

RESERVE METROPOLITAN DISTRICT NO. 1
FINANCIAL STATEMENTS AND REPORT OF
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

December 31, 2021

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Reserve Metropolitan District No. 1

Opinions

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, and the major fund, of the Reserve Metropolitan District No. 1, as of December 31, 2021, 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.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with generally accepted auditing standards, we:



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- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 budgetary comparison 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.

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

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

August 23, 2022

Reserve Metropolitan District No. 1

STATEMENT OF NET POSITION

December 31, 2021

| | <u>Governmental Activities</u> |
|----------------------------------|------------------------------------|
| ASSETS | |
| Cash and investments | \$ 700,557 |
| Prepaid expenses | 5,263 |
| Non-current assets | |
| Capital assets | |
| Non-depreciable | 70,924 |
| Depreciable, net | <u>6,130,662</u> |
| Total Assets | 6,907,406 |
| LIABILITIES | |
| Accounts payable | <u>3,188</u> |
| Total Liabilities | <u>3,188</u> |
| NET POSITION | |
| Net investment in capital assets | 6,201,586 |
| Restricted for emergencies | 23,781 |
| Unrestricted | <u>678,851</u> |
| Total Net Position | <u><u>\$ 6,904,218</u></u> |

The accompanying notes are an integral part of this statement.

Reserve Metropolitan District No. 1

STATEMENT OF ACTIVITIES

Year ended December 31, 2021

| Function/Programs | Expenses | Program Revenues | | | Total Governmental Activities |
|----------------------------------|-------------------|----------------------|-------------------------|-----------------------|-------------------------------|
| | | Charges for Services | Operating Contributions | Capital Contributions | |
| Governmental activities: | | | | | |
| General government | \$ 30,908 | \$ - | \$ - | \$ - | \$ (30,908) |
| Public works | 245,448 | 1,492 | - | - | (243,956) |
| Total governmental activities | <u>\$ 276,356</u> | <u>\$ 1,492</u> | <u>\$ -</u> | <u>\$ -</u> | <u>(274,864)</u> |
| General revenues: | | | | | |
| Interest | | | | | 115 |
| Real estate transfer assessments | | | | | 791,100 |
| Total general revenues | | | | | <u>791,215</u> |
| Change in net position | | | | | 516,351 |
| Net position - beginning | | | | | <u>6,387,867</u> |
| Net position- ending | | | | | <u>\$ 6,904,218</u> |

The accompanying notes are an integral part of this statement.

Reserve Metropolitan District No. 1

BALANCE SHEET - GOVERNMENTAL FUNDS

December 31, 2021

| | Governmental Activities General Fund |
|---------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------|
| ASSETS | |
| Cash and Investments | \$ 700,557 |
| Prepaid expenditures | 5,263 |
| | <u>5,263</u> |
| Total Assets | <u>\$ 705,820</u> |
| LIABILITIES | |
| Accounts payable | 3,188 |
| | <u>3,188</u> |
| Total Liabilities | <u>3,188</u> |
| FUND EQUITY | |
| Nonspendable | 5,263 |
| Restricted for emergencies | 23,781 |
| Unassigned | 673,588 |
| | <u>673,588</u> |
| Total Fund Equity | <u>702,632</u> |
| Total Liabilities and Fund Equity | <u>\$ 705,820</u> |
| Fund equity | \$ 702,632 |
| Capital assets are expensed in the governmental fund financial statements but are recognized as assets in the statement of net position. | <u>6,201,586</u> |
| Total net position | <u>\$ 6,904,218</u> |

The accompanying notes are an integral part of this statement.

Reserve Metropolitan District No. 1

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - GOVERNMENTAL FUNDS

Year ended December 31, 2021

| | Governmental Activities General Fund |
|------------------------------------------------------------------------------|--------------------------------------------|
| Revenues | |
| RETA funds | \$ 791,100 |
| Interest | 115 |
| Other revenues | 1,492 |
| Total revenues | <u>792,707</u> |
| Expenditures | |
| General government | <u>241,435</u> |
| Total expenditures | <u>241,435</u> |
| Excess of Revenues Over (Under) Expenditures | 551,272 |
| Fund Balance - January 1 | <u>151,360</u> |
| Fund Balance - December 31 | <u>\$ 702,632</u> |
| Net Change in Fund Balance (above) | \$ 551,272 |
| Change in negotiated obligation related to RMD No. 2. | 217,297 |
| Amount of capitalized costs less than depreciation expense (\$0 - \$252,218) | <u>(252,218)</u> |
| Change in net position of governmental activities | <u>\$ 516,351</u> |

The accompanying notes are an integral part of this statement.

Reserve Metropolitan District No. 1

NOTES TO FINANCIAL STATEMENTS

December 31, 2021

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Organization

The Reserve Metropolitan District No. 1 (the “District”) was organized on August 21, 2001, as a quasi-municipal corporation and political subdivision of the State of Colorado. The District was formed to construct and acquire systems for water, sanitation, streets, traffic safety, transportation, cable television, parks and recreation, fire protection, emergency medical service, and mosquito control facilities for itself and Reserve Metropolitan District No. 2 in an area of approximately 660 acres of land in the town of Mt. Crested Butte located in Gunnison County, Colorado on and/or adjacent to Crested Butte ski area. Districts No. 3 through 8 were organized subsequent to 2001 and are included in the above purposes.

The financial statements of the District have been prepared in accordance with generally accepted accounting principles (“GAAP”) as applied to governmental units. The Governmental Accounting Standards Board (“GASB”) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District’s accounting policies are described below.

2. Reporting Entity

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

3. 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. Currently, the District has only governmental activities.

Reserve Metropolitan District No. 1

NOTES TO FINANCIAL STATEMENTS

December 31, 2021

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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, net position restricted for emergencies, and unrestricted.

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.

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, fund equity, revenues and expenditures.

The fund focus is on current available resources and budget compliance.

4. Fund Accounting

The District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. At this time the District only uses governmental funds.

Governmental Funds

Governmental funds are those through which most governmental functions typically are financed. Governmental funds reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance.

The District reports the following major governmental funds:

General Fund – The General Fund is used to account for all financial resources of the District except those required to be accounted for in another fund. The general fund balance is available to the District for any purpose provided it is expended or transferred according to the general laws of Colorado and the bylaws of the District.

Reserve Metropolitan District No. 1

NOTES TO FINANCIAL STATEMENTS

December 31, 2021

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

5. Measurement Focus and Basis of Accounting

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.

Long-Term Economic Focus and Accrual Basis

Governmental activities in the government-wide 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.

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 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.

When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the District's policy is to first apply the expense toward restricted resources and then toward unrestricted resources. In governmental funds, the District's policy is to first apply the expenditure toward restricted fund balance and then to other, less-restrictive classifications—committed and then assigned fund balances before using unassigned fund balances.

6. Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles 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 expenditures/expenses during the reporting period. Actual results could differ from those estimates.

Reserve Metropolitan District No. 1

NOTES TO FINANCIAL STATEMENTS

December 31, 2021

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

7. Stewardship, Compliance, and Accountability

Budgets and Budgetary Accounting

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 Colorado Local Budget Law. The budgets for the governmental funds are adopted on a basis consistent with generally accepted accounting principles (“GAAP”).

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

- (1) For the 2021 budget year, prior to August 25, 2020, the County Assessor sent the District the assessed valuation of all taxable property within the District’s boundaries.
- (2) On or before October 15, 2020, 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) For the 2021 budget, prior to December 15, 2020, 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.
- (4) For the 2021 budget, the final budget and appropriating resolution was adopted prior to December 31, 2020.
- (5) 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) supplemental appropriations to the extent of revenues in excess of those estimated in the budget; c) emergency appropriations; and d) reduction of appropriations for which originally estimated revenues are insufficient.

The level of control in the budget at which expenditures exceed appropriations is at the fund level. All appropriations lapse at year-end. No supplemental appropriations were made to the 2021 budget.

8. Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows, liabilities, and deferred inflows, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

Reserve Metropolitan District No. 1

NOTES TO FINANCIAL STATEMENTS

December 31, 2021

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

10. Capital Assets

Capital assets, which include construction in progress, are reported in the applicable governmental activities columns in the Government-wide Financial Statements. The District defines capital assets as assets with an initial, individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are completed.

Depreciation is computed using the straight-line method over estimated useful lives, as follows:

| | <u>Estimated Lives</u> |
|-------------------------|------------------------|
| Infrastructure | 40 years |
| Equipment and machinery | 5 to 15 years |

11. Governmental Fund Balances

In the governmental fund financial statements, fund balances are classified as follows:

- *Non-spendable fund balance* - The portion of fund balance that cannot be spent because it is either not in spendable form (such as prepaid) or is legally or contractually required to be maintained intact.
- *Restricted fund balance* - The portion of fund balance constrained to being used for a specific purpose by external parties (such as grantors or bondholders), constitutional provisions or enabling legislation.
- *Committed fund balance* - The portion of fund balance constrained for specific purposes according to limitations imposed by the District's highest level of decision making authority, the Board of Directors, prior to the end of the current fiscal year. The constraint may be removed or changed only through formal action of the Board of Directors.
- *Assigned fund balance* - The portion of fund balance set aside for planned or intended purposes. The intended use may be expressed by the Board of Directors or other individuals authorized to assign funds to be used for a specific purpose.
- *Unassigned fund balance* - The residual portion of fund balance that does not meet any of the above criteria. The District will only report a positive unassigned fund balance in the General Fund.

Reserve Metropolitan District No. 1

NOTES TO FINANCIAL STATEMENTS

December 31, 2021

NOTE B – CASH AND INVESTMENTS

Investments

Colorado state statutes authorize the District to invest in U.S. Treasury bills, obligations of any other U.S. agency, obligations of the World Bank, general obligation bonds of any state or any of their subdivisions, revenue bonds of any state or any of their subdivisions, bankers' acceptance notes, commercial paper, repurchase agreements, money market funds and guaranteed investment contracts. All investments must be held by the District, in its name, or in custody of a third party on behalf of the local government.

As of December 31, 2021, the District had \$298,141 invested in the Colorado Local Government Liquid Asset Trust (Colotrust), an investment vehicle established for local government entities in Colorado to pool surplus funds. A designated custodial bank provides safekeeping and depository services to Colotrust in connection with the direct investment and withdrawal functions of Colotrust. Substantially all securities owned by Colotrust are held by the Federal Reserve Bank in the account maintained for the custodial bank. The custodian's internal records identify the investments owned by Colotrust. Colotrust funds carry a Standard & Poor's AAAM rating. There is no custodial, interest rate or foreign currency risk exposure. Colotrust operates like a 2a-7 external investment pool and investments in the pool are valued at \$1 net asset value (NAV) per share. The underlying investments held by Colotrust are valued at fair value.

As of December 31, 2021, the District had \$402,416 invested in the Colorado Surplus Asset Fund (CSafe), an investment vehicle established for local government entities in Colorado to pool surplus funds. CSafe operates similarly to a money market fund and each share is equal in value to \$1.00. A designated custodial bank provides safekeeping and depository services to CSafe in connection with the direct investment and withdrawal functions of CSafe. Substantially all securities owned by CSafe are held by the Federal Reserve Bank in the account maintained for the custodial bank. The custodian's internal records identify the investments owned by CSafe. CSafe funds carry a Standard & Poor's AAAM rating. There is no custodial, interest rate or foreign currency risk exposure. CSafe operates like a 2a7-like external investment pool in the fair value hierarchy established by GASB 72. The underlying investments held by CSafe, and the District's investment in CSafe, are valued at amortized cost which approximates fair value. There are no limitations on withdrawals.

A reconciliation of the carrying value of deposits and investments reported above to the Statement of Net Position is as follows:

| | |
|-------------------|-------------------|
| CSafe | \$ 402,416 |
| ColoTrust | <u>298,141</u> |
| Total Investments | <u>\$ 700,557</u> |

Reserve Metropolitan District No. 1

NOTES TO FINANCIAL STATEMENTS

December 31, 2021

NOTE C – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2021 was as follows:

| | Balance January 1, 2021 | Increases | Decreases | Transfers | Balance December 31, 2021 |
|---------------------------------------------|-------------------------------|--------------|-----------|-----------|---------------------------------|
| Governmental Activities | | | | | |
| Capital assets not being depreciated | | | | | |
| Wetlands mitigation | \$ 70,924 | \$ – | \$ – | \$ – | \$ 70,924 |
| Total assets not being depreciated | 70,924 | – | – | – | 70,924 |
| Capital assets being depreciated | | | | | |
| Infrastructure: | | | | | |
| Roads | 9,817,930 | – | – | – | 9,817,930 |
| Parks and Recreation | 270,833 | – | – | – | 270,833 |
| Total assets being depreciated | 10,088,763 | – | – | – | 10,088,763 |
| Less accumulated depreciation for | | | | | |
| Infrastructure: | | | | | |
| Roads | 3,617,802 | 245,448 | – | – | 3,863,250 |
| Parks and Recreation | 88,081 | 6,770 | – | – | 94,851 |
| Total accumulated depreciation | 3,705,883 | 252,218 | – | – | 3,958,101 |
| Capital assets being depreciated, net | 6,382,880 | (252,218) | – | – | 6,130,662 |
| Governmental activities capital assets, net | \$ 6,453,804 | \$ (252,218) | \$ – | \$ – | \$ 6,201,586 |

Depreciation expense of \$252,218 was charged for the current fiscal year.

NOTE D – LONG-TERM OBLIGATIONS

On December 13, 2005 the District entered into an Amended and Restated Funding and Reimbursement Agreement with the District’s Developer, Prospect Development Company, Inc. The Agreement stated that the Developer would loan the District up to \$500,000 in order to provide funds to the District for operations and maintenance expenses. This Agreement was replaced by the Operations and Maintenance Funding and Reimbursement Agreement dated May 22, 2008, as amended April 28, 2010 by a First Amendment. The new Agreement states that the Developer shall loan the District up to \$300,000 annually through June 1, 2023, with the yearly amount adjusted annually by a Consumer Price Index as defined in the Agreement, subject to multiple certain requirements of both the District and Reserve Metropolitan District No. 2. As of December 31, 2021 the balance of the amount owed under this new Agreement was \$0.

Reserve Metropolitan District No. 1

NOTES TO FINANCIAL STATEMENTS

December 31, 2021

NOTE E – INTERGOVERNMENTAL AGREEMENTS

The District has also entered into the following agreements:

Fire Protection Agreement

The District has an agreement with Crested Butte Fire Protection District (CBFPD) to provide fire protection within the boundaries of the District and the boundaries of Reserve Metropolitan District No. 2. The Districts are statutorily authorized under §29-1-201, et.seq. C.R.S. to enter into agreements to make the most efficient and effective use of their powers through cooperation and contracting with other districts. The District shall make two cash payments to CBFPD, the first for a fire engine in an amount which is the lower of the actual cost of the fire engine or \$470,000 and a second for the construction of a substation in the amount which is the lower of the actual cost of all labor and material for the construction of the substation or \$250,000. In addition the District agrees to provide land for a substation and or employee housing or if CBFPD decides to expand their existing fire station they will pay \$125,000 together with interest at 4% per year from September 18, 2001 to the date of the payment. The payment for the fire equipment was made by the District in previous years; the payment for the building and land has yet to be paid. During 2021, the District paid \$0 toward the obligations of this agreement.

North Mt. Crested Butte Property Owners Association and Reserve Metropolitan District No. 2

In February 2002, the District entered into a memorandum of understanding with North Mt. Crested Butte Property Owners Association (the Association) whereby the North Mt. Crested Butte Property Owners Association agreed to pay to the District the net proceeds of all funds collected from the Association's Real Estate Transfer Assessment (RETA), less only its costs of collection and the administrative costs and expenses. Related to the issuance of the 2005 bonds issued by District No. 2, on December 2, 2005, the District updated this memorandum of understanding by entering into a real estate transfer assessment agreement with the Association and District No. 2.

