

**STC METROPOLITAN DISTRICT NO. 3**

**Financial Statements**

**December 31, 2019**

# STC METROPOLITAN DISTRICT NO. 3

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## Dazzio & Associates, PC

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Certified Public Accountants

### INDEPENDENT AUDITOR'S REPORT

Board of Directors  
STC Metropolitan District No. 3  
Boulder County, Colorado

We have audited the accompanying financial statements of the governmental activities and each major fund of the STC Metropolitan District No. 3 as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

#### ***Management's Responsibility for the Financial Statements***

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

#### ***Auditor's Responsibility***

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

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

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

8200 South Quebec Street, Suite A3259, Centennial, Colorado 80112  
303-905-0809 • [info@dazziocpa.com](mailto:info@dazziocpa.com)

• Member American Institute of Certified Public Accountants • Member Colorado Society of Certified Public Accountants •

## ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the STC Metropolitan District No. 3, as of December 31, 2019, and the respective changes in financial position and the budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### *Required Supplementary Information*

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the 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 opinion on the basic financial statements is not affected by this missing information.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the STC Metropolitan District No. 3's basic financial statements. The budget to actual schedule for the Debt Service Fund (Supplementary Information) is presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Supplementary Information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplementary Information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

*Duzzio & Associates, P.C.*

May 22, 2020

## **BASIC FINANCIAL STATEMENTS**

STC METROPOLITAN DISTRICT NO. 3

STATEMENT OF NET POSITION

December 31, 2019

	<b>Governmental Activities</b>
<b>Assets</b>	
Receivable from County Treasurer	\$ 64
Property Taxes Receivable	141
Tax Increment Taxes Receivable	81,300
<b>Total Assets</b>	<u>81,505</u>
<b>Liabilities</b>	
Payable to District No. 2	<u>64</u>
<b>Deferred Inflows of Resources</b>	
Deferred Property Tax	141
Deferred Tax Increment Taxes	81,300
<b>Total Deferred Inflows of Resources</b>	<u>81,441</u>
<b>Net Position</b>	
Unrestricted	<u><u>\$ -</u></u>

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

**STC METROPOLITAN DISTRICT NO. 3**

**STATEMENT OF ACTIVITIES**

**For the Year Ended December 31, 2019**

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense)</u>
		<u>Permits, Fees, Fines, and Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Revenue and Changes in Net Position</u>
<u>Function/Program Activities</u>					<u>Governmental Activities</u>
<b>Governmental Activities</b>					
Administration	\$ 14,240	\$ -	\$ -	\$ -	\$ (14,240)
Total Governmental Activities	<u>\$ 14,240</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(14,240)</u>
		<b>General Revenues</b>			
			Property Taxes	30	
			Specific Ownership Taxes	715	
			SURA Property Tax Increment	13,495	
			<b>Total General Revenues</b>	<u>14,240</u>	
			<b>Changes In Net Position</b>		-
			<b>Net Position - Beginning</b>		-
			<b>Net Position - Ending</b>		<u>\$ -</u>

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

**STC METROPOLITAN DISTRICT NO. 3**

**BALANCE SHEET  
GOVERNMENTAL FUNDS**

**December 31, 2019**

	<b>General Fund</b>	<b>Debt Service</b>	<b>Total</b>
<b>Assets</b>			
Receivable from County Treasurer	\$ 21	\$ 43	\$ 64
Property Taxes Receivable	47	94	141
Tax Increment Taxes Receivable	27,100	54,200	81,300
<b>Total Assets</b>	<b>\$ 27,168</b>	<b>\$ 54,337</b>	<b>\$ 81,505</b>
<b>Liabilities</b>			
Payable to District No. 2	\$ 21	\$ 43	\$ 64
<b>Deferred Inflows of Resources</b>			
Deferred Property Tax	47	94	141
Deferred Tax Increment Taxes	27,100	54,200	81,300
<b>Total Deferred Inflows of Resources</b>	<b>27,147</b>	<b>54,294</b>	<b>81,441</b>
<b>Fund Balance</b>			
Unassigned	-	-	-
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b>	<b>\$ 27,168</b>	<b>\$ 54,337</b>	<b>\$ 81,505</b>

