VAIL SQUARE METROPOLITAN DISTRICT NO. 1

FINANCIAL STATEMENTS AND REPORT OF
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

December 31, 2021

C O N T E N T S

Independent Auditor's Report

The Board of Directors
Vail Square Metropolitan District No. 1

Report on the Audit of the Financial Statements

Opinions
We have audited the financial statements of the governmental activities, and each major fund, of Vail Square Metropolitan District No. 1, 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 accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Vail Square 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 (GAAS). 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 condition 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 assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS 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.

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In performing an audit in accordance with GAAS, we

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of 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 statement in appropriate operations, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standard generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, 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.

Supplementary Information
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District basic financial statements. The debt service budgetary comparison information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and related directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 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 debt service budgetary comparison schedules is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

May 16, 2022

Vail Square Metropolitan District No. 1

Management's Discussion and Analysis
December 31, 2021

As management of Vail Square Metropolitan District No. 1 (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, 2021.

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 are composed of three components: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to the financial statements. This report also contains additional supplementary information after the notes to the 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, in a manner similar to a private-sector business.

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 financing the construction, operation, and maintenance of the basic public infrastructure within the District. There are no business-type activities within the District.

The government-wide financial statements can be found on pages 6 and 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, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The District currently has two funds, the General Fund and the Debt Service Fund both of which are governmental funds.

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 fund financial statements are contained on pages 8 and 9 of the 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 10 through 25 of this report.

Condensed Financial Information

A condensed comparative summary of the District's government-wide assets, deferred outflows, liabilities, deferred inflows, net position, revenues and expenditures follows:

	Governmental Activities	
	2021	**2020**
ASSETS & DEFERRED OUTFLOWS:		
Current assets	$ 3,555,937	$ 2,927,805
Non-current assets	9,171,079	10,297,784
Total Assets	12,727,016	13,225,589
Deferred outflows of resources	412,044	821,253
LIABILITIES:		
Current liabilities	527,107	504,601
Non-current liabilities	11,852,044	12,716,253
Total Liabilities	12,379,151	13,220,854
NET POSITION:		
Net Investment in capital assets	759,909	825,988
Restricted for emergencies	5,101	5,204
Unrestricted	(5,101)	(5,204)
Total Net Position	$ 759,909	$ 825,988
REVENUES:		
Operating grants and contributions	$ 1,680,002	$ 1,643,784
Interest and other revenue	783	7,092
Total Revenues	1,680,785	1,650,876
EXPENSES:		
General government	1,096,475	1,057,833
Public works	116,514	104,261
Interest on long-term debt	533,875	554,860
Total Expenses	1,746,864	1,716,954
Change in Net Position	(66,079)	(66,078)
Net Position - Beginning	825,988	892,066
Net Position - Ending	$ 759,909	$ 825,988

The District is the operating district in a triple district structure whereby the District is coordinating the financing and constructing public infrastructure for Vail Square Metropolitan District Nos. 2 and 3. Such functions are furnished through a District Facilities Joint Financing Construction and Service Agreement among the District and Vail Square Metropolitan District Nos. 2 and 3. Vail Square Metropolitan District Nos. 2 & 3 are the "financing districts" and as such, have and will continue to pay "capital and service obligations" to the District for construction and operation of the infrastructure in the Districts. The District's revenues consisted primarily of funds received from the financing Districts and the Vail Reinvestment Authority, as defined in agreements between the District and those entities.

Government-wide Financial Analysis. The District's primary activity has been the construction and acquisition of infrastructure. The infrastructure has been funded through proceeds received from the issuance of the 2008 Tax Exempt Loan Facilities in the amount of $16,000,000. The District received intergovernmental receipts from Vail Square Metropolitan District Nos. 2 & 3 and the Vail Reinvestment Authority. The Vail Reinvestment Authority has agreed to transfer to the District the Districts Tax Increment Revenues, to which the Authority would otherwise be entitled under the Urban Renewal Plan.

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, unrestricted 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 $3,526,175, an increase of $623,954 in comparison with the prior year. These funds are held by the District for spending in future years.

The District adopts budgets for each fund on an annual basis. Budgetary comparisons have been provided on page 26 for the General Fund, page 27 for the Debt Service Fund.

Capital assets. The District's capital assets consist primarily of infrastructure in the Districts. During 2021 the District recognized depreciation expense of $66,079. Details can be seen in Note C on page 16 of this report.

Long-term debts. The District issued $16,000,000 of tax-exempt loans during 2008. Loan 2008A consists of $2,000,000 in a variable rate loan facility. Loan 2008B consists of $14,000,000 in a variable rate loan facility which is subject to an interest rate swap to effectively convert the 2008B loan from a variable-rate loan to a hedged loan with a synthetic fixed interest rate of 4.61 percent. Additional information can be found in the Notes to the Financial Statement in Notes D and E on pages 17 to 20 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 continues to be 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.

Vail Square Metropolitan District No. 1

STATEMENT OF NET POSITION

December 31, 2021

	Governmental Activities
ASSETS	
Cash and investments	$ 3,506,614
Due from other governments, VSMD Nos. 2 & 3	41,906
Prepaid expenses	7,417
Non-current assets	
Capital assets	
Depreciable	759,909
Net capital and service obligations from/to VSMD No. 2, non-current	6,981,271
Net capital and service obligations from/to VSMD No. 3, non-current	1,429,899
Total Assets	12,727,016
DEFERRED OUTFLOW OF RESOURCES	
Deferred swap	412,044
Total Deferred Outflow of Resources	412,044
Total Assets and Deferred Outflow of Resources	13,139,060
LIABILITIES	
Accounts payable	29,762
Accrued interest	42,345
Long-term obligations due in one year	455,000
Long-term obligations	11,440,000
Swap Mark to Market	412,044
Total Liabilities	12,379,151
NET POSITION	
Net investment in capital assets	759,909
Restricted for emergencies	5,101
Unrestricted	(5,101)
Total Net Position	$ 759,909

The accompanying notes are an integral part of this statement.

Vail Square Metropolitan District No. 1

STATEMENT OF ACTIVITIES

Year ended December 31, 2021

Function/Programs	Expenses	Program Revenues: Operating Contributions	Program Revenues: Capital Contributions	Total Governmental Activities
Governmental activities:				
General government	$ 1,096,475	$ 88,784	$ -	$ (1,007,691)
Public works	116,514	80,848	-	(35,666)
Interest	533,875	1,510,370	-	976,495
Total governmental activitie:	$ 1,746,864	$ 1,680,002	$ -	(66,862)
	General revenues (expenses):			
	Interest			783
	Total general revenues			783
	Change in net position			(66,079)
	Net position - beginning			825,988
	Net position - ending			$ 759,909

The accompanying notes are an integral part of this statement.

Vail Square Metropolitan District No. 1

BALANCE SHEET - GOVERNMENTAL FUNDS

December 31, 2021

	General	Debt Service	Total Governmental Funds
ASSETS			
Equity in pooled cash and investments	$ 1,183,343	$ 2,323,271	$ 3,506,614
Due from other governments, VSMD Nos. 2 & 3	6,690	35,216	41,906
Prepaid expenses	7,417	-	7,417
Total Assets	1,197,450	2,358,487	3,555,937
LIABILITIES			
Accounts payable	29,762	-	29,762
Total Liabilities	29,762	-	29,762
FUND BALANCES			
Nonspendable	7,417	-	7,417
Restricted for emergencies	5,101	-	5,101
Restricted for debt service	-	2,358,487	2,358,487
Unassigned	1,155,170	-	1,155,170
Total Fund Balances	$ 1,167,688	$ 2,358,487	$ 3,526,175

Fund balance (as reported above)	$ 3,526,175
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets are not current assets and are therefore not reported in the funds	759,909
Long-term Tax-Exempt Loan obligations are not payable in the current period and are therefore not reported in the funds	(11,895,000)
Net capital and service obligations due from VSMD Nos.2 & 3 are not receivable in the current period and are therefore not reported in the funds	8,411,170
Accrued interest is not payable in the current period and is therefore not reported in the funds	(42,345)
Net position of governmental activities	$ 759,909

The accompanying notes are an integral part of this statement.

Vail Square Metropolitan District No. 1

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

Year ended December 31, 2021

	General	Debt Service	Total Governmental Funds
Revenues			
Interest	$ 393	$ 390	$ 783
Intergovernmental agreement	169,632	1,510,370	1,680,002
Total revenues	170,025	1,510,760	1,680,785
Expenditures			
Current - general government	35,849	-	35,849
Current - public works	50,435	-	50,435
Debt service - principal	-	435,000	435,000
Debt service - interest	-	535,547	535,547
Total expenditures	86,284	970,547	1,056,831
Excess of Revenues Over (Under) Expenditures	83,741	540,213	623,954
Fund Balance - January 1	1,083,947	1,818,274	2,902,221
Fund Balance - December 31	$ 1,167,688	$ 2,358,487	$ 3,526,175

Net Change in Fund Balance (above)	$ 623,954
Amounts reported as governmental activities in the Statement of Activities are different because:	
Change in capital and service obligations from VSMD Nos. 2 & 3	(1,060,626)
Depreciation expense is not reported in the funds	(66,079)
Change in accrued interest	1,672
Payments on long-term debt	435,000
Change in net position of governmental activities	$ (66,079)

The accompanying notes are an integral part of this statement.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Organization

The Vail Square Metropolitan District No. 1 (the District) was established December 5, 2005, as a quasi-municipal corporation and political subdivision of the State of Colorado. The District was established as part of a triple district structure with Vail Square Metropolitan District Nos. 2 and 3. The District is considered the Operating District, and was formed to coordinate the financing and construction of all public improvements which will be constructed for the use and benefit of all anticipated inhabitants and taxpayers of Vail Square Metropolitan District Nos. 1-3. Vail Square Metropolitan District Nos. 2 and 3 are the Financing Districts and as such have paid and will continue to pay capital and service obligations to the District for the infrastructure in the Districts.

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.

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, receivables and deferred outflows of resources as well as long-term debt, obligations and deferred inflows of resources. 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, deferred outflows of resources, liabilities, and deferred inflows of resources 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.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Debt Service Fund – The Debt Service Fund accounts for the servicing of long-term debt including bonds, loans, developer notes, and long-term contractual obligations approved by the District's electorate and revenues generated by property taxes that are required to be used in payment of long-term debt and contractual obligations.

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. Intergovernmental Revenues

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

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

7. 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.

8. Interfund Transactions

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

9. 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.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

(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.

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:

	Estimated Lives
Buildings and improvements	20 to 40 years
Infrastructure	30 to 40 years
Equipment and machinery	5 to 15 years

11. Fund Balances

GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions" provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. In the fund financial statements the following classifications describe the relative strength of the spending constraints.

- *Non-spendable fund balance* - The portion of fund balance that cannot be spent because it is either not in spendable form (such as inventory) 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.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

- *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, prior to the end of the current fiscal year. The constraint may be removed or changed only through formal action of the Board.
- *Assigned fund balance* - The portion of fund balance set aside for planned or intended purposes. The intended use may be expressed by the Board or other individuals authorized to assign funds to be used for a specific purpose. Assigned fund balances in special revenue funds will also 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.
- *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.

NOTE B – EQUITY IN POOLED CASH AND INVESTMENTS

The District maintains a cash pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the statement of net assets as "Equity in pooled cash and investments."

Cash Deposits

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 percent of the aggregate uninsured deposits. As of December 31, 2021, the District had cash deposits of $2,306,571 all of which is collateralized as explained above.

Investments

Colorado state statutes authorize the District to invest in U.S. Treasury bills, obligations of any other U.S. agencies, 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 $1,200,043 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.

NOTE B – EQUITY IN POOLED CASH AND INVESTMENTS – CONTINUED

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:

Deposits	$ 2,306,571
CSafe	1,200,043
Equity in pooled cash and investments	$ 3,506,614

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 being depreciated					
Infrastructure:					
Land improvements	$ 1,428,437	$ –	$ –	$ –	$ 1,428,437
Signage	211,913	–	–	–	211,913
Utilities	223,545	–	–	–	223,545
Total assets being depreciated	1,863,895	–	–	–	1,863,895
Less accumulated depreciation for					
Infrastructure:					
Land improvements	714,221	57,137	–	–	771,358
Signage	211,912	–	–	–	211,912
Utilities	111,774	8,942	–	–	120,716
Total accumulated depreciation	1,037,907	66,079	–	–	1,103,986
Capital assets being depreciated, net	825,988	(66,079)	–	–	759,909
Governmental activities capital assets, net	$ 825,988	$ (66,079)	$ –	$ –	$ 759,909

Depreciation expense of $66,079 was all charged to the "Public works" function.

NOTE D – LONG-TERM OBLIGATIONS

2008A Tax-Exempt Loan

The District obtained a $2,000,000 tax-exempt loan on July 23, 2008. Interest is payable semiannually on June 1 and December 1, commencing December 1, 2008. The loan is due and payable June 1, 2023 and bears interest equal to 65% of the 1-month LIBOR rate plus 125 basis points with a minimum rate of 2.85%. The loan is a general obligation of the District and is supported by a Joint Funding Agreement between the District and Vail Square Metropolitan District Nos. 2 and 3 (the Financing Districts). The Joint Funding Agreement generally provides that the Financing Districts will assess mill levies to collect property taxes which will be paid to the District to be used to pay the principal and interest payments required by the loans and interest rate swaps. See Note E for more information.

The loan was obtained to finance the design, acquisition, construction, relocation, installation, completion and provision of public improvements and facilities. The District also used loan proceeds to repay a portion of the long-term obligation to the Developer.

The 2008A loan may be prepaid, in whole or in part, on any date upon payment of the principal amount of the Loan so prepaid plus accrued interest thereon to the date of prepayment, without penalty.

Debt service requirements are as follows: (the interest payments presented below assume that the interest rate will remain at the minimum rate noted above; the rate is subject to monthly adjustment)

Year Ending December 31	Principal	Interest	Total
2022	–	57,000	57,000
2023	2,000,000	23,750	2,023,750
Total	$ 2,000,000	$ 80,750	$ 2,080,750

2008B Tax-Exempt Loan

The District obtained a $14,000,000 tax-exempt loan on July 23, 2008. Interest is payable semiannually on June 1 and December 1, commencing December 1, 2008. The loan matures in various amounts through 2023 and bears interest equal to 65% of the 1-month LIBOR rate plus 125 basis points. The loan is a general obligation of the District and supported by a Joint Funding Agreement between the District and the Financing Districts. The Joint Funding Agreement generally provides that the Financing Districts will assess mill levies to collect property taxes which will be paid to the District to be used to pay the principal and interest payments required by the loans and interest rate swaps. See Note F for more information.

NOTE D – LONG-TERM OBLIGATIONS – CONTINUED

The loan was obtained to finance the design, acquisition, construction, relocation, installation, completion and provision of public improvements and facilities. The District also used loan proceeds to repay a portion of the long-term obligation to the Developer.

The 2008B loan may be prepaid, in whole or in part, on any date prior to July 23, 2013 upon payment of the principal amount so prepaid plus accrued interest thereon to the date of prepayment, together with a prepayment penalty in an amount equal to three percent of the principal amount prepaid.

The District entered into a $14,000,000 interest rate swap to effectively convert the 2008B loan from a variable-rate loan to a hedged loan with a synthetic fixed interest rate of 4.61%. See Note E for more information on the District's interest rate swap.

Debt service requirements are as follows: (the interest payments presented below assume that the interest rate will remain at the 4.61% per the swap documents; the rate is subject to monthly adjustment)

Year Ending December 31	Principal	Interest	Total
2022	455,000	462,495	917,495
2023	9,440,000	220,010	9,660,010
Total	$ 9,895,000	$ 682,505	$ 10,577,505

The following is a summary of long-term non-developer debt transactions of the District for the year ended December 31, 2021:

	Balance January 1, 2021	Issues	Reductions	Balance December 31, 2021
2008A General Obligation Loan	$ 2,000,000	$ –	$ –	$ 2,000,000
2008B General Obligation Loan	10,330,000	–	435,000	9,895,000
Total	$ 12,330,000	$ –	$ 435,000	$ 11,895,000

NOTE E – HEDGING ACTIVITIES

Assumptions
Background information

At December 31, 2021, the District has the following derivative instruments outstanding:

Item	Type	Objective	Notional Amount	Effective Date	Maturity Date	Terms	12/31/2021 Fair Value
A	Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2008B Loan	$14,000,000	7/23/08	6/1/2023	Pay 4.61%, receive 65% 1-month LIBOR + 125 bp	($412,044)

Derivative instrument A (the interest rate swap) hedges changes in cash flows due to changes in LIBOR interest rates associated with the District's $14,000,000 2008B hedged tax-exempt loan.

The fair value of the interest rate swap was estimated by the counterparty based on a LIBOR yield curve constructed using cash LIBOR rates, Eurodollar futures, and term swap rates from brokers. The yield curve is then used to estimate the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates.

Risks

Credit risk. As of December 31, 2021, the District was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap become positive, the District would be exposed to credit risk in the amount of the derivative's fair value. The swap counterparty was rated BBB- by Standard & Poor's and Baa2 by Moody's Investors Service as of December 31, 2021. To mitigate the potential for credit risk, if the counterparty's credit quality falls below Baa2 as determined by Moody's Investors Service or BBB as determined by Standard & Poor's Ratings Service, the counterparty agrees to cooperate with the District in having the swap assigned to a new swap provider acceptable to the District and the counterparty.

Interest rate risk. The District is exposed to interest rate risk on its pay-fixed, receive-variable interest rate swap. As the LIBOR rate decreases, the District's net payment on the swap increases.

Basis risk. The District is not exposed to basis risk, as the counterparty pays the District 65% of LIBOR plus 125 basis points per the swap agreement, which is equal to the tax-exempt loan payment made by the District.

NOTE E – HEDGING ACTIVITIES – CONTINUED

Termination risk. The derivative contract uses the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The Schedule to the Master Agreement includes an "additional termination event." That is, the swap may be terminated by the District if the counterparty's credit quality rating falls below "BBB" as issued by Standard & Poor's or "Baa2" as issued by Moody's Investors Service. The District agrees not to terminate the swap unless it shall have sufficient funds to pay any Settlement Amount to the counterparty. If the counterparty's credit quality falls below these levels, the swap may be assigned to a new swap provider acceptable to the District and the counterparty. No termination events have occurred as of December 31, 2021.

The District or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. If the swap is terminated, the variable-rate tax-exempt loan would no longer carry a synthetic interest rate. Also, at the time of termination, a Settlement Amount will be calculated according to section 6(e)(i) of the Swap Master Agreement entered into by Compass Bank and the District on July 23, 2008.

Rollover risk. The District is not exposed to rollover risk, as the effective and termination dates are the same for the tax-exempt loan and the interest rate swap.

Foreign currency risk. The District is not exposed to foreign currency risk, as the interest rate swap payments and receipts will be settled in US dollars.

Contingent features. There are no contingent features to the District's interest rate swap.

Swap payments and associated debt. As of December 31, 2021, debt service requirements of the variable-rate debt and net swap/loan interest payments are as shown in Note D.

Method of evaluating effectiveness of interest rate swap. The District utilized the Synthetic Instrument Method to evaluate the effectiveness of the interest rate swap. This method calculated the synthetic rate equal to 100% of the swap fixed rate.

NOTE F – INTERGOVERNMENTAL AGREEMENTS

The District has entered into the following intergovernmental agreements:

Joint Funding Agreement

The Operating District obtained two loans in the aggregate principal amount of $16,000,000 on July 23, 2008 for the purpose of constructing certain public infrastructure (the Facilities) for the benefit of the Districts. Concurrent with obtaining the loans the Operating District entered into a Joint Funding Agreement with the Financing Districts to provide funding to the Operating District for the repayment of the loans. The Joint Funding Agreement generally provides that the Financing Districts will assess mill levies to collect property tax revenues which will be paid to and used by the Operating District to pay Financing Costs related to the loans. Financing Costs are defined as the principal and interest payments required by debt and interest rate swaps obtained or entered into by the Districts, including replenishment of debt reserve funds.

In 2021, the mill levy assessed for collection in 2022 was 35 mills in Vail Square Metropolitan District No. 2, with 32 mills allocated for the Joint Funding Agreement and 3 mills for the District Facilities Joint Financing, Construction and Service Agreement; and, 21.875 mills in Vail Square Metropolitan District No. 3, with 18.875 mills allocated for the Joint Funding Agreement and 3 mills for the District Facilities Joint Financing, Construction and Service Agreement. The portion of the annual bond costs to be paid by each Financing District will remain in the same proportion in future years.

District Facilities Joint Financing, Construction and Service Agreement

The Agreement generally provides an obligation for the Financing Districts to pay for the acquisition and construction of the Facilities (defined above), to the extent not funded by the Joint Funding Agreement (the Capital Obligation), and operation and maintenance of the Facilities and administrative expenses incurred by the Operating District (the Service Obligation). The Financing Districts are obligated to generate and pay to the Operating District certain tax and other revenues to fund the Capital Obligation and the Service Obligation.

The Operating District has recorded a capital and service obligation receivable from the Financing Districts as of December 31, 2021 in the amount of $8,411,170 which represents unreimbursed costs incurred through that date for infrastructure construction and costs related to issuance of and debt service on the loans. This receivable has been allocated between the Financing Districts based on the District's forecast of the future annual bond costs to be paid by each Financing District. However, each Financing District is responsible to pay Financing Costs until the District's loans have been fully repaid and the ultimate allocation of the Financing Costs between the Financing Districts will be dependent on the assessed value and mill levy of each Financing District over the life of the District's loans.

NOTE F – INTERGOVERNMENTAL AGREEMENTS – CONTINUED

In any given year the Financing Districts are obligated to fund such portion of the Capital and Service Obligations as may be funded with the District taxes available from imposition of a subordinate mill levy, together with other charges imposed by the Financing Districts.

The Agreement specifies certain termination rights on the part of the Districts. Various limitations and conditions to such termination rights exist and reference to the text of the Agreement should be made for specific terms.

Pledge Agreement

The Districts entered into an Intergovernmental Agreement with the Vail Reinvestment Authority.

Under this agreement and in consideration for the Districts' commitment to undertake construction of certain public improvements, the Vail Reinvestment Authority agrees to transfer to the Districts the District Tax Increment Revenues, to which the Authority would otherwise be entitled under an Urban Renewal Plan relating to the project.

NOTE G – 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 they are not aware of any material outstanding claims against the District at December 31, 2021.

NOTE H – 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. During the year ended December 31, 2021 the Pool made no distributions to the District.

Condensed financial statement data for the Colorado Special Districts Property and Liability Pool as of December 31, 2020 (latest information available) is as follows:

NOTE H – RISK MANAGEMENT - CONTINUED

Assets	$ 59,612,386
Liabilities	$ 37,710,994
Surplus	21,901,392
	$ 59,612,386
Revenue	$ 22,950,296
Investment income and other	903,033
Total revenue	23,853,329
Expenses	23,825,575
Excess of revenues over (under) expenses	$ 27,754

NOTE I – 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 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 District's emergency reserve was $5,501.

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, 2006. 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 authorized property taxes to be increased up to $1,500,000 in 2005, plus up to an additional $3,000,000 in 2007, 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.

NOTE I – TABOR AMENDMENT – CONTINUED

The District's electorate further approved that the District's taxes be increased $120,000,000 annually, or by such lesser annual amount as may be necessary to pay the District's general or special obligation bonds, revenue bonds or other multiple fiscal year financial obligations, including contracts, issued for the purpose of refunding, paying or defeasing, in whole or in part, bonds, notes or other financial obligations of the District. 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 or special obligation bonds, revenue bonds or other multiple fiscal year financial obligations costs, 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.

