

HEADWATERS METROPOLITAN DISTRICT

Town of Granby, Colorado

FINANCIAL STATEMENTS AND REPORT OF
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

December 31, 2019

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INDEPENDENT AUDITOR'S REPORT

December 28, 2020

To the Board of Directors
Headwaters Metropolitan District
Town of Granby, Colorado

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Headwaters Metropolitan District, and the respective budget to actual statements for the general fund and special revenue fund, as of December 31, 2019, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.



Board of Directors
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Other Matters

Required Supplementary Information

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

Other Information

The schedule of revenues, expenditures and changes in fund balance – budget and actual – capital projects fund 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 schedule of revenues, expenditures and changes in fund balance – budget and actual – capital projects fund is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

Headwaters Metropolitan District

Management's Discussion and Analysis December 31, 2019

As management of Headwaters Metropolitan District (the "District"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended December 31, 2019.

Overview of the Financial Statements

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

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, from both a short-term fund perspective and a long-term economic perspective.

The Statement of Net Position presents information on all of the District's assets, deferred outflows, liabilities, and deferred inflows, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The Statement of Activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The governmental activity of the District is primarily the construction, operation, and maintenance of the basic public infrastructure that is being performed on behalf of Granby Ranch Metropolitan District, Sol Vista Metropolitan District, and Granby Ranch Metropolitan Districts Nos. 2-8.

The District's government-wide financial statements can be found on pages 6 & 7 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District uses fund accounting to ensure and demonstrate compliance with legal requirements. The District currently has three governmental funds, the General Fund, the Capital Projects Fund, and a Lease Purchase Agreement Special Revenue Fund.

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. A reconciliation of the fund balance as reported in the governmental funds to the net position reported in the government-wide financial statements and a reconciliation of the net

change in fund balance to the change in net position has been provided to facilitate the comparison between governmental funds and governmental activities.

The basic governmental fund financial statements can be found on pages 8 through 11 of this report.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The Notes to the Financial Statements can be found on pages 14 through 27 of this report.

Government-wide Financial Analysis. A condensed summary of the District's government-wide assets, liabilities, net position, revenues and expenses follows:

	Governmental Activities
	2019
Assets:	
Current assets	\$ 463,764
Capital assets	8,790,546
Total Assets	9,254,310
Liabilities and Deferred Inflows:	
Current liabilities & def inflows	451,624
Long-term debt	6,127,580
Total Liabilities	6,579,204
Net Position:	
Net Investment in capital assets	2,662,966
Restricted for emergencies	2,209
Unrestricted (deficit)	9,930
Total Net Position	\$ 2,675,105
Revenues:	
Program revenues:	
Charges for services	\$ 125,475
Grants and contributions	67,874
General revenues:	
Interest	413
Sales tax sharing- Town of Granby	-
Total Revenues	193,762
Expenses:	
General government	73,627
Public works	425,550
Parks and recreation	120,000
Interest expense	263,036
Total Expenses	882,213
Change in Net Position	(688,451)
Net Position - Beginning	3,363,556
Net Position - Ending	\$ 2,675,105

The District constructs, maintains, and operates infrastructure on behalf of Granby Ranch Metropolitan District and Granby Ranch Metropolitan District Nos. 2-8A majority of the District's assets consist of the infrastructure constructed to date as well as the capital and service obligations due from the financing districts. The District is also responsible for the leasing of Ski Granby Ranch and Golf Granby Ranch located within the Granby Ranch community. Additional information can be found in Note F on pages 22 through 25 related to such agreements.

Government-wide Financial Analysis. For the Governmental Activities, the District's primary revenue sources were from cash received from developer contributions for general operations, increases in capital and service obligations due from the financing districts, and amenities fees. The primary expenses of the District were operating expenses and lease purchase payments for the amenities. Capital outlay during the year was largely funded through developer advances, which are reported as increases in long-term debt.

Financial Analysis of the District's Funds

As mentioned earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the District's financing requirements. In particular, assigned and unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the District's governmental funds reported a combined ending fund balance of \$12,140

The District adopts budgets for each fund on an annual basis. Budgetary comparisons have been provided on page 12 for the General Fund, Page 13 for the Special Revenue Fund and on page 28 for the Capital Projects Fund.

Capital assets. The District capital assets increased by \$446,610, which is the net result of the 2020 road improvements projects less depreciation expense. Additional information can be found in the Notes to the Financial Statements on page 21 of this report.