The agreement was amended and restated in conjunction with the issuance of the 2008 loan issued by District No. 2 on May 22, 2008 and a second amendment dated April 5, 2016, was executed and created in conjunction with a settlement agreement. It provides that the claims by the District and District No. 2 were released, along with a release of claims by the Town of Mt. Crested Butte ("Settlement Agreement"). The agreement terminates the Master IGA, amends the Service Plan, and creates an obligation for the District to purchase a loader and snow plow attachment for \$130,000 (payable from RETA payments). It further creates a negotiated obligation whereby the District will pay District No. 2 \$950,000, of which \$100,000 will be paid as a down payment from funds received from the insurance company. The remaining obligation will not bear interest and is payable solely from RETA payments. During 2021, \$217,297 was paid from RETA payments as stated in the contract, to pay these obligations. A certificate of satisfaction was received, as the final payment of \$81,297 cleared during the fiscal year for the balance remaining on the negotiated obligations.

Reserve Metropolitan District No. 1

NOTES TO FINANCIAL STATEMENTS

December 31, 2021

NOTE E – INTERGOVERNMENTAL AGREEMENTS – CONTINUED

Exclusion Agreement

On October 17, 2011 the District entered into an agreement with Crested Butte Land Holdings, LLC, North Village Reserve Inc. and Reserve Metropolitan District No. 2 to exclude certain properties to accommodate phasing of future projects and provide greater flexibility for the potential uses of property within the development.

NOTE F – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; injuries to employees, or acts of God.

The District has elected to participate in the Colorado Special District Property and Liability Pool (the Pool) which is sponsored by the Special District Association of Colorado. The Pool provides property and general liability, automobile physical damage and liability, public official’s liability and machinery coverage to its members. Members of the Pool are required to make additional surplus contributions. 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.

Condensed financial statement data for the Colorado Special Districts Property and Liability Pool as of December 31, 2021 (latest information available) is as follows:

| | |
|------------------------------------------|----------------------|
| Assets | <u>\$ 68,195,261</u> |
| Liabilities | \$ 46,165,251 |
| Surplus | <u>22,030,010</u> |
| | <u>\$ 68,195,261</u> |
| Revenue | \$ 24,889,624 |
| Investment income and other | <u>482,027</u> |
| Total revenue | 25,371,651 |
| Expenses | <u>25,123,490</u> |
| Excess of revenues over (under) expenses | <u>\$ 248,161</u> |

NOTE G – 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 which 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 of the prior year, extension of any expiring tax, or tax policy change directly causing a new tax revenue gain to any local government. Except for refinancing bonded debt at a lower interest rate or adding new

Reserve Metropolitan District No. 1

NOTES TO FINANCIAL STATEMENTS

December 31, 2021

NOTE G – TABOR AMENDMENT – CONTINUED

employees to existing pension plans, TABOR requires advance voter approval for the creation of any multiple fiscal year or other financial obligation unless adequate present cash reserves are pledged irrevocable and held for payments in future years.

TABOR also requires local governments to establish emergency reserves to be used for declared emergencies only. Emergencies, as defined by TABOR, exclude economic conditions, revenue shortfalls, or salary or fringe benefit increases. These reserves are required to be 3% or more of the fiscal year spending (excluding bonded debt service) for fiscal years ended after December 31, 1994. At December 31, 2021, the emergency reserve was \$23,781.

Under TABOR, the initial base for local government spending and revenue limits is December 31, 1992 fiscal year spending. The District's first year of operations ended December 31, 2002. Future spending and revenue limits are determined based on the prior year's fiscal year spending adjusted for inflation in the prior calendar year plus annual local growth. Fiscal year spending is generally defined as expenditures and reserve increases with certain exceptions. Revenue, if any, in excess of the fiscal year spending limit must be refunded in the next fiscal year unless voters approve retention of such revenue.

The electorate of the District has authorized property taxes to be increased up to \$1,500,000 in 2001 and each year thereafter to pay the Districts operations, maintenance, and other expenses, such amounts to increase annually in an amount not to exceed the applicable limitations of Article X, Section 20 of the Colorado Constitution and Colorado Law.

The electorate of the District also approved that for purposes other than enterprises, the District be permitted to maintain fiscal year spending and annual District revenues from sources not excluded from fiscal year spending in an amount not to exceed \$1,700,000 in 2001 and each year thereafter, such amount to increase annually in each year after 2001 in an amount not to exceed the applicable limitations of Article X, Section 20 of the Colorado Constitution and Colorado law.

The District's electorate further approved that the District's taxes be increased \$2,000,000 annually, or by such lesser annual amount as may be necessary to pay the District's general costs, bonds or other evidences of indebtedness. Such taxes may consist of an ad valorem property tax mill levy imposed without limitation of rate and in amounts sufficient to produce the annual increase set forth above or such lesser amount as may be necessary.

The revenue from such taxes and any other monies used to pay such general costs, bonds or other evidences of indebtedness, and investment income thereon, may be collected and spent by the District without regard to any expenditure, revenue raising, or other limitation contained within Article X, Section 20 of the Colorado Constitution.

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.

Reserve Metropolitan District No. 1

NOTES TO FINANCIAL STATEMENTS

December 31, 2021

NOTE G – TABOR AMENDMENT – CONTINUED

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.

On November 7, 2000 the voters of the District authorized increases in debt as follows:

| <u>Purpose</u> | <u>Authorized Debt</u> | <u>Maximum Annual Tax Increase</u> |
|---------------------------------------------------------------------------------------------------------------|----------------------------|--------------------------------------------|
| Street Improvements | \$ 24,996,750 | \$ 29,496,165 |
| Traffic and Safety Control | 1,000,000 | 1,180,000 |
| Potable & Non-Potable Water Systems | 9,658,500 | 11,397,030 |
| Sanitary Sewer Systems | 4,862,250 | 5,737,455 |
| Parks and Recreation Facilities | 29,000,000 | 34,220,000 |
| Public Transportation Facilities and Systems | 45,000,000 | 53,100,000 |
| Fire Protection, Emergency Medical and Ambulance Facilities and Services | 4,000,000 | 4,720,000 |
| Television Relay and Translation Systems | 2,250,000 | 2,655,000 |
| Mosquito Control | 100,000 | 118,000 |
| Operation and Maintenance of the District’s Properties, Facilities, Equipment and Personnel | 55,080,911 | 64,995,474 |
| Bond Refunding or Debt Defeasing | 120,867,500 | 142,623,650 |
| Contractual Obligation to Pay the Costs of Acquiring, Operating and Maintaining all District Facilities | <u>175,948,411</u> | <u>207,619,125</u> |
| Total | <u>\$ 472,764,322</u> | <u>\$ 557,861,899</u> |

As of December 31, 2021, \$0 of the \$76,000,000 in authorized debt had been issued. However, since the authorization was approved in November 2000 and is now more than 20 years old, it is considered stale and no longer available subject to section 32-1-1101.5 of the Special District Act.

REQUIRED SUPPLEMENTARY INFORMATION

Reserve Metropolitan District No. 1

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

Year ended December 31, 2021

| | Original and Final Budget | Actual | Variance Favorable (Unfavorable) |
|--------------------------------|-------------------------------------------------|-------------------|----------------------------------------|
| Revenues | | | |
| Interest | \$ 400 | \$ 115 | \$ (285) |
| RETA funds | 250,000 | 791,100 | 541,100 |
| Miscellaneous income | - | 1,492 | 1,492 |
| Total revenues | <u>250,400</u> | <u>792,707</u> | <u>542,307</u> |
| Expenditures | | | |
| General government | | | |
| Accounting and audit | 16,000 | 7,822 | 8,178 |
| Insurance | 5,800 | 5,375 | 425 |
| Legal | 10,000 | 10,045 | (45) |
| Other | 850 | 896 | (46) |
| Required payments to RMD No. 2 | 250,000 | 217,297 | 32,703 |
| Contingency | 5,000 | - | 5,000 |
| Total expenditures | <u>287,650</u> | <u>241,435</u> | <u>46,215</u> |
| | Excess of Revenues Over (Under) Expenditures | (37,250) | 551,272 |
| | | 588,522 | |
| Fund Balance - January 1 | <u>149,008</u> | <u>151,360</u> | <u>2,352</u> |
| Fund Balance - December 31 | <u>\$ 111,758</u> | <u>\$ 702,632</u> | <u>\$ 590,874</u> |