District's investment income for the year ended December 31, 2019 is summarized as follows:

Interest and dividend income	66,157
Unrealized gains (losses)	<u>9,047</u>
Net investment return	<u>\$ 75,204</u>

B. Net Capital and Service Obligation Receivable from RSRMD

As set forth in more detail in Note V.B., on June 8, 2001 the District entered into District Facilities Construction and Service Agreement with Red Sky Ranch Metropolitan District (the "Financing District") that generally provides the Financing District will pay to Holland Creek Metropolitan District (the "Service District") over a period of years the costs of 1) the construction, acquisition, and equipping of certain public facilities and services (the "Facilities"), and 2) the operation and maintenance of the Facilities.

Under the Agreement, the Financing District owes the Service District \$12,107,298 at December 31, 2019. However, due to a time limitation imposed by the Financing District's November 7, 2000 Ballot Issue L to repay the obligation by 2030, the Financing District may not be able to fully fund the obligation through the issuance of bonds or property taxes. The Service District has therefore estimated an allowance for doubtful accounts in the amount of \$5,230,496, resulting in a net capital and service obligation receivable of \$6,876,802.

The estimated allowance for doubtful accounts is based on projections of bonds to be issued by the Financing District in 2024, 2026, 2028, and 2030, which are based on the Financing District's projections of total annual assessed valuation amounts through 2030. The projected annual assessed valuation amounts are based on current assumptions and estimates through 2030 of the national, state and local economy remaining strong, stable municipal bond interest rates, stable real estate prices in the area, new construction within the Financing District's boundaries, and residential appreciation at 8% biennially. Between 2007 and 2018, the Financing District's assessed valuation ranged from a low of \$13,128,370 in 2012 to a high of \$25,807,622 in 2009. As this range indicates, there is a significant risk that the current projections, assumptions, estimated and actual assessed valuation amounts may vary from year to year, and that these variations may be material to the estimates of the allowance for doubtful accounts. The resulting variations in the allowance for doubtful accounts may also be material to the financial statements of the District from year to year until 2030.

Holland Creek Metropolitan District
Notes to the Financial Statements
December 31, 2019
(Continued)

IV. Detailed Notes on all Funds (continued)

C. Capital Assets

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets, being depreciated:				
Vehicles and equipment	316,643	-	-	316,643
Buildings	773,087	-	-	773,087
Improvements	849,545	-	-	849,545
Infrastructure	10,559,304	24,250	-	10,583,554
Total capital assets being depreciated	<u>12,498,579</u>	<u>24,250</u>	<u>-</u>	<u>12,522,829</u>
Less accumulated depreciation for:				
Vehicles and equipment	(306,892)	(3,234)	-	(310,126)
Buildings	(537,776)	(38,453)	-	(576,229)
Improvements	(842,327)	(6,509)	-	(848,836)
Infrastructure	(9,928,858)	(172,349)	-	(10,101,207)
Total accumulated depreciation	<u>(11,615,853)</u>	<u>(220,545)</u>	<u>-</u>	<u>(11,836,398)</u>
Governmental Activities Capital Assets, Net	<u>882,726</u>	<u>(196,295)</u>	<u>-</u>	<u>686,431</u>

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type Activities:				
Capital assets, not being depreciated:				
Water rights	59,855	-	-	59,855
Total capital assets, not being depreciated	<u>59,855</u>	<u>-</u>	<u>-</u>	<u>59,855</u>
Capital assets, being depreciated:				
Water system and improvements	7,929,058	13,819	-	7,942,877
Sewer system and improvements	4,071,928	54,045	-	4,125,973
Total capital assets being depreciated	<u>12,000,986</u>	<u>67,864</u>	<u>-</u>	<u>12,068,850</u>
Less accumulated depreciation for:				
Water system and improvements	(6,373,953)	(418,206)	-	(6,792,159)
Sewer system and improvements	(2,120,669)	(206,299)	-	(2,326,968)
Total accumulated depreciation	<u>(8,494,622)</u>	<u>(624,505)</u>	<u>-</u>	<u>(9,119,127)</u>
Business-type Activities Capital Assets, Net	<u>3,566,219</u>	<u>(556,641)</u>	<u>-</u>	<u>3,009,578</u>