Long-term debts. The majority of funding for infrastructure and other capital costs were developer advances, which increases the long-term liability due to the developer. During the year, the governmental funds had a net increase in the amount of debt outstanding which is primarily due to accrued interest and developer advances of \$413,014 for capital improvements. Additional information can be found in the Notes to the Financial Statement starting on page 22 of this report.

Economic Factors and Next Year's Budget. It is anticipated COVID-19 will have impacts on the economy as a whole which will include financial impacts to the District, however the extent of such impact is unknown at this time.

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

Headwaters Metropolitan District
Town of Granby, Colorado

STATEMENT OF NET POSITION

For the year ended December 31, 2019

	<u>Governmental Activities</u>
Assets	
Cash and cash equivalents	\$ 34,300
Investments	16,450
Accounts receivable:	
Due from developer	413,014
Capital assets, net	<u>8,790,546</u>
Total assets	<u>9,254,310</u>
Liabilities	
Unearned revenue	637
Accounts payable	450,987
Accrued interest payable	2,159,953
Due in more than one year:	
Note payable to developer	<u>3,967,627</u>
Total liabilities	<u>6,579,204</u>
Net Position	
Net investment in capital assets	2,662,966
Restricted for emergencies	2,209
Unrestricted	<u>9,930</u>
Total net position	<u><u>\$ 2,675,105</u></u>

The accompanying notes are an integral part of this statement.

Headwaters Metropolitan District
Town of Granby, Colorado

STATEMENT OF ACTIVITIES

Year ended December 31, 2019

Function/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government Governmental Activities
Primary government:					
Governmental activities:					
General government	\$ 73,627	\$ -	\$ 67,874	\$ -	\$ (5,753)
Public works	425,550	5,475	-	-	(420,075)
Parks and recreation	120,000	120,000	-	-	-
Interest	263,036	-	-	-	(263,036)
Total primary government	\$ 882,213	\$ 125,475	\$ 67,874	\$ -	(688,864)
General revenues (expenses):					
Investment income					413
Total general revenues and transfers					413
Change in net position					(688,451)
Net position - beginning					3,363,556
Net position - ending					\$ 2,675,105

The accompanying notes are an integral part of this statement.

Headwaters Metropolitan District
Town of Granby, Colorado

BALANCE SHEET - GOVERNMENTAL FUNDS

For the year ended December 31, 2019

	General Fund	Capital Projects Fund	Special Revenue Fund	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 22,245	\$ 1,032	\$ 11,023	\$ 34,300
Investments	16,393	-	57	16,450
Accounts receivable:				
Due from developer	-	413,014	-	413,014
Total assets	<u>38,638</u>	<u>414,046</u>	<u>11,080</u>	<u>463,764</u>
Liabilities				
Unearned revenue	637	-	-	637
Accounts payable	27,991	412,996	10,000	450,987
Total liabilities	<u>27,991</u>	<u>412,996</u>	<u>10,000</u>	<u>451,624</u>
Fund balance				
Restricted for emergencies	2,209	-	-	2,209
Assigned for capital projects	-	1,050	-	1,050
Assigned for leasing activity	-	-	1,080	1,080
Unassigned	7,801	-	-	7,801
Total fund balance	<u>\$ 10,010</u>	<u>\$ 1,050</u>	<u>\$ 1,080</u>	<u>\$ 12,140</u>

The accompanying notes are an integral part of this statement.

Headwaters Metropolitan District
Town of Granby, Colorado

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

Year ended December 31, 2019

Amounts reported as net position in the governmental activities in the statement of net position are different from fund balance in the governmental funds because:

Fund balance - governmental funds \$ 12,140

Capital assets are recognized as expenditures at the time of their acquisition in the governmental funds but are capitalized as assets in the government wide statements and depreciated over their estimated useful lives.

Capital assets	\$ 13,401,739	
Accumulated depreciation	<u>(4,611,193)</u>	8,790,546

Long term debt is recognized as revenue in the governmental funds at the time it is acquired and as expense when it is paid back over the life of the debt. In the government wide funds long term debt is recognized as a liability in the balance sheet and is decreased as principal payments are made. (3,967,628)

Interest expense is recognized as it comes due in the funds but is recognized as it accrues in the government wide statements. (2,159,953)

Net position of governmental activities. \$ 2,675,105

The accompanying notes are an integral part of this statement.