On November 1, 2005 and November 6, 2007 the voters of the District authorized increases in debt as follows:

Date of Authorization	Purpose	Amount	Authorization Used	Authorization Remaining
11/1/2005	Street Facilities	$ 20,000,000	$ 8,785,393	$ 11,214,607
11/1/2005	Drainage Facilities	2,000,000	–	2,000,000
11/1/2005	Security Facilities	1,000,000	–	1,000,000
11/1/2005	Traffic/Safety Protection Facilities	2,000,000	851,532	1,148,468
11/6/2007	Water Facilities	5,000,000	1,795,410	3,204,590
11/6/2007	Sanitary Sewer Facilities	5,000,000	1,795,410	3,204,590
11/6/2007	Parks and Recreation	5,000,000	2,532,490	2,467,510
11/6/2007	Public Transportation	5,000,000	–	5,000,000
11/6/2007	Mosquito Control	1,000,000	–	1,000,000
11/6/2007	Fire Protection	5,000,000	–	5,000,000
11/6/2007	Television Relay	1,000,000	239,765	760,235
11/1/2005	Refunding	40,000,000	–	40,000,000
	Total	$ 92,000,000	$ 16,000,000	$ 76,000,000

NOTE J – RELATED PARTIES

The developer of the property which constitutes the District is Arrabelle at Vail Square, LLC. The members of the District's Board of Directors are officers, employees, or others associated with the Developer and may have conflicts of interest in dealing with the District.

$47,373 was paid to Arrabelle at Vail Square, LLC for snowmelt and other operations costs during 2021. As of December 31, 2021, the District owed Arrabelle at Vail Square, LLC $22,164 for these services, which is included in general fund accounts payable.

NOTE K – SIGNIFICANT TAXPAYER

The hotel complex located within the boundaries of District No. 3 represents substantially all of the assessed valuation of that District. The County Assessor increased the assessed valuation of the hotel and the hotel owner has protested the 2019, 2020 and 2021 assessed valuation (which are the basis for taxes paid in 2021 and to be paid in 2022). This protest is currently being litigated in District Court. A portion of the property taxes for the hotel received in 2020, and 2021 and the property taxes receivable in 2022 are subject to abatement if the District court rules in favor of the hotel. To the extent that property taxes are abated to the taxpayer, the District will be required to rebate its share of those abated taxes to District No. 3. The District has budgeted an allowance for this potential abatement in the District's 2022 budget but has not deferred recognition of the tax revenue received.

NOTE L – DESIGNATED FUND BALANCE

During 2018 the board, based on a reserve study, designated $850,000 of fund balance for the purpose of major capital expenses in 2030. The board intends, as funds are available, to have, by 2030, a reserve of $1.1 million. The reserve is budgeted to increase by at least $10,000 each year. At December 31, 2021 designated fund balance was $900,000.

Vail Square Metropolitan District No. 1

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

Year ended December 31, 2021

	Original &Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Intergovernmental agreement	$ 168,722	$ 169,632	$ 910
Interest	5,367	393	(4,974)
Total revenues	174,089	170,025	(4,064)
Expenditures			
General government			
Accounting and audit	24,300	24,998	(698)
Insurance	2,850	2,846	4
Legal and other professional services	15,500	7,010	8,490
Other	2,671	995	1,676
Public works			
Operations expenses	20,200	16,207	3,993
Snowmelt	31,100	34,228	(3,128)
Contingency	10,000	-	10,000
Total expenditures	106,621	86,284	20,337
Excess of Revenues Over (Under) Expenditures	67,468	83,741	16,273
Fund Balance - January 1	1,073,258	1,083,947	10,689
Fund Balance - December 31	$ 1,140,726	$ 1,167,688	$ 26,962

SUPPLEMENTARY INFORMATION

Vail Square Metropolitan District No. 1

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

Year ended December 31, 2021

	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Intergovernmental agreement	$ 1,076,284	$ 1,510,370	$ 434,086
Interest income	8,989	390	(8,599)
Total revenues	1,085,273	1,510,760	425,487
Expenditures			
Debt service - principal	935,000	435,000	500,000
Debt service - interest	561,004	535,547	25,457
Total expenditures	1,496,004	970,547	525,457
Excess of Revenues Over (Under) Expenditures	(410,731)	540,213	950,944
Fund Balance - January 1	1,797,563	1,818,274	20,711
Fund Balance - December 31	$ 1,386,832	$ 2,358,487	$ 971,655