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

**STC METROPOLITAN DISTRICT NO. 3**

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

**For the Year Ended December 31, 2019**

	<u>General Fund</u>	<u>Debt Service</u>	<u>Total</u>
<b>Revenues</b>			
Property Taxes	\$ 10	\$ 20	\$ 30
SURA Property Tax Increment	4,400	9,095	13,495
Specific Ownership Tax	238	477	715
<b>Total Revenues</b>	<u>4,648</u>	<u>9,592</u>	<u>14,240</u>
<b>Expenditures</b>			
Current			
Transfer to District No. 2	4,648	9,592	14,240
<b>Total Expenditures</b>	<u>4,648</u>	<u>9,592</u>	<u>14,240</u>
<b>Net Change in Fund Balance</b>	-	-	-
<b>Fund Balance - Beginning</b>	-	-	-
<b>Fund Balance - Ending</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

**STC METROPOLITAN DISTRICT NO. 3**

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

**For the Year Ended December 31, 2019  
(With Comparative Totals for the Year Ended December 31, 2018)**

	<b>Original and Final Budget</b>	<b>Actual Amounts</b>	<b>Variance with Final Budget - Positive (Negative)</b>	<b>2018 Actual</b>
<b>Revenues</b>				
Property Taxes	\$ 10	\$ 10	\$ -	\$ 5
Specific Ownership Tax	358	238	(120)	117
SURA Property Tax Increment	4,467	4,400	(67)	1,068
<b>Total Revenues</b>	<b>4,835</b>	<b>4,648</b>	<b>(187)</b>	<b>1,190</b>
<b>Expenditures</b>				
Administrative				
Transfer to District No. 2	4,835	4,648	187	1,190
<b>Total Expenditures</b>	<b>4,835</b>	<b>4,648</b>	<b>187</b>	<b>1,190</b>
<b>Net Change in Fund Balance</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Fund Balance - Beginning</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Fund Balance - Ending</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

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

## STC METROPOLITAN DISTRICT NO. 3

### NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2019

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#### **Note 1 – Definition of Reporting Entity**

The STC Metropolitan District No. 3 (the District), a quasi-municipal corporation and political subdivision of the State of Colorado was organized by recorded order and decree of the District Court for Boulder County on December 5, 2013, and is governed pursuant to provisions of the Colorado Special District Act (Title 32, Article 1, Colorado Revised Statutes). The District is one of three related districts: STC Metropolitan District Nos. 1, 2 and 3 (the Districts).

The District operates under a Service Plan approved by the Town of Superior (the Town) on May 13, 2013 and amended on April 6, 2014. Pursuant to the Service Plan, Districts Nos. 2 and 3 are referred to as the Financing Districts and District No. 1 is the Management District. The Management District is responsible for managing, implementing and coordinating the financing, construction, and the operation and maintenance of all public infrastructure and services within and without the project known as Superior Town Center. The Financing Districts provide the funding for the improvements and the tax base needed to support ongoing operations of the Districts. On January 1, 2015, the Districts entered into a Facilities Funding, Construction and Operation Agreement whereby District No. 2 took over the responsibilities of the Management, or Operating District, and the District became a financing District (see Note 5).

The District's service area boundaries are located entirely within the Town and the Superior Urban Renewal Area.

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

The District follows the Governmental Accounting Standards Board (GASB) accounting pronouncements, which provide guidance for determining which governmental activities, organizations and functions should be included within the financial reporting entity. GASB pronouncements set 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 District is not financially accountable to any other organization, nor is the District a component unit of any other primary governmental entity.

## STC METROPOLITAN DISTRICT NO. 3

### NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2019

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#### **Note 2 – Summary of Significant Accounting Policies**

The more significant accounting policies of the District are described as follows:

#### **Government-Wide and Fund Financial Statements**

The government-wide financial statements include the statement of net position and the statement of activities. These financial statements include all of the activities of the District. Governmental activities are normally supported by taxes and intergovernmental revenues.

The statement of net position reports all financial and capital resources of the District. The difference between the assets and liabilities of the District is reported as net position.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenue. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenue* 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 revenue are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported in 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 related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Other items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met. Depreciation is computed and recorded as an operating expense. Expenditures for capital assets are shown as increases in assets and redemption of bonds and notes are recorded as a reduction in liabilities.