Headwaters Metropolitan District
Town of Granby, Colorado

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

For the year ended December 31, 2019

	General Fund	Capital Projects Fund	Special Revenue Fund	Total Governmental Funds
Revenues				
Intergovernmental agreements				
Granby Ranch Metropolitan District No.8	\$ 18,000	\$ -	\$ -	\$ 18,000
Amenities rental fees	16,466	-	-	16,466
Interest income	407	1	5	413
Amenity fees	-	-	120,000	120,000
Roadway income	5,475	-	-	5,475
Total revenues	<u>40,348</u>	<u>1</u>	<u>120,005</u>	<u>160,354</u>
Expenditures/Expenses				
General government	73,627	-	120,000	193,627
Capital outlay	-	872,160	-	872,160
Total expenditures	<u>73,627</u>	<u>872,160</u>	<u>120,000</u>	<u>1,065,787</u>
Other financing sources				
Developer advances	-	872,173	-	872,173
Developer contributions	33,408	-	-	33,408
Total of financing sources	<u>33,408</u>	<u>872,173</u>	<u>-</u>	<u>905,581</u>
Excess of revenues over (under) expenditures	129	14	5	148
Fund balance, beginning of year	9,881	1,036	1,075	11,992
Fund balance, end of year	<u>\$ 10,010</u>	<u>\$ 1,050</u>	<u>\$ 1,080</u>	<u>\$ 12,140</u>

The accompanying notes are an integral part of this statement.

Headwaters Metropolitan District
Town of Granby, Colorado

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

Year ended December 31, 2019

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

Net change in fund balance - total governmental funds \$ 148

Governmental funds report capital outlay as expenditures in the year the costs are
incurred but in the government wide statements these costs are capitalized and
depreciated over their estimated remaining lives.

Depreciation expense	\$ (425,550)	
Capital outlay	<u>872,160</u>	446,610

In the governmental funds, developer advances are recognized as other
financing sources when they are received but in the government wide funds
they are recognized as long-term liabilities. (872,173)

In the governmental funds, interest expense is recognized as it is paid, but in the
government wide funds it is recognized as it is accrued. This represents the
change in accrued interest expense for the year. (263,035)

Change in net position of governmental activities \$ (688,450)

The accompanying notes are an integral part of this statement.

Headwaters Metropolitan District
Town of Granby, Colorado

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

For the year ended December 31, 2019

	Original and Final Budget	Actual	Favorable/ (Unfavorable) Budget Variance
Revenues			
Intergovernmental agreements			
Granby Ranch Metropolitan District No. 8	\$ 18,000	\$ 18,000	\$ -
Amenities rental fees	13,090	16,466	3,376
Roadway income	7,700	5,475	(2,225)
Interest income	250	407	157
Total revenues	<u>39,040</u>	<u>40,348</u>	<u>1,308</u>
Expenditures			
General government			
Accounting and administration	38,500	26,103	12,397
Insurance	6,500	6,223	277
Legal	28,000	27,517	483
Elections	15,000	7,959	7,041
Other expense	13,600	5,825	7,775
Total expenditures	<u>101,600</u>	<u>73,627</u>	<u>27,973</u>
Other financing sources			
Developer contributions	64,000	33,408	(30,592)
Total of financing sources	<u>64,000</u>	<u>33,408</u>	<u>(30,592)</u>
Excess of revenues over (under) expenditures	1,440	129	(1,311)
Fund balance, beginning of year	10,335	9,881	(454)
Fund balance, end of year	<u>\$ 11,775</u>	<u>\$ 10,010</u>	<u>\$ (1,765)</u>

The accompanying notes are an integral part of this statement.

Headwaters Metropolitan District
Town of Granby, Colorado

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - LEASE PURCHASE AGREEMENT FUND

For the year ended December 31, 2019

	Original and Final Budget	Actual	Favorable/ (Unfavorable) Budget Variance
Revenues			
Amenity fee	\$ 250,000	\$ 120,000	\$ (130,000)
Interest income	3	5	2
Total revenues	<u>250,003</u>	<u>120,005</u>	<u>(129,998)</u>
Expenditures			
Lease purchase	250,000	120,000	130,000
Total expenditures	<u>250,000</u>	<u>120,000</u>	<u>130,000</u>
Excess of revenues over (under) expenditures	3	5	2
Fund balance, beginning of year	1,076	1,075	(1)
Fund balance, end of year	<u>\$ 1,079</u>	<u>\$ 1,080</u>	<u>\$ 1</u>

The accompanying notes are an integral part of this statement.

Headwaters Metropolitan District
Town of Granby, Colorado

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Headwater Metropolitan District (the District) conform to accounting principles generally accepted in the United States of America as applicable to governments (US GAAP). The Governmental Accounting Standards Board (“GASB”) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of such significant policies consistently applied in the preparation of the financial statements.

1. Reporting entity

The Headwaters Metropolitan District (the District) was organized November 25, 2003 as a quasi-municipal corporation and a political subdivision of the State of Colorado and is governed by an elected Board of Directors. The District was originally named SolVista Metropolitan District No. 1 and was renamed Headwaters Metropolitan District effective October 23, 2004. The District was formed contemporaneously with SolVista Metropolitan District No. 2, which on October 23, 2004, became Granby Ranch Metropolitan District (GRMD). The Districts were organized to provide services, programs and facilities, including the financing of construction, completion, maintenance and operation of public infrastructure within and around the Districts’ boundaries. Pursuant to the Service Plan, which was approved on July 22, 2003, the District serves as the “Service District” while GRMD serves as the “Taxing District”. Granby Ranch Metropolitan District Nos. 2 through 8 were established on September 25, 2007 as additional taxing districts. See Note D for a detailed description of the Service Plan and other significant agreements.

The District has no component units as defined by generally accepted accounting principles as applied to governments.

2. Basis of Presentation

The government-wide financial statements include the Statement of Net Position and the Statement of Activities. These statements summarize information on the governmental and business-type activities of the primary government. These statements do not include fiduciary activities.

Both of the government-wide financial statements are designed to distinguish functions of the District that are principally supported by intergovernmental revenues and operating grants (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through their users fees and charges (business-type activities).

Headwaters Metropolitan District
Town of Granby, Colorado

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES- CONTINUED

2. Basis of Presentation- Continued

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segments are offset by general and program revenues. Direct expenses are those that are clearly identifiable within a specific function or program. Program revenues include 1) fees or charges to citizens and other governmental entities that receive or directly benefit from services provided by a given function or program, and 2) grants, contributions and other revenues that are restricted to use in the operational or capital requirements of a specific function or program. Other revenues not directly related to a particular function or program, if any, are reported separately as general revenues.

3. Measurement focus, basis of accounting and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flow.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. The exception to this general rule is that principal and interest on general long-term debt is recognized when due.

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 Capital Projects Fund accounts for the acquisition and construction of major capital facilities.

The Special Revenue Fund accounts for the activity related to the leasing of and subsequent subletting of the land and facilities used for the operations of Golf Granby Ranch, Ski Granby Ranch, and other related recreational amenities.

Headwaters Metropolitan District
Town of Granby, Colorado

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES- CONTINUED

4. Deposits and investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments are reported at fair value.

5. Receivables

The District considers all receivables collectible as of December 31, 2019.

6. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the District as assets with an estimated useful life in excess of one year. Such assets are recorded at historical cost. Donated capital assets are recorded at estimated fair value at the date of donation.

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

<u>Assets</u>	<u>Years</u>
Infrastructure- road, storm sewer, traffic and safety control	30
Improvements	15
Vehicles	10
Equipment	2-15

7. Long-term obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or business-type activities statement of net position. In the fund financial statements, governmental funds recognize the face amount of the debt as other financing sources at the time that it is issued and as expense when the obligation is paid.

8. Intergovernmental revenues

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

Headwaters Metropolitan District
Town of Granby, Colorado

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES- CONTINUED

9. Fund equity

In the fund financial statements, governmental funds report nonspendable, restricted, committed, assigned or unassigned fund balances. When funds from more than one classification are available, the order of spending of resources will be restricted, committed, assigned and unassigned.

Fund balance is classified as nonspendable when the assets are in nonspendable form such as prepaid expenses or inventories. There was no nonspendable fund balance in the District's general fund as of December 31, 2019.

Fund balance is classified as restricted when constraints placed on the use of resources are externally imposed by creditors, grantors, contributors, laws and regulations of other governments, or by law through constitutional provisions or enabling legislation. The restricted fund balance in the amount of \$2,209 in the General Fund represents Emergency Reserves that have been provided as required by Article X, Section 20 of the Constitution of the State of Colorado.