**Holland Creek Metropolitan District
Notes to the Financial Statements
December 31, 2019
(Continued)**

IV. Detailed Notes on all Funds (continued)

C. Capital Assets (continued)

The District had the following capital outlay, depreciation expense, and capital asset transfers for the following functions:

	Depreciation Expense	Capital Outlay
Governmental Activities:		
Public works, including infrastructure	220,545	24,250
Total - Governmental Activities	220,545	24,250
Business-type Activities:		
Water and sanitation	624,505	-
Total - Business-type Activities	624,505	-

D. Interfund Transfers

During 2019, \$200,000 was transferred between funds.

E. Long-term Debt

1. Series 2001 Variable Rate Revenue Bonds

On June 27, 2001 the District issued \$12,000,000 of Variable Rate Revenue Bonds (the "Series 2001 bonds") where the District pledged income derived from capital improvement fees to pay debt service. The Series 2001 bonds were issued to finance initial construction, operation and maintenance of municipal infrastructure. The bonds mature on June 1, 2041, and initially have a variable interest rate determined weekly by the designated remarketing agent.

Provisions of the bonds' indenture agreement provide for conversion of the bonds from variable rates determined weekly to variable rates determined monthly or fixed rates, subject to certain conditions, on conversion dates specified in the indenture agreement. Interest is payable by the District on the first day of each calendar month while under variable, weekly or monthly, interest rates. Following conversion to fixed rates, interest becomes payable on June 1 and December 1 of each year.

The Series 2001 bonds are subject to optional tender at the election of a bond owner from the first adjustment date, during any period in which the Series 2001 bonds bear interest at a variable rate. The purchase of tendered Series 2001 bonds by the District must be made solely from the proceeds of the subsequent remarketing of such Series 2001 bonds and amounts realized under the letter of credit or any substitute credit facility as defined in the indenture.

The Series 2001 bonds are also subject to optional purchase by the District at face value plus accrued interest during any period in which the Series 2001 bonds bear interest at a variable rate. During any fixed rate period the bonds may be purchased at the option of the District at par value plus any premium as set forth in the indenture and accrued interest.

**Holland Creek Metropolitan District
Notes to the Financial Statements
December 31, 2019
(Continued)**

IV. Detailed Notes on All Funds (continued)

E. Long-term Debt (continued)

1. Series 2001 Variable Rate Revenue Bonds (continued)

The Bonds are secured by an irrevocable, direct pay letter of credit, issued by the Bank of America National Association (the "Bank") in the stated amount of \$6,382,608. The letter of credit expires on August 31, 2022, unless extended by the Bank at its sole discretion.

The District's financial plan is for these bonds to be refunded through proceeds from general obligation bonds to be issued in the future by Red Sky Ranch Metropolitan District and conveyed to the District through capital improvement fees. There is no fixed amortization schedule for the bond redemption; therefore, no amortization schedule is presented.

2. Promissory Note Payable to VR Holdings, Inc.

On August 21, 2002, the District entered into a promissory note with VR Holdings, Inc. Proceeds from the note are to be used to fund construction costs over and above the proceeds from the Series 2001 Bonds previously discussed. Under the terms of the note, draw requests are issued by the District to the VR Holdings, Inc. as needed up to a maximum of \$5,228,291. The note bears interest as to each loan advance at the rate of 6% per annum. All amounts advanced to the District by VR Holdings, Inc. under the note mature, with accrued interest, on December 31, 2032. The District may pay down the note balance and accrued interest any time prior to the maturity date.

At December 31, 2019, the District had drawn \$3,961,554 on the note, the full amount of which, in addition to \$3,860,295 of accrued interest, remained outstanding on that date.