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 after year-end. The major sources of revenue susceptible to accrual are

## STC METROPOLITAN DISTRICT NO. 3

### NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2019

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property taxes. All other revenue items are considered to be measurable and available only when cash is received by the District. Expenditures are recorded when the related fund liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

The District reports the following major governmental funds:

**General Fund** – This fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

**Debt Service Fund** – This fund is used to account for the resources accumulated and payments made for principal and interest on long-term general obligation debt.

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

#### **Budgets**

In accordance with the State Budget Law, the District's Board of Directors holds public hearings in the fall each year to approve the budget and appropriate the funds for the ensuing year. The appropriation is at the total fund expenditures level and lapses at year end. The District 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.

#### **Cash and Investments**

Colorado Revised Statutes specify investment instruments meeting defined rating and risk criteria in which the District may invest which include: obligations of the United States and certain U.S. government agency securities, general obligation and revenue bonds of U.S. local government entities, bankers acceptances of certain banks, commercial paper, certain corporate bonds, written repurchase agreements collateralized by certain authorized securities, certain money market funds, guaranteed investment contracts, and local government investment pools.

Cash and investments are presented on the balance sheet in the basic financial statements at fair value.

## STC METROPOLITAN DISTRICT NO. 3

### NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2019

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#### **Property Taxes**

Property taxes are levied by the District's Board of Directors. The levy is based on assessed valuations determined by the County Assessor generally as of January 1 of each year. The levy is normally set by December 15 by certification to the County Commissioners to put the tax lien on the individual properties as of January 1 of the following year. The County Treasurer collects the determined taxes during the ensuing calendar year. The taxes are payable by April or if in equal installments, at the taxpayer's election, in February and June. Delinquent taxpayers are notified in August and generally sales of the tax liens on delinquent properties are held in November or December. The County Treasurer remits the taxes collected monthly to the District.

Property taxes, net of estimated uncollectible taxes, are recorded initially as deferred inflow of resources in the year they are levied and measurable. The property tax revenues are recorded as revenue in the year they are available or collected.

#### **Deferred Inflows of Resources**

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

#### **Net Position and Fund Equity**

##### Net Position

The government-wide financial statements utilize a net position presentation. Net position is categorized as net investment in capital assets, restricted and unrestricted.

Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.

Restricted net position is subject to restrictions by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provision or enabling legislation.

## STC METROPOLITAN DISTRICT NO. 3

### NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2019

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Unrestricted net position represents assets that do not have any third-party limitations on their use.

For government-wide presentation purposes, when both restricted and unrestricted resources are available for use, it is the District's practice to use restricted resources first, then unrestricted resources as they are needed.

#### Fund Balances

Fund balance for governmental funds should be reported in classifications that comprise a hierarchy based on the extent to which the government is bound to honor constraints on the specific purposes for which spending can occur. Governmental funds report up to five classifications of fund balance: nonspendable, restricted, committed, assigned, and unassigned.

Because circumstances differ among governments, not every government or every governmental fund will present all of these components. The following classifications describe the relative strength of the spending constraints:

*Nonspendable fund balance* – The portion of fund balance that cannot be spent because it is either not in spendable form (such as *prepaid amounts*) or legally or contractually required to be maintained intact.

*Restricted fund balance* – The portion of fund balances that is constrained to be used for a specific purpose by external parties (such as 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 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* – The portion of fund balance that is constrained by the government's intent to be used for specific purposes, but is neither restricted nor committed. Intent is expressed by the Board of Directors to be used for a specific purpose. Constraints imposed on the use of assigned amounts are more easily removed or modified than those imposed on amounts that are classified as committed.

*Unassigned fund balance* - The residual portion of fund balance that does not meet any of the criteria described above.

## STC METROPOLITAN DISTRICT NO. 3

### NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2019

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If more than one classification of fund balance is available for use when an expenditure is incurred, it is the District's practice to use the most restrictive classification first.

#### **Note 3 – Cash and Investments**

##### Custodial credit risk

Custodial risk for deposits is the risk that, in the event of a failure of a depository financial institution, the District will not be able to recover its deposits or will not be able to recover collateral securities that are in possession of an outside party. The Colorado Public Deposit Protection Act (PDPA) governs the investment of public funds. 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 (\$250,000) must be collateralized. The eligible collateral is determined by the PDPA. PDPA allows the institution to create a single collateral pool for all public funds. The pool for all the uninsured public deposits as a group is to be maintained by another institution or held in trust. The market value of the collateral must be at least equal to 102% of the aggregate uninsured deposits. The institution's internal records identify the collateral by depositor and as such, these deposits are considered to be uninsured but collateralized. The State Regulatory Commissions 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.