Fund balance is classified as assigned when the District places constraints on its fund balance and represents the District's intent for future use of financial resources that are subject to change. Assigned fund balance in the special revenue funds will include any remaining fund balance that is not restricted or committed. This classification is necessary to indicate that those funds are, at a minimum, intended to be used for the purpose of that particular fund.

The assigned amount in the Capital Projects Fund is assigned for capital outlay purposes.

The assigned amount in the Special Revenue Fund is assigned for leasing activities.

10. Net position

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

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

Headwaters Metropolitan District
Town of Granby, Colorado

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES- CONTINUED

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

The unrestricted net position that does not meet the definition of the above two components and is available for general use by the District.

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

11. Internal balances

Transactions between funds that are representative of lending/ borrowing arrangements outstanding at the end of the fiscal year are reported in the funds as “internal balances.”

12. Fair value of financial instruments

The carrying amount of cash and short-term investments, accounts receivable, accounts payable and accrued liabilities approximate fair values due to the short term maturity of these instruments.

13. Use of estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE B – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary information

The District conforms to the following procedures, in compliance with Colorado Revised Statutes, in establishing the budgetary data reflected in the financial statements:

In the fall of each year, the District Board of Directors prepares a proposed budget for the fiscal year commencing the following January 1. The budget for the funds includes proposed expenditures and the means of financing them.

Headwaters Metropolitan District
Town of Granby, Colorado

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

NOTE B – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY – CONTINUED

A public hearing is held at a Board of Directors meeting to obtain taxpayer input. Prior to December 15, the budget is legally enacted through passage of a budget resolution. The 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.

NOTE C – CASH AND INVESTMENTS

Deposits and investments

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. PDPA allows the institution to create a single collateral pool for all public funds. The pool for all the uninsured public deposits as a group is to be maintained by another institution or held in trust. The market value of the collateral must be at least equal to 102% of the aggregate uninsured deposits. The State Commissioners for banks and financial services are required by statute to monitor the naming of eligible depositories and reporting of the uninsured deposits and assets maintained in the collateral pools.

As of December 31, 2019, all of the District deposits were either insured by the Federal Deposit Insurance Corporation or held in eligible public depositories as required by PDPA.

Investments

Colorado Revised Statutes specify investment instruments meeting defined rating and risk criteria in which local government entities may invest. The allowed investments may include:

- Obligations of the U.S., certain U.S. government agency securities and the World Bank
- General obligation and revenue bonds of U.S. local government entities
- Bankers acceptances of certain banks
- Commercial paper
- Written repurchase agreements and certain reverse repurchase agreements collateralized by certain authorized securities
- Guaranteed investment contracts
- Local government investment pools

During 2019, the District was invested in the Colorado Surplus Asset Fund Trust (CSAFE), which is an investment vehicle established by State statutes for local government entities to pool surplus funds. The State Securities Commission administers and enforces all State statutes governing the Trust. The Trust is

Headwaters Metropolitan District
Town of Granby, Colorado

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

NOTE C – CASH AND INVESTMENTS - CONTINUED

similar to a money market fund with each share valued at \$1.00. CSAFE may invest in U.S. Treasury securities and repurchase agreements collateralized by U.S. Treasury securities. A designated custodial bank serves as custodian for CSAFE’s investment portfolio and serves as the depository in connection with direct investments and withdrawals. The custodian’s internal records segregate investments owned by CSAFE. As of December 31, 2019, the District had \$16,450 invested in CSAFE.

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. CSAFE had a credit rating of AAAM from Standards & Poor’s at December 31, 2019.

The following is a summary of deposits and investments held by the District at December 31, 2014.

Investment	Maturity	Fair Value
Colorado Surplus Asset Trust Fund (CSAFE)	Weighted average under 60 days	<u>\$ 16,450</u>
Deposits		
Checking		<u>\$ 34,300</u>
 Total cash and investments		 <u>\$ 50,750</u>

NOTE D – CAPITAL ASSETS

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets not being depreciated:				
Construction in progress	\$ 199,137	\$ –	\$ –	\$ 199,137
Total capital assets not being depreciated	<u>199,137</u>	<u>–</u>	<u>–</u>	<u>199,137</u>
 Capital assets being depreciated:				
Infrastructure	12,330,442	872,160	–	13,202,602
Total capital assets being depreciated	<u>12,330,442</u>	<u>872,160</u>	<u>–</u>	<u>13,202,602</u>

Headwaters Metropolitan District
Town of Granby, Colorado

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

NOTE D – CAPITAL ASSETS – CONTINUED

Less accumulated depreciation for:

Infrastructure	(4,185,643)	(425,550)	–	(4,611,193)
Total accumulated depreciation	(4,185,643)	(425,550)	–	(4,611,193)
 Total capital assets being depreciated, net	 8,144,799	 446,610	 –	 8,591,409
 Total Governmental activities capital assets, net	 \$ 8,343,936	 \$ 446,610	 \$ –	 \$ 8,790,546

Depreciation expense was charged to functions of the District as follows:

Governmental activities:	
Public works, including infrastructure	\$ 425,550
Total Governmental activities	\$ 425,550

NOTE E – LONG-TERM OBLIGATIONS

Changes in long-term obligations for the year ended December 31, 2019 are as follows:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Governmental activities:					
Due to developer	\$ 3,095,454	\$ 872,173	\$ –	\$ 3,967,627	\$ –
Accrued interest	1,896,918	263,035	–	2,159,953	–
Governmental activities					
Long-term obligations	\$ 4,992,372	\$ 1,135,208	\$ –	\$ 6,127,580	\$ –

Due to Developer

The District has an obligation to the District’s developer, Granby Realty Holdings LLC (“GRH”), for developer advances made to the District. In 2006, the District entered into a Funding and Reimbursement Agreement whereby the developer agreed to loan the District one or more sums of money for operating and maintenance expenses of the District. In 2006, the District entered into a Construction Funding and Reimbursement Agreement whereby the developer agreed to loan the District one or more sums of money not to exceed \$2,700,000 for capital costs. In January 2008, a new Construction Funding and Reimbursement Agreement was entered into which eliminated the maximum loan amount for capital costs. For both the operating and capital agreements, the funds shall be loaned to the District in one or a series of installments. The loan advances shall bear simple interest at a rate of 8% per annum from the date any advance is made to the date of repayment of such amount. In 2010, the District was able to convert \$11,119,000 of the outstanding principal and accrued interest balance to become General

Headwaters Metropolitan District
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NOTES TO FINANCIAL STATEMENTS

December 31, 2019

NOTE E – LONG-TERM OBLIGATIONS - CONTINUED

Obligation Bonds of Granby Ranch Metropolitan District, which were also issued to the Developer. As of December 31, 2019, accrued interest on the advances amounted to \$2,159,953 and the principal balance totaled \$3,967,627.

Debt authorization

In 2003 and 2004, a majority of the qualified electors of the District authorized the issuance of up to \$104,000,000 in general obligation bonds to finance the improvements. As of December 31, 2019, the amount of debt authorized by the District’s electorate but unissued was \$104,000,000 for improvements.

NOTE F – SIGNIFICANT AGREEMENTS

Service Plan

The service plan dated May 2003 was approved by the Town of Granby on July 22, 2003. The service plan contemplated the creation of two separate districts designating Granby Ranch Metropolitan District (GRMD) as the “taxing” district and Headwaters Metropolitan District (HMD) as the “service” district.

Under the plan, HMD is to construct, manage and operate public facilities and services throughout the development. GRMD is to produce property taxes and other revenue sufficient to pay the costs of operations and debt service expenditures incurred for the improvement of public infrastructure. The use of a dual district structure provides for the issuance of bonds in a timely manner that is consistent with the construct of development improvements when needed. The service plan also outlined a financial plan for the district entitling HMD to all taxing district revenues in order to pay all costs associated with the operations and management of the development.

On September 25, 2007, a consolidated service plan to create additional “taxing” districts (Granby Ranch Metropolitan District Nos. 2 through 8) was also approved by the Town of Granby in an effort to distribute the Financing Obligation over more area-specific districts.

On November 8, 2016 all of the Districts (HMD, GRMD and GRMD Nos 2 -8) Service Plans were amended.

Headwaters Metropolitan District
Town of Granby, Colorado

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

NOTE F – SIGNIFICANT AGREEMENTS - CONTINUED

The District Service Plan was amended to clarify that the District IGA between the District and Granby Ranch Metropolitan District will be terminated. Granby Ranch Metropolitan District will provide all of its own operation and maintenance functions, including debt issuance and repayment. In addition, the District and Granby Ranch Metropolitan District will enter into an agreement regarding the funding of road maintenance and snow removal for the roads owned by the District which are located within Granby Ranch Metropolitan District.

The Service Plan was further amended to clarify that any obligation of Granby Ranch Metropolitan District, other than as set forth in the road maintenance and snow removal agreement, to provide funds to the District, or any delegation of power or delegation of approval or disapproval authority to the District of any acts of Granby Ranch Metropolitan District, are repealed and rendered null and void with the intent that any role or relationship of the District (as the Service District) and Granby Ranch Metropolitan District (as the Tax District) is terminated.

Intergovernmental Agreement with the Town of Granby

On December 9, 2003 the District, Granby Ranch Metropolitan Districts and the Town of Granby entered into an Intergovernmental Agreement in an effort to promote the coordinated development of the SolVista Annexation property. The agreement was amended May 20, 2005 and was further amended April 11, 2006 (collectively, the IGA with all amendments the IGA).

On February 26, 2008 the intergovernmental agreement (Prior IGA) between the Town of Granby, HMD, GRMD and GRMD Nos 2 -8 was executed. The PriorIGA superseded and replaced the IGA in its entirety.

On November 8, 2016 an Amended and Restated IGA between the Town of Granby, HMD, GRMD, and GRMD Nos 2-8 was executed (the “Amended IGA”). This Amended IGA supersedes and replaces the Prior IGA in its entirety.

The Amended IGA provides inter alia that the Town has sole jurisdiction over land use and building decisions affecting the property within the boundaries of the Districts, allows the Districts to include property to their boundaries, provides for the ownership and operation of public improvements, and authorizes the Districts to acquire, own, operate and maintain certain “Amenities.”.

Headwaters Metropolitan District
Town of Granby, Colorado

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

NOTE F – SIGNIFICANT AGREEMENTS - CONTINUED

Intergovernmental Agreement with the Town of Granby-continued

The Amended IGA also states that all infrastructure and improvements will be designed and constructed in accordance with Town standards. As defined by the service plan, HMD has the primary responsibility for meeting the Town's standards.

If the Town determines the Districts are not operating or maintaining any street improvement in conformity with this agreement, the Town may cure the nonconforming condition and receive reimbursement for related costs from the Districts.

The agreement limits the total debt the Districts may issue to \$94,250,000.. It also limits the maximum mill levy to 60.000 mills, adjusted for the change in ratio of actual valuation to assessed valuation (Gallagher adjusted).

Master Intergovernmental Agreements with the Granby Ranch Metropolitan District

On June 1, 2006 the District entered into the District Facilities Construction and Service agreement with HMD as the "Operating" district and GRMD and the "Taxing" district. On September 17, 2008 the District entered into the First Amended and restated District Facilities Construction and Service Agreement with HMD as the "operating" district and GRMD and GRMD Nos 2-8 as the "Taxing" districts. This agreement replaced the Master IGA entered into by HMD and GRMD on June 1, 2006. The agreement is intended to coordinate the financing, processing of construction, and operation and maintenance of the development of public infrastructure in Granby Ranch.

On November 17, 2017 the District entered into the Termination of Intergovernmental Agreement between the District, GRMD and GRMD Nos 2-8 with an effective date of November 8, 2016 to reflect the revised Service Plans as amended on October 6, 2016. All relationships between HMD as the "Operating" district and GRMD and GRMD Nos. 2-8 as the "Taxing" districts were terminated.

Lease Purchase Agreement

Effective December 31, 2012, the District entered into the Second Amended and Restated Lease Purchase Agreement with Granby Realty Holdings, LLC. Under the terms of the agreement, the District will lease the Amenities, generally consisting of the golf course and ski area. The District agrees to remit all Amenities Fees collected to the landlord as annual lease payments.

During 2020, the lender to Granby Realty Holdings, LLC foreclosed on the properties subject to the lease-purchase.