The District had the following changes in debt for the year ended December 31, 2019.

	Beginning Balance	Additions	Deletions	Ending Balance	Current Portion
Governmental Activities Debt:					
Series 2001 revenue bonds	6,310,000	-	-	6,310,000	-
Promissory note	3,961,554	-	-	3,961,554	-
Interest payable on note	3,622,602	237,693	-	3,860,295	-
Total Long-term Debt	13,894,156	237,693	-	14,131,849	-

Holland Creek Metropolitan District
Notes to the Financial Statements
December 31, 2019
(Continued)

V. Other Information

A. Related Party Transactions

At December 31, 2019, five members of the District's Board of Directors are employees of Vail Resorts Development Company, Vail Resorts Management Company, or related entities.

In 2007, the District entered into an operations agreement with Vail Resorts Development Company (VRDC). Under this agreement, VRDC provides general operating services for the District. These services include snow removal, maintenance of roads, equipment, utility conduits, landscaping, and the provision of certain water operations services. During 2019, the District incurred costs of \$194,190 under this agreement. At December 31, 2019, \$20,173 of these costs remained outstanding and payable to VRDC.

On July 26, 2010 the District entered into an agreement with The Vail Corporation (VA) and Red Sky Ranch Association (RSRPOA) related to the operations and maintenance of the Gate House. Under the agreement VA and RSRPOA will provide funding for the operations and maintenance costs incurred by the District for the Gate House.

Under the indenture to the Series 2001 bonds discussed previously in Note IV, the Series 2001 bonds are secured by an irrevocable letter of credit. The Vail Corporation, doing business as Vail Associates, Inc., provided this letter of credit on behalf of the District. No agreement has been entered into between the District and the Vail Corporation regarding reimbursement by the District for any monies drawn on the letter of credit. During the year ended December 31, 2019, letter of credit fees totaling \$86,210 were incurred by the Vail Corporation.

The District entered into a Special Warranty Deed and Agreement with Vail Associates Inc. on May 5, 2017 to complete the water rights purchase. The Agreement includes terms for the cost of pumping the water rights purchased. The District incurred pumping costs of \$16,140 during the year ended December 31, 2019.

On July 1, 2018, the District entered into an agreement with Vail Associates, Inc., ("VA"), a corporation affiliated with the Developer, to lease certain water rights owned by VA. The lease agreement has a term of 1 year and four months, expiring October 31, 2019.

On October 17, 2019, the District entered into a supplemental agreement with VA to continue to lease the water rights owned by VA. The lease agreement has a term of 1 year, effective November 1, 2019 and expires on October 31, 2020. During the year ended December 31, 2019, the District incurred costs under this lease totaling \$26,061.

It has been brought to the District's attention that additional water rights will be required to meet the developments future needs. The District is presently in the process of negotiating with Vail Associates the terms of such a water rights lease or acquisition.

Holland Creek Metropolitan District
Notes to the Financial Statements
December 31, 2019
(Continued)

V. Other Information (continued)

B. District Facilities Construction and Service Agreement

On June 8, 2001 the District entered into District Facilities Construction and Service Agreement with Red Sky Ranch Metropolitan District (the "Financing District") that generally provides the Financing District will pay to Holland Creek Metropolitan District (the "Service District") over a period of years the costs of 1) the construction, acquisition, and equipping of certain public facilities and services (the "Facilities"), and 2) the operation and maintenance of the Facilities. The Agreement states that the obligation to pay the amounts required there under is a general obligation debt of the Financing District subject to certain limitations, and as such the question of whether the Financing District should enter into and perform the Agreement was submitted at an election called for such purpose and held on November 7, 2000. The question was approved by the electorate. On May 3, 2010, the Districts entered into the First Amendment to District Facilities and Service Agreement to clarify definitions and descriptions regarding improvements and responsibilities of the Districts and to replace the outdated long-range plan.

Under the Agreement, the Financing District covenants to levy the taxes necessary, together with other available funds, to meet the payment obligations set forth in the Agreement.

In return for the payment of the monies required to be paid under the Agreement, the Service District agrees to 1) acquire, construct and equip the Facilities, 2) thereafter provide for their operation and maintenance, and 3) utilizing the Facilities, provide or have others provide to the property within, and the inhabitants of both districts, all related services (the "Services"), including but not limited to water and sanitation services, street maintenance, television services, parks and recreation services and mosquito control services, as well as certain administrative services.

As set forth in the Agreement, though the total obligation of the Financing District represented by the Agreement will be treated for financial disclosure purposes as a \$55,536,465 debt obligation, the actual obligations to provide for the construction, acquisition and equipping of the Facilities, and for the provision of the above mentioned services, are classified as two separate obligations and each is contingent and limited to the extent that the Financing District is able to meet its obligations through certain limited means. In the case of the Facilities, except as provided below, in any given year the Financing District is obligated to fund its construction and acquisition only to the extent it would be capable of funding it through the issuance of general obligation debt in an aggregate principal amount not to exceed the greater of \$2 million or 50% of the assessed value of the taxable property lying within the boundaries of the Financing District as they may, from time to time, be enlarged.

Such general obligation debt limitation is subject to automatic increase if applicable Colorado law increases the amount by which such debt may be issued. The Financing District has the option in any year to pay for the construction, acquisition and equipping costs of the Facilities on an annual basis pursuant to the provisions of the Agreement. Additionally, pursuant to an amendment of the agreement adopted on May 3, 2010 the Financing District is obligated to use its best efforts to issue bonds or other indebtedness at the earliest practicable date to pay for the construction acquisition and equipping costs of the Facilities.

Holland Creek Metropolitan District
Notes to the Financial Statements
December 31, 2019
(Continued)

V. Other Information (continued)

B. District Facilities Construction and Service Agreement (continued)

Similarly, in the case of the Services, in any given year the Financing District is obligated to fund its costs only to the extent it is capable of funding through tax revenues resulting from the certification by the Financing District against the assessed value of the taxable property lying within its boundaries, as such boundaries may from time to time be enlarged, to 49 mills.

To the extent that in any year the Financing District does not fund its obligations under the Agreement, the amounts not funded are carried forward as service and capital obligations in future years under the Agreement. In addition, the Service District may supplement the revenues from the Financing District through the imposition of fees against the properties and inhabitants of the Financing District for the services the Service District provides.

An allowance for doubtful accounts of \$5,230,496 has been recorded at December 31, 2019 to provide for the possibility of the Financing District not being able to issue general obligation debt per limitations discussed above.

The Agreement may be terminated by either district upon one year's notice, provided that the Financing District may terminate the agreement only if, prior to the time of termination, all remaining payments and financial obligations set forth in the Agreement are paid to the Service District in full and upon the retirement of all outstanding debt of the service district. The Service District may terminate the Agreement only if, in the context of the termination, the Service District either 1) transfers to the Financing District, free and clear and in its entirety, its interest in the Facilities and in each and every one and all of the water rights, contracts, leases, easements, properties held in fee, and any other personal, real or intangible property then held or owned by the Service District and necessary for the continued provision of the Services, 2) makes the transfer to another governmental entity or entities pursuant to such terms and conditions for the continued provision of the Facilities and Services as may be satisfactory to the Board of Directors of the Financing District or, 3) in the event the Service District is dissolving in accordance with Colorado law, makes the transfer pursuant to such terms and conditions for the continued provision of the Facilities and Services as may be held in accordance with that law by an appropriate Colorado Court.

There are no payments, expenditures, or remaining restricted capital contributions under this agreement as of December 31, 2019.

C. Improvement Fee Agreement and Pledge Agreement

On June 8, 2001, Red Sky Ranch Metropolitan District entered into Capital Improvement Fee Agreement and a Pledge Agreement with Vail Resorts Development Company (VRDC). Pursuant to the Improvement Fee Agreement, in consideration of significant capital improvements to be provided by the District in Red Sky Ranch Metropolitan District with a portion of the proceeds of the Series 2001 bonds, and in order to maintain in the Red Sky Ranch Metropolitan District mill levies and other charges at levels required under the Facilities Agreement, VRDC has agreed to make certain limited payments ("Capital Improvement Fees") to Red Sky Ranch Metropolitan District.

Holland Creek Metropolitan District
Notes to the Financial Statements
December 31, 2019
(Continued)

V. Other Information (continued)

C. Improvement Fee Agreement and Pledge Agreement

The amount of Capital Improvement Fees payable by VRDC under this agreement may not exceed \$10,000,000. Red Sky Ranch Metropolitan District is required under the Improvement Fee Agreement to submit each request received from the District for payment of the Capital Improvement Fees directly to VRDC promptly upon receipt of such request. The Improvement Fee Agreement may be terminated on the date of its tenth anniversary if certain conditions set forth therein have been satisfied. In addition, pursuant to the Pledge Agreement, Red Sky Ranch Metropolitan District has pledged, conveyed and assigned to the District all Capital Improvement Fees received by it or due to be paid to it under the Improvement Fee Agreement in order to effectuate the Improvement Fee Agreement. During the year ended December 31, 2019, the District invoiced Red Sky Ranch Metropolitan District \$194,906 for capital improvement fees under this agreement.

D. Operations Agreements

On January 1, 2011, the District entered into an agreement with American Conservation Billing Co (AmCoBi). Under this agreement, AmCoBi will provide billing and administrative services related to the District's water and wastewater operations. The agreement is subject to annual renewal.

On June 30, 2016, the District entered into an agreement with Water Quality Control Professionals, LLC (WQCP). Under this agreement, WQCP provides certain water operations and maintenance services. The agreement is subject to annual renewal. The District is billed monthly based on rates set forth in the agreement. For the year ended December 31, 2019, the District was billed \$98,797 under this agreement.

E. Contingent Liability

The District included several lots contiguous to the District's boundaries into the District pursuant to an agreement dated August 31, 2001 between the District and the owner of the lots. Under the agreement, infrastructure improvements constructed by the owner of the lots were conveyed to the District in 2008. The District will be required to use its best efforts to issue general obligation bonds to reimburse the owner for the cost of the improvements (\$564,623) when the assessed valuation of the related lots reaches \$2,600,000. The most recently available assessed value of these lots is \$1,447,030. It is currently unknown when the assessed valuation will exceed this limit.

F. Risk Management

Colorado Special Districts Property and Liability Pool

Except as provided within the Colorado Governmental Immunity Act, the District may be exposed to various risks of loss related to torts, thefts of, damage to, or destruction of assets; errors or omissions; or injuries to employees. The District is insured for such risks as a member of the Colorado Special Districts Property and Liability Pool ("Pool"). The Pool is an organization created by intergovernmental agreement to provide property and general liability, automobile physical damage and liability, public officials liability and boiler and machinery coverage to its members. The Pool provides coverage for property claims up to the values declared and liability coverage for claims up to \$1,000,000. Settled claims have not exceeded this coverage in any of the past three fiscal years.

**Holland Creek Metropolitan District
Notes to the Financial Statements
December 31, 2019
(Continued)**

V. Other Information (continued)

F. Risk Management (continued)

Colorado Special Districts Property and Liability Pool (continued)

The District pays annual premiums to the Pool for liability, property and public official's coverage. In the event aggregated losses incurred by the Pool exceed amounts recoverable from reinsurance contracts and funds accumulated by the Pool, the Pool may require additional contributions from the Pool 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.

A summary of audited statutory basis financial information for the Pool as of and for the year ended December 31, 2018 (the latest audited information available) is as follows:

Assets	<u>63,918,422</u>
Liabilities	39,345,647
Capital and surplus	<u>24,572,775</u>
Total	<u>63,918,422</u>
Revenue	20,983,559
Underwriting expenses	<u>22,973,705</u>
Underwriting income (loss)	(1,990,146)
Other income	<u>898,330</u>
Net Income (Loss)	<u>(1,091,816)</u>

VI. Subsequent Events

A. Red Sky Ranch 2020 Road Improvements

On May 1, 2020, the District entered into an agreement with United Companies ("United") to complete an asphalt overlay project on certain roadways within the District (the "Project"). The Project is expected to cost \$156,793 and be completed by May 20, 2020.

B. COVID-19

The spread of COVID-19 may have operational, economic and financial impacts on the District, particularly concerning the repayment of the Net Capital and Service Obligation Receivable from Red Sky Ranch Metropolitan District. The significance and duration of the potential impacts cannot be reasonably estimated at this time.

REQUIRED SUPPLEMENTARY INFORMATION

Holland Creek Metropolitan District
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - General Fund
For the Year Ended December 31, 2019
With Comparative Totals For the Year Ended December 31, 2018

	<u>2019</u>			<u>2018</u>
	<u>Original & Final Budget</u>	<u>Actual</u>	<u>Final Budget Variance Positive (Negative)</u>	<u>Actual</u>
Revenues:				
Property and specific ownership tax	2,055	2,096	41	2,088
Sales tax	210,000	153,445	(56,555)	66,000
RSRMD intergovernmental agreement	654,431	658,967	4,536	636,308
Interest	18,809	62,545	43,736	40,876
RSRPOA and VR Gatehouse Contributions	114,330	127,429	13,099	114,011
Other revenues	-	1,673	1,673	841
Total Revenues	<u>999,625</u>	<u>1,006,155</u>	<u>6,530</u>	<u>860,124</u>
Expenditures:				
General Government				
Accounting fees	50,000	51,038	(1,038)	48,155
Audit fees	8,150	16,067	(7,917)	7,900
Elections	-	-	-	3,171
Insurance	27,000	27,153	(153)	26,143
Legal	35,000	27,371	7,629	25,010
Office overhead	500	40	460	104
Treasurer fees	60	60	-	60
Contingency	10,000	-	10,000	-
Total General Government	<u>130,710</u>	<u>121,729</u>	<u>8,981</u>	<u>110,543</u>
Public Works				
Labor and equipment	58,785	37,217	21,568	30,610
Gatehouse operations	114,330	127,429	(13,099)	114,011
Weed and mosquito control	10,250	10,263	(13)	9,754
Repairs and maintenance	15,000	14,801	199	2,887
Road repair	101,500	65,677	35,823	66,704
Total Public Works	<u>299,865</u>	<u>255,387</u>	<u>44,478</u>	<u>223,966</u>
Total Expenditures	<u>430,575</u>	<u>377,116</u>	<u>53,459</u>	<u>334,509</u>
Other Financing Sources (Uses):				
Transfers to other funds	(200,000)	(200,000)	-	(200,000)
Total Other Financing Sources	<u>(200,000)</u>	<u>(200,000)</u>	<u>-</u>	<u>(200,000)</u>
Net Change in Fund Balance	369,050	429,039	59,989	325,615
Fund Balance - Beginning	1,504,751	1,935,038	430,287	1,609,423
Fund Balance - Ending	<u>1,873,801</u>	<u>2,364,077</u>	<u>490,276</u>	<u>1,935,038</u>

SUPPLEMENTARY INFORMATION

Holland Creek Metropolitan District
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - Debt Service Fund
For the Year Ended December 31, 2019
With Comparative Totals For the Year Ended December 31, 2018

	2019			2018
	Original & Final Budget	Actual	Final Budget Variance Positive (Negative)	Actual
Revenues:				
RSRMD intergovernmental agreement	336,250	194,906	(141,344)	185,669
Total Revenues	<u>336,250</u>	<u>194,906</u>	<u>(141,344)</u>	<u>185,669</u>
Debt Service Expenditures:				
Bond interest	157,750	91,361	66,389	88,966
Letter of credit fees	157,750	86,210	71,540	79,560
Other debt service expenditures:				
Agent fees	15,750	17,335	(1,585)	17,143
Contingency	5,000	-	5,000	-
Total Debt Service Expenditures	<u>336,250</u>	<u>194,906</u>	<u>141,344</u>	<u>185,669</u>
Net Change in Fund Balance	-	-	-	-
Fund Balance - Beginning	121	121	-	121
Fund Balance - Ending	<u>121</u>	<u>121</u>	<u>-</u>	<u>121</u>

Holland Creek Metropolitan District
Schedule of Revenues, Expenditures and Transfers
Budget (Non-GAAP Basis) and Actual
With Reconciliation to GAAP Basis
Proprietary Fund Type - Water and Sanitation Fund
For the Year Ended December 31, 2019
With Comparative Totals For the Year Ended 2018

	2019		Final Budget Variance Positive (Negative)	2018
	Original & Final Budget	Actual		Actual
Revenues:				
Water tap fees	18,050	-	(18,050)	-
Water fees	204,135	218,142	14,007	219,702
Sanitation fees	85,943	88,967	3,024	83,777
Sanitation tap fees	38,000	4,925	(33,075)	4,925
Investment revenue	1,500	12,659	11,159	7,570
Miscellaneous revenue	830	855	25	830
Total Revenues	348,458	325,548	(22,910)	316,804
Expenditures:				
Administration	3,750	3,510	240	3,592
Water operations	116,200	102,378	13,822	98,588
Water lease	52,500	42,201	10,299	48,612
Repairs and maintenance - Water	152,000	15,023	136,977	28,334
Sanitation operations	48,550	43,289	5,261	48,597
Repairs and maintenance - Sanitation	92,565	17,947	74,618	34,134
Capital outlay	64,000	67,864	(3,864)	43,768
Contingency	25,000	-	25,000	-
Total Expenditures	554,565	292,212	262,353	305,625
Excess of Revenues Over Expenditures	(206,107)	33,336	239,443	11,179
Transfers:				
Transfers in (out)	200,000	200,000	-	200,000
Total Transfers	200,000	200,000	-	200,000
Net Change in Net Position - Non-GAAP Basis	(6,107)	233,336	239,443	211,179
Reconciliation to GAAP Basis:				
Capitalized expenses		67,864		43,768
Decrease (increase) in service and capital obligations		(233,336)		(211,179)
Depreciation		(624,505)		(622,680)
Net Change in Net Position - GAAP Basis		(556,641)		(578,912)

**Holland Creek Metropolitan District
History of Assessed Valuation, Mill Levy and Property Taxes Collected
December 31, 2019**

Calendar Year Ended December 31	Prior Year Assessed Valuation For Current Year Property Tax Levy	All Funds Mills Levied	Property Taxes Total All Funds		Percent Collected to Levied
			Levied	Collected	
2002	31,480	45.00	1,417	1,416	100%
2003	44,220	45.00	1,990	1,990	100%
2004	36,090	45.00	1,624	1,624	100%
2005	37,920	45.00	1,706	1,706	100%
2006	44,220	45.00	1,990	1,990	100%
2007	44,220	45.00	1,990	1,990	100%
2008	44,220	45.00	1,990	1,990	100%
2009	44,220	45.00	1,990	1,990	100%
2010	44,220	45.00	1,990	1,990	100%
2011	44,220	45.00	1,990	1,990	100%
2012	44,220	45.00	1,990	1,990	100%
2013	44,220	45.00	1,990	1,990	100%
2014	44,220	45.00	1,990	1,990	100%
2015	44,220	45.00	1,990	1,990	100%
2016	44,220	45.00	1,990	1,990	100%
2017	44,220	45.00	1,990	1,990	100%
2018	44,220	45.00	1,990	1,990	100%
2019	44,220	45.00	1,990	1,990	100%
2020	64,430	45.00	2,899		

NOTE:

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