At December 31, 2019, the District's cash deposits had a bank and carrying balance of \$-0-.

##### **Investments**

The District has adopted an investment policy by which it follows state statutes regarding investments.

The District generally limits its concentration of investments to obligations of the United States, certain U.S. government agency securities and Local Government Investment Pools, which are believed to have minimal credit risk; minimal interest rate risk and no foreign currency risk. Additionally, the District is not subject to concentration risk disclosure requirements or subject to investment custodial credit risk for investments that are in the possession of another party.

Colorado revised statutes limit investment maturities to five years or less unless formally approved by the Board of Directors, such actions are generally associated with a debt service reserve or sinking fund requirements.

## STC METROPOLITAN DISTRICT NO. 3

### NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2019

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Colorado statutes specify investment instruments meeting defined rating and risk criteria in which local governments may invest which include:

- Obligations of the United States, certain U.S. government agency securities and securities of the World Bank
- General obligation and revenue bonds of US local government entities
- Certain certificates of participation
- Certain securities lending agreements
- Bankers' acceptances of certain banks
- Commercial paper
- Written repurchase agreements and certain reverse repurchase agreements collateralized by certain authorized securities
- Certain money market funds
- Guaranteed investment contracts
- Local government investment pools

At December 31, 2019, the District did not have any investments.

#### **Note 4 – Authorized Debt**

On November 5, 2013, District voters approved debt authorization in the amount of \$1,305,000,000, at an interest rate not to exceed 9% per annum, for the construction of capital improvements, with an additional \$290,000,000 for refunding debt. The voters also authorized debt of \$145,000,000 each for the cost of operating and maintaining the District's systems and for intergovernmental agreements.

**STC METROPOLITAN DISTRICT NO. 3**

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2019**

At December 31, 2019, the District had authorized but unissued indebtedness in the following amounts allocated for the following purposes:

	Authorized November 5, 2013	2015 Series A & B Limited Tax GO Bonds (1)	2019A Limited Tax GO Bonds (1)	2019B <sup>(3)</sup> Limited Tax GO Bonds (1)	Authorized but Unissued at December 31, 2019
Streets	\$ 145,000,000	\$ 12,195,885	\$ 49,991,322	\$ 14,974,426	\$ 67,838,367
Parks and Recreation	145,000,000	144,330	6,082,936	1,822,086	136,950,648
Water	145,000,000	2,092,785	4,051,277	1,213,522	137,642,416
Sanitation/Storm	145,000,000	9,622,000	5,875,553	1,759,966	127,742,481
Public Transportation	145,000,000	-	-	-	145,000,000
Mosquito Control	145,000,000	-	-	-	145,000,000
Traffic and Safety	145,000,000	-	-	-	145,000,000
Fire Protection	145,000,000	-	-	-	145,000,000
Television Relay	145,000,000	-	-	-	145,000,000
Operations and Maintenanc	145,000,000	-	-	-	145,000,000
Intergovernmental Agreeme	145,000,000	-	-	-	145,000,000
Refundings	290,000,000	-	2,293,903	-	287,706,097
	<u>\$ 1,885,000,000</u>	<u>\$ 24,055,000</u>	<u>\$ 68,294,991</u>	<u>\$ 19,770,000</u>	<u>\$ 1,772,880,009</u>

(1) Issued by District No. 2

The Service Plan limits the total principal amount of obligations the District may issue to \$145,000,000. Additionally, the Maximum Debt Mill levy is 50.000 mills while the aggregate District's debt exceeds fifty percent (50%) of the District's assessed valuation. With prior Town Board consent, for the portion of any aggregate District's Debt which is equal to or less than fifty percent (50%) of the District's assessed valuation, either on the date of issuance or at any time thereafter, the mill levy to be imposed to repay such portion of Debt shall not be subject to the Maximum Debt Mill Levy and, as a result, the mill levy may be such amount as is necessary to pay the Debt service on such Debt, without limitation of rate.

## STC METROPOLITAN DISTRICT NO. 3

### NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2019

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#### Note 5 – District Agreements

##### Cost Sharing Agreