

TALLYN'S REACH METROPOLITAN DISTRICT NO. 1

Financial Statements

Period Ended May 9, 2018

with

Independent Auditors' Report

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Board of Directors
Tallyn's Reach Metropolitan District No. 1
Arapahoe County, Colorado

Independent Auditors' Report

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Tallyn's Reach Metropolitan District No. 1 (the "District") as of and for the period ended May 9, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Tallyn's Reach Metropolitan District No. 1 as of May 9, 2018, and the respective changes in the financial position and the respective budgetary comparison for the general fund for the period then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Management has omitted the management's discussion and analysis that accounting principles general accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, 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. Our opinions on the basic financial statements are not affected by this missing information.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's financial statements as a whole. The supplemental information as listed in the table of contents is presented for the purposes of legal compliance and additional analysis and is not a required part of the financial statements. The supplemental information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Stratagem PC
Certified Public Accountants
Lakewood, Colorado

July 16, 2019

TALLYN'S REACH METROPOLITAN DISTRICT NO. 1

BALANCE SHEET/STATEMENT OF NET POSITION
GOVERNMENTAL FUNDS
May 9, 2018

	<u>General</u>	<u>Capital Projects</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
ASSETS					
Cash and investments	\$ -	\$ -	\$ -	\$ -	\$ -
Cash and investments - restricted	-	-	-	-	-
Accounts receivable:					
Assessments	-	-	-	-	-
Capital assets not being depreciated	-	-	-	-	-
Capital assets, net of depreciation	-	-	-	-	-
Total Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>-</u>
LIABILITIES					
Accounts payable	\$ -	\$ -	\$ -	-	-
Long-term liabilities - notes payable:					
Due in more than one year	-	-	-	-	-
Total Liabilities	-	-	-	-	-
FUND BALANCES/NET POSITION					
Fund Balances:					
Unassigned	-	-	-	-	-
Total Fund Balances	-	-	-	-	-
Total Liabilities and Fund Balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>		
Net Position:					
Net investment in capital assets				-	-
Unrestricted				-	-
Total Net Position				<u>\$ -</u>	<u>\$ -</u>

The notes to the financial statements are an integral part of these statements.

TALLYN'S REACH METROPOLITAN DISTRICT NO. 1

STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES/STATEMENT OF ACTIVITIES
GOVERNMENTAL FUNDS
For the Period Ended May 9, 2018

	<u>General</u>	<u>Capital Project</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
EXPENDITURES					
Depreciation	\$ -	\$ -	\$ -	\$ 24,278	\$ 24,278
Administration	110,211	-	110,211	-	110,211
Grounds expenses	278,618	-	278,618	-	278,618
Recreation expenses	11,053	-	11,053	-	11,053
Utilities expenses	14,330	-	14,330	-	14,330
Transfer to Tallyn's Reach Authority	1,532,585	23,991	1,556,576	45,242,693	46,799,269
Interest on developer advances	-	-	-	231,104	231,104
Forgiven debt - principal	2,136,460	9,591,418	11,727,878	(11,727,878)	-
Forgiven debt - interest	1,126,890	206,938	1,333,828	(1,333,828)	-
Total Expenditures	<u>5,210,147</u>	<u>9,822,347</u>	<u>15,032,494</u>	<u>32,436,369</u>	<u>47,468,863</u>
PROGRAM REVENUES					
Development fees	-	20,550	20,550	-	20,550
General operations fees	683,055	-	683,055	-	683,055
Clubhouse rental	5,080	-	5,080	-	5,080
Total Program Revenues	<u>688,135</u>	<u>20,550</u>	<u>708,685</u>	<u>-</u>	<u>708,685</u>
Net Program Income (Expense)	(4,522,012)	(9,801,797)	(14,323,809)	(32,436,369)	(46,760,178)
GENERAL REVENUES					
Interest income	<u>18</u>	<u>903</u>	<u>921</u>	<u>-</u>	<u>921</u>
Total General Revenues	<u>18</u>	<u>903</u>	<u>921</u>	<u>-</u>	<u>921</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES					
	(4,521,994)	(9,800,894)	(14,322,888)	(32,436,369)	(46,759,257)
OTHER FINANCING SOURCES (USES)					
Developer Contributions	<u>3,263,350</u>	<u>9,798,356</u>	<u>13,061,706</u>	<u>-</u>	<u>13,061,706</u>
Total Other Financing Sources (Uses)	<u>3,263,350</u>	<u>9,798,356</u>	<u>13,061,706</u>	<u>-</u>	<u>13,061,706</u>
NET CHANGES IN FUND BALANCES					
	(1,258,644)	(2,538)	(1,261,182)	1,261,182	
CHANGES IN NET POSITION					
				(33,697,551)	(33,697,551)
FUND BALANCES/NET POSITION					
BEGINNING OF YEAR	<u>1,258,644</u>	<u>2,538</u>	<u>1,261,182</u>	<u>32,436,369</u>	<u>33,697,551</u>
END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The notes to the financial statements are an integral part of these statements.

TALLYN'S REACH METROPOLITAN DISTRICT NO. 1

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

For the Period Ended May 9, 2018

	Original & Final <u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
REVENUES			
General operations fees	\$ 1,342,176	\$ 683,055	\$ (659,121)
Sanctuary assessments	94,860	-	(94,860)
Legal/late/collection income	4,000	-	(4,000)
Clubhouse rental	9,000	5,080	(3,920)
Pool keys	1,500	-	(1,500)
Miscellaneous income	2,000	-	(2,000)
Interest income	600	18	(582)
Transfer from District No. 2	<u>275,000</u>	<u>-</u>	<u>(275,000)</u>
Total Revenues	<u>1,729,136</u>	<u>688,153</u>	<u>(1,040,983)</u>
EXPENDITURES			
Administration	283,618	110,211	173,407
Grounds expenses	606,000	278,618	327,382
Recreation expenses	161,400	11,053	150,347
Utilities expenses	413,000	14,330	398,670
Miscellaneous	10,000	-	10,000
Transfer to Tallyn's Reach Authority	-	1,532,585	(1,532,585)
Emergency reserve	44,221	-	44,221
Contingency	87,713	-	87,713
Forgiven debt - principal	-	2,136,460	(2,136,460)
Forgiven debt - interest	-	1,126,890	(1,126,890)
Reserve for Repairs - prior year	750,000	-	750,000
Reserve for Repairs - current year	<u>450,000</u>	<u>-</u>	<u>450,000</u>
Total Expenditures	<u>2,805,952</u>	<u>5,210,147</u>	<u>(2,404,195)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(1,076,816)	(4,521,994)	(3,445,178)
OTHER FINANCING SOURCES (USES)			
Developer Contributions	-	3,263,350	3,263,350
Transfer to/from other funds	<u>9,000</u>	<u>-</u>	<u>(9,000)</u>
Total Other Financing Sources (Uses)	<u>9,000</u>	<u>3,263,350</u>	<u>3,254,350</u>
NET CHANGE IN FUND BALANCE	(1,067,816)	(1,258,644)	(190,828)
FUND BALANCE:			
BEGINNING OF YEAR	<u>1,067,816</u>	<u>1,258,644</u>	<u>190,828</u>
END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The notes to the financial statements are an integral part of these statements.

TALLYN'S REACH METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements May 9, 2018

Note 1: Summary of Significant Accounting Policies

The accounting policies of the Tallyn's Reach Metropolitan District No. 1, located in Arapahoe County, Colorado, conform to the accounting principles generally accepted in the United States of America ("GAAP") as applicable to governmental units. The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant policies consistently applied in the preparation of financial statements.

Definition of Reporting Entity

The District was organized on November 6, 1998, as a quasi-municipal organization established under the State of Colorado Special District Act. The District was established to provide water, street, traffic and safety control, television relay and translator, transportation, parks and recreation and sanitation improvements that benefit the citizens of the District. At the time of formation, Tallyn's Reach Metropolitan District No. 2 ("District No. 2") and the Tallyn's Reach Metropolitan District No. 3 ("District No. 3") were also formed. All three districts are governed by the same Service Plan, which provides that the District is the "Operating District" and District No. 2 and District No. 3 are the "Taxing Districts". The Taxing Districts are to provide funding to the Operating District for the construction, operation and maintenance of various public improvements and the Operating District is expected to manage such construction, operation and maintenance. The Taxing Districts' primary revenues are property taxes. The District is governed by an elected Board of Directors. On February 12, 2018, Tallyn's Reach Metropolitan District No. 2 and Tallyn's Reach Metropolitan District No. 3 (collectively "the Districts") entered into the Tallyn's Reach Authority Establishment Agreement for the purpose of establishing the Tallyn's Reach Authority which is organized for the purpose of planning, financing, designing, constructing, installing, operating, maintaining, repairing and replacing public improvements and facilities and providing services to the residents of the Districts. On May 9, 2018, Tallyn's Reach Metropolitan District No. 1 assigned all of its assets, liabilities, rights and obligations to the Authority after which the Tallyn's Reach Metropolitan District No.1 was dissolved.

As required by GAAP, these financial statements present the activities of the District, which is legally separate and financially independent of other state and local governments. The District follows the GASB pronouncements, which provide guidance for determining which governmental activities, organizations and functions should be included within the financial reporting entity. GASB sets forth the financial accountability of a governmental organization's elected governing body as the basic criterion for including a possible component governmental organization in a primary government's legal entity. Financial accountability includes, but is not limited to, appointment of a voting majority of the organization's governing body, ability to impose its will on the organization, a potential for the organization to provide specific financial benefits or burdens and fiscal dependency. The pronouncements also require including a possible component unit if it would be misleading to exclude it.

TALLYN'S REACH METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements May 9, 2018

The District is not financially accountable for any other organization. The District has no component units as defined by the GASB.

The District has no employees and all operations and administrative functions are contracted.

Basis of Presentation

The accompanying financial statements are presented per GASB Statement No. 34 - Special Purpose Governments.

The government-wide financial statements (i.e. the governmental funds balance sheet/statement of net position and the governmental funds statement of revenues, expenditures, and changes in fund balances/statement of activities) report information on all of the governmental activities of the District. The statement of net position reports all financial and capital resources of the District. The difference between the (a) assets and deferred outflows of resources and the (b) liabilities and deferred inflows of resources of the District is reported as net position. The statement of activities demonstrates the degree to which expenditures/expenses of the governmental funds are supported by general revenues. For the most part, the effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct and indirect expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are collected.

TALLYN'S REACH METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements May 9, 2018

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The material sources of revenue subject to accrual are property taxes and interest. Expenditures, other than interest on long-term obligations, are recorded when the liability is incurred or the long-term obligation is paid.

The District reports the following major governmental funds:

General Fund - The General Fund is the general operating fund of the District. It is used to account for all financial resources not accounted for and reported in another fund.

Capital Projects Fund – The Capital Projects Fund is used to account for financial resources that are restricted, committed or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other assets.

Budgetary Accounting

Budgets are adopted on a non-GAAP basis for the governmental funds. In accordance with the State Budget Law of Colorado, the District's Board of Directors holds public hearings in the fall of each year to approve the budget and appropriate the funds for the ensuing year. The District's Board of Directors can modify the budget by line item within the total appropriation without notification. The appropriation can only be modified upon completion of notification and publication requirements. The budget includes each fund on its basis of accounting unless otherwise indicated. The appropriation is at the total fund expenditures level and lapses at year end.

For the period ended May 9, 2018, expenditures exceeded appropriations in the General Fund and the Capital Projects Fund as the result of the forgiveness of the debt by the Developer and the transfer of assets and obligations to Tallyn's Reach Authority and subsequent dissolution of the District. (See Note 7). Since the excesses were recognized after the dissolution of the District, there was no board of directors to approve any budget amendments, therefore, the District may be in violation of state budgetary laws.

Assets, Liabilities and Net Position

Fair Value of Financial Instruments

The District's financial instruments include cash and cash equivalents, accounts receivable and accounts payable. The District estimates that the fair value of all financial instruments at May 9, 2018, does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying balance sheet. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

TALLYN'S REACH METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements May 9, 2018

Deposits and Investments

The District's cash and cash equivalents are considered to be cash on hand and short-term investments with maturities of three months or less from the date of acquisition. Investments for the government are reported at fair value.

The District follows the practice of pooling cash and investments of all funds to maximize investment earnings. Except when required by trust or other agreements, all cash is deposited to and disbursed from a minimum number of bank accounts. Cash in excess of immediate operating requirements is pooled for deposit and investment flexibility. Investment earnings are allocated periodically to the participating funds based upon each fund's average equity balance in the total cash.

As of May 9, 2018, all cash and investments were transferred to Tallyn's Reach Authority.

Estimates

The preparation of these financial statements in conformity with GAAP requires the District management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has no items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has no items that qualify for reporting in this category.

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items), are reported in the applicable governmental activities columns in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

TALLYN'S REACH METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements May 9, 2018

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the life of the asset are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable using the straight-line method. Depreciation on property that will remain assets of the District is reported on the Statement of Activities as a current charge. Improvements that will be conveyed to other governmental entities are classified as construction in progress and are not depreciated. Land and certain landscaping improvements are not depreciated.

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

Parks and recreation	25 years
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As of May 9, 2018, all assets were transferred to Tallyn's Reach Authority.

Fund Equity

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. Because circumstances differ among governments, not every government or every governmental fund will present all of these components. The following classifications make the nature and extent of the constraints placed on a government's fund balance more transparent:

Nonspendable Fund Balance

Nonspendable fund balance includes amounts that cannot be spent because they are either not spendable in form (such as inventory or prepaids) or are legally or contractually required to be maintained intact.

Restricted Fund Balance

The restricted fund balance includes amounts restricted for a specific purpose by external parties such as grantors, bondholders, constitutional provisions or enabling legislation.

Committed Fund Balance

The portion of fund balance that can only be used for specific purposes pursuant to constraints imposed by a formal action of the government's highest level of decision-making authority, the Board of Directors. The constraint may be removed or changed only through formal action of the Board of Directors.

Assigned Fund Balance

Assigned fund balance includes amounts the District intends to use for a specific purpose. Intent can be expressed by the District's Board of Directors or by an official or body to which the Board of Directors delegates the authority.

TALLYN'S REACH METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements May 9, 2018

Unassigned Fund Balance

Unassigned fund balance includes amounts that are available for any purpose. Positive amounts are reported only in the General Fund, all funds can report negative amounts.

For the classification of Governmental Fund balances, the District considers an expenditure to be made from the most restrictive first when more than one classification is available.

Net Position

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

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

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

Unrestricted net position – consists of all other net position that does not meet the definition of the above two components and is available for general use by the District.

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

Note 2: Cash and Investments

Deposits

Custodial Credit Risk

The Colorado Public Deposit Protection Act, (PDPA) requires that all units of local government deposit cash in eligible public depositories. State regulators determine eligibility. 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 is to be maintained by another institution, or held in trust for all the uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the aggregate uninsured deposits. The State Commissioners for banks and financial services are required by statute to monitor the naming of eligible depositories and reporting of the uninsured deposits and assets maintained in the collateral pools.

TALLYN'S REACH METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements May 9, 2018

The District follows state statutes for deposits. None of the District's deposits were exposed to custodial credit risk.

Investments

Credit Risk

The District has not adopted a formal investment policy; however the District follows state statutes regarding investments. Colorado statutes specify the types of investments meeting defined rating and risk criteria in which local governments may invest. These investments include obligations of the United States and certain U.S. Government agency entities, certain money market funds, guaranteed investment contracts, and local government investment pools.

Custodial and Concentration of Credit Risk

None of the District's investments are subject to custodial or concentration of credit risk.

Interest Rate Risk

Colorado revised statutes limit investment maturities to five years or less unless formally approved by the Board of Directors.

Investment Valuation

Certain investments are measured at fair value within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

As of May 9, 2018, all cash and investments were transferred to Tallyn's Reach Authority. At May 9, 2018, the District did not have any cash and investments.

TALLYN’S REACH METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements
May 9, 2018

Note 3: Capital Assets

An analysis of the changes in capital assets for the year ended May 9, 2018, follows:

Governmental Activities:	Balance 1/1/2018	Additions	Deletions	Balance 5/9/2018
<u>Capital assets not being depreciated:</u>				
Construction in progress	\$ 44,392,980	\$ -	\$ 44,392,980	\$ -
Total capital assets not being depreciated	44,392,980	-	44,392,980	-
<u>Capital assets being depreciated:</u>				
Recreation center and pool	1,820,820	-	1,820,820	-
Total capital assets	1,820,820	-	1,820,820	-
Accumulated Depreciation	946,829	24,278	971,107	-
Net capital assets being depreciated	873,991	(24,278)	849,713	-
Government type assets, net	<u>\$ 45,266,971</u>	<u>\$ (24,278)</u>	<u>\$ 45,242,693</u>	<u>\$ -</u>

Upon completion and acceptance, all fixed assets except for the recreation center, some community landscape, and the pool were to be conveyed by the District to the City of Aurora and/or other local governments. The District would not be responsible for the maintenance of the improvements to be conveyed.

As of May 9, 2018, all capital assets were transferred to Tallyn’s Reach Authority. At May 9, 2018, the District did not have any capital assets.

TALLYN'S REACH METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements May 9, 2018

Note 4: Long Term Debt

A description of the long-term obligations as of May 9, 2018, is as follows:

Developer Loan Agreement

The District and Brookfield Residential LLC, formerly Carma Colorado, Inc., (“Developer”) are parties to a Second Amended and Restated Loan Agreement dated as of January 1, 2006, and as amended on February 13, 2007 (as amended, the “Developer Loan Agreement”), pursuant to which the Developer agrees to loan up to \$32,000,000 to the District for its capital costs, and the District agrees to repay such loans. The Developer Loan Agreement represents a restatement and consolidation of previous loan agreements dating back to 1999 between the Developer and the District. The agreement currently provides that it is the intention of the parties that the District will repay the loans with proceeds received from the District No. 2 and District No. 3; provided, however, that any advances or accrued interest owed to the Developer in excess of \$32,000,000 shall be deemed to be contributed to the District without any repayment obligation, absent further modification of the Developer Loan Agreement and Service Plan authorizing the same. The agreement states that it is between the District and the Developer, but District No. 2 and District No. 3 also signed the agreement and agreed to certain covenants contained therein. In accordance with this loan agreement, the District issued a \$32,000,000 Promissory Note which matured on December 31, 2007.

On May 13, 2008, the District entered into the Second Amendment to the Second Amended and Restated Loan Agreement. The purpose of this amendment is to restate the total maximum amount to be loaned by the Developer to the District to an amount not to exceed \$38,600,000 inclusive of principal and accrued interest, reflecting the aggregate Service Plan debt limit. Advances and/or interest accrued over and above this limit shall be deemed contributed to the District. The amendment also clarifies the interest rate calculation. The obligation of the Developer to loan funds pursuant to this agreement expired on December 31, 2015. In accordance with this loan agreement, the District issued a Promissory Note with a maximum amount of \$38,600,000.

On November 16, 2010, District No. 1 entered into the Third Amendment to the Second Amended and Restated Loan Agreement. The purpose of this amendment is to incorporate operating advances into the agreement. The term of the agreement was not changed. This amendment resulted in the termination of the Funding and Reimbursement Agreement between the District and the Developer which provided for operations and maintenance advances to the District. This Loan Agreement was also assigned through an amendment on December 6, 2011, and was subsequently terminated on May 9, 2018 through the Termination of Infrastructure Acquisition Agreement, Reimbursement Agreements, and Loan Agreement.

TALLYN’S REACH METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements
May 9, 2018

Termination of Infrastructure Acquisition Agreement, Reimbursement Agreements, and Loan Agreement

On May 9, 2018, the District and the Developer entered into the Termination of Infrastructure Acquisition Agreement, Reimbursement Agreements, and Loan Agreement. Under this agreement, all amounts remaining due and outstanding under the Agreements were forgiven in their entirety and should be deemed a contribution to the District by the Developer. As a result, all obligations to the Developer are deemed paid in full as of the date of this agreement and the District has no further long-term debt as of May 9, 2018.

The following is an analysis of changes in long-term debt for the period ending May 9, 2018:

	Balance 1/1/2018	Additions	Deemed Contributions/ Reductions	Balance 5/9/2018	Current Portion
<u>Capital:</u>					
Developer advances	\$ 9,591,418	\$ -	\$ 9,591,418	\$ -	\$ -
Accrued interest	17,934	189,004	206,938	-	-
<u>Operations:</u>					
Developer advances	2,136,460	-	2,136,460	-	-
Accrued interest	1,084,790	42,100	1,126,890	-	-
Total	<u>\$ 12,830,602</u>	<u>\$ 231,104</u>	<u>\$ 13,061,706</u>	<u>\$ -</u>	<u>\$ -</u>

As the result of the forgiveness of the Developer advances and accrued interest by the Developer, as of May 9, 2018, the District did not have any long term debt.

Note 5: Tax, Spending and Debt Limitations

Article X, Section 20 of the Colorado Constitution, commonly known as the Taxpayer Bill of Rights (“TABOR”), contains tax, spending, revenue and debt limitations which apply to the State of Colorado and all local governments.

Spending and revenue limits are determined based on the prior year’s Fiscal Year Spending adjusted for allowable increases based upon inflation and local growth. Fiscal Year Spending is generally defined as expenditures plus reserve increases with certain exceptions. Revenue in excess of the Fiscal Year Spending limit must be refunded unless the voters approve retention of such revenue.

TABOR requires local governments to establish Emergency Reserves. These reserves must be at least 3% of Fiscal Year Spending (excluding bonded debt service). Local governments are not allowed to use the emergency reserves to compensate for economic conditions, revenue shortfalls, or salary or benefit increases.

TALLYN'S REACH METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements May 9, 2018

The District's management believes it is in compliance with the provisions of TABOR. However, TABOR is complex and subject to interpretation. Many of the provisions, including the interpretation of how to calculate Fiscal Year Spending limits will require judicial interpretation.

On November 7, 2000, a majority of the District's electors authorized the District to collect and spend or retain in a reserve all currently levied taxes and fees of the District without regard to any limitations under Article X, Section 20 of the Colorado Constitution.

Note 6: Risk Management

Except as provided in the Colorado Governmental Immunity Act, 24-10-101, et seq., CRS, the District may be exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets; errors or omissions; injuries to agents; and natural disasters. The District has elected to participate in the Colorado Special Districts Property and Liability Pool ("Pool") which is an organization created by intergovernmental agreement to provide common liability and casualty insurance coverage to its members at a cost that is considered economically appropriate. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

The District pays annual premiums to the Pool for auto, public officials' liability, and property and general liability coverage. In the event aggregated losses incurred by the Pool exceed its amounts recoverable from reinsurance contracts and its accumulated reserves, the District may be called upon to make additional contributions to the Pool on the basis proportionate to other members. Any excess funds which the Pool determines are not needed for purposes of the Pool may be returned to the members pursuant to a distribution formula.

Note 7: District Agreements

District Facilities Construction and Service Agreement

On January 1, 2002, and as amended on December 17, 2003 and February 13, 2007, the District entered into a District Facilities Construction and Service Agreement with District No. 2 and District No. 3. The agreement states that District No. 2 and District No. 3 will pay District No. 1 for the capital costs of designing, acquiring, construction, operation and maintenance of the District facilities. The amendment states that until such time as any bonds issued by the Taxing Districts are discharged, all remaining obligations of the Taxing Districts to make payments to the Operating District will be fully subordinate to the bonds. The agreement allows the District to establish various fees.

On May 13, 2008, the First Amendment to the Amended and Restated District Facilities Construction and Service Agreement was approved which reaffirmed that the maximum amounts of authorized service and capital costs are not permitted to exceed the Service Plan aggregate of \$66,350,000. This agreement was terminated by the Districts on May 9, 2018, through the Termination of the District Facilities Construction and Service Agreement.

TALLYN'S REACH METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements May 9, 2018

As of May 9, 2018, all rights and obligations related to District agreements were transferred to Tallyn's Reach Authority.

Tallyn's Reach Authority Establishment Agreement

On February 12, 2018, Tallyn's Reach Metropolitan District No. 2 and Tallyn's Reach Metropolitan District No. 3 (collectively "the Districts") entered into the Tallyn's Reach Authority Establishment Agreement for the purpose of establishing the Tallyn's Reach Authority which is organized for the purpose of planning, financing, designing, constructing, installing, operating, maintaining, repairing and replacing public improvements and facilities and providing services to the residents of the Districts. As of May 9, 2018 Tallyn's Reach Metropolitan District No. 1 assigned all of its assets, liabilities, rights and obligations to the Authority after which the Tallyn's Reach Metropolitan District No.1 was dissolved.

As of May 9, 2018, all rights and obligations related to District agreements were transferred to Tallyn's Reach Authority.

Note 8: Development and Operations Fees

Amended and Restated Joint Resolution Concerning the Imposition of District Development Fees

On August 24, 1999, and as amended and/or restated in 2000, 2001, 2002, 2003, 2005, 2007, 2010 and 2012, the District entered into a Joint Resolution Concerning the Imposition of District Development Fees with District No. 2 and District No. 3. The agreement authorized the District to impose a development fee due not later than thirty days after the date upon which a building permit is issued to a buyer by the City of Aurora. The fee was initially set in 2001 at \$3,000 per detached single family residence. Various multi-family rates also apply. The fee can increase by 5% per year. For 2018, the fee was \$6,850. For the period ended May 9, 2018, the District earned \$20,550 in fees.

The resolution also established a General Operations Fee which is to be used to cover the costs associated with the operation and maintenance of the District's facilities. The fee was increased to \$62 per month for 2009 through 2018. For the period ended May 9, 2018, the District collected \$683,055 of these fees including late fee charges.

On December 9, 2014, the District approved an Amended and Restated Joint Resolution Regarding the Imposition of District Fees along with District No. 2 and District No. 3 which further clarified the District fees and established a schedule of fees for 2015 which is adjusted on an annual basis. For 2018, the District established an operations fee of \$62 per month for single family residences.

As of May 9, 2018, all rights and obligations related to District fees were transferred to Tallyn's Reach Authority.

SUPPLEMENTAL INFORMATION

TALLYN'S REACH METROPOLITAN DISTRICT NO. 1

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - CAPITAL PROJECTS FUND For the Period Ended May 9, 2018

	<u>Original Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES			
Development fees	\$ -	\$ 20,550	\$ 20,550
Interest income	10,000	903	(19,092)
Transfer from District No. 3	<u>5,005</u>	<u>-</u>	<u>(5,005)</u>
Total Revenues	<u>15,005</u>	<u>21,453</u>	<u>(3,547)</u>
EXPENDITURES			
Miscellaneous	1,000	-	1,009
Transfer to Tallyn's Reach Authority	9,000	23,991	-
Forgiven debt - principal	-	9,591,418	(9,591,418)
Forgiven debt - interest	<u>5,005</u>	<u>206,938</u>	<u>(206,938)</u>
Total Expenditures	<u>15,005</u>	<u>9,822,347</u>	<u>(9,797,347)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES			
	-	(9,800,894)	(9,800,894)
OTHER FINANCING SOURCES (USES)			
Developer Contributions	<u>-</u>	<u>9,798,356</u>	<u>9,798,356</u>
Total Other Financing Sources (Uses)	<u>-</u>	<u>9,798,356</u>	<u>9,798,356</u>
NET CHANGE IN FUND BALANCE			
	-	(2,538)	(2,538)
FUND BALANCE:			
BEGINNING OF YEAR	<u>-</u>	<u>2,538</u>	<u>2,538</u>
END OF YEAR	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

The notes to the financial statements are an integral part of these statements.

TALLYN'S REACH METROPOLITAN DISTRICT NO. 1

STATEMENT OF EXPENDITURES - BUDGET AND ACTUAL -
GENERAL FUND

For the Period Ended May 9, 2018

EXPENDITURES	Original & Final <u>Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
<u>Administration</u>			
Accounting	\$ 24,000	\$ 9,917	\$ 14,083
Administrative	40,000	1,830	38,170
Auditing	10,000	-	10,000
Bank Charges	350	-	350
Billing	-	8,589	(8,589)
CAI Fees	2,000	-	2,000
Elections	20,000	121	19,879
Insurance and Bonds	26,500	26,056	444
Legal Collections	15,000	10,631	4,369
Legal	70,000	32,368	37,632
Property management	75,768	20,522	55,246
Miscellaneous	-	177	(177)
Total Administration	283,618	110,211	173,407
<u>Grounds expenses</u>			
Flag maintenance	2,500	-	2,500
Fountain maintenance	1,500	-	1,500
Seasonal décor	12,000	-	12,000
Lighting/electrical repairs	2,000	8,454	(6,454)
Landscape contract	300,000	160,976	139,024
Irrigation repairs	50,000	52,127	(2,127)
Pest control	1,000	-	1,000
Common area maintenance	90,000	(3,359)	93,359
Retaining walls	2,000	-	2,000
Tree and shrub maintenance	65,000	-	65,000
Planting/foundation beds	10,000	-	10,000
Landscape improvements	10,000	45,230	(35,230)
Snow removal	45,000	15,190	29,810
Signage	10,000	-	10,000
Winter watering	5,000	-	5,000
Total Grounds expenses	606,000	278,618	327,382
<u>Recreation expenses</u>			
Pool contacts	81,000	8,978	72,022
Pool repairs	25,000	-	25,000
Pool chemicals	5,000	-	5,000
Pool furniture	5,000	-	5,000
Kiddie pool	5,000	-	5,000
Storage building	2,000	-	2,000
Security system	3,500	2,075	1,425
Clubhouse main supplies	3,000	-	3,000
Indoor building maint	10,000	-	10,000
Outside building maint	10,000	-	10,000
Janitorial/housekeeping	7,000	-	7,000
Playground equipment	800	-	800
Telephone/access control	4,100	-	4,100
Total Recreation expenses	161,400	11,053	150,347
<u>Utilities expenses</u>			
Water/sewer	400,000	10,880	389,120
Gas/electric	13,000	3,450	9,550
Total Utilities expenses	413,000	14,330	398,670
Miscellaneous	10,000	-	10,000
Transfer to Tallyn's Reach Authority	-	1,532,585	(1,532,585)
Emergency reserve	44,221	-	44,221
Contingency	87,713	-	87,713
Reserve for Repairs - prior year	750,000	-	750,000
Reserve for Repairs - current year	450,000	-	450,000
Total Expenditures	\$ 2,805,952	\$ 1,946,797	\$ 859,155

The notes to the financial statements are an integral part of these statements.