Headwaters Metropolitan District
Town of Granby, Colorado

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

NOTE F – SIGNIFICANT AGREEMENTS – CONTINUED

Leased Premises Management Agreement

On December 31, 2012 the District entered into an agreement with the Granby Ranch Amenities, LLC (“Manager”) to have management services performed as specified in the agreement, including operating the amenities. The Manager shall receive the revenues generated by the amenities and shall pay the expenses of operating the amenities, including any shortfalls. The Manager shall be entitled to the profits generated by the excess of the revenues over expenses for operations of the amenities. The Manager shall pay the District annual rent of \$9,796 for the ski amenities and \$5,060 for the golf amenities, on or before March 31 of each year. In 2019 the District received \$16,466. The rent is adjusted annually as set forth in the agreement.

The District conveyed to the Manager all of the equipment fixtures, and furnishing for the day to day operations of the amenities and the Manager assumed all of the District’s liabilities related to the amenities. Additionally, all of the amounts owed to Granby Realty by the District under the Prior Management agreement were cancelled and discharged.

Subsequently, on April 7, 2020 Granby Ranch Amenities, LLC provided the District with a 180-day notice of cancellation of the Management agreement. Granby Ranch Amenities ceased serving as the operator of the Amenities as of May 31, 2020 returning the assets to the District.

NOTE G – RELATED PARTIES

As of December 31, 2019, all the members of the Board of Directors of the District are employees or have substantial business interest with Granby Ranch Amenities, LLC, Granby Ranch Holdings, LLC or related entities.

NOTE H – COMMITMENTS AND CONTINGENCIES

During the normal course of business, the District may incur claims and other assertions against it from various agencies and individuals. Management of the District and its legal representatives have disclosed that there are not material outstanding claims against the District at December 31, 2019.

Headwaters Metropolitan District
Town of Granby, Colorado

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

NOTE I – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, thefts of, damage to, or destruction of assets, errors or omissions, injuries to employees, or acts of God.

The District has elected to participate in the Colorado Special Districts Property and Liability Pool (the Pool) which is sponsored by the Special District Association of Colorado. The Pool is an organization created by intergovernmental agreement to provide property, liability, public official liability, and boiler and machinery and workers compensation coverage to its members. Settled claims have not exceeded this coverage in any of the past three fiscal years.

The District pays annual premiums to the Pool for property, general liability and public official's liability, coverage. Members of the Pool may be required to make additional surplus contributions in the event aggregated losses incurred by the Pool exceed amounts recoverable from reinsurance contracts and funds accumulated by the Pool. 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. No distributions were made during the year ended December 31, 2019.

In addition, the District is named as insured along with the Developer as additionally insured on several of the Developer's policies including general liability, excess liability, crime and employment. The general liability coverage is in excess of \$20,000,000.

NOTE J – 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, and revenue and debt limitations which apply to the State of Colorado and all local governments.

Spending and revenue limits are determined based on the prior year's "fiscal year spending" adjusted for allowable increases based upon inflation and local growth. "Fiscal year spending" is generally defined as expenditures plus reserve increase 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 emergency reserves to compensate for economic conditions, revenue shortfalls, or salary or benefit increases.

Headwaters Metropolitan District
Town of Granby, Colorado

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

NOTE J – TAX, SPENDING AND DEBT LIMITATIONS-CONTINUED

The District's management believes it is in compliance with the requirements of the amendment. However, the District has made certain interpretations of the amendment's language in order to determine its compliance.

NOTE K – SUBSEQUENT EVENTS

During 2020 there was a worldwide pandemic from the Coronavirus (COVID 19) It is clear that there will be potential short and long-term effects from local to global economics. It is unclear what these effects will be for the District as of the date of the auditor's report.

Headwaters Metropolitan District
Town of Granby, Colorado

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

For the year ended December 31, 2019

	Original Budget	Final Budget	Actual	Favorable/ (Unfavorable) Budget Variance
Revenues				
Interest income	\$ -	\$ -	\$ 1	\$ 1
Total revenues	-	-	1	1
Expenditures				
Capital outlay				
Construction projects	455,041	4,341,611	872,160	3,469,451
Total expenditures	455,041	4,341,611	872,160	3,469,451
Other financing sources				
GHR Escrow Reimb Funding	455,041	459,136	459,159	23
Developer advances	-	3,882,475	413,014	(3,469,461)
Total of financing sources	455,041	4,341,611	872,173	(3,469,438)
Excess of revenues over (under) expenditures				
	-	-	14	14
Fund balance, beginning of year	1,036	1,036	1,036	-
Fund balance, end of year	<u>\$ 1,036</u>	<u>\$ 1,036</u>	<u>\$ 1,050</u>	<u>\$ 14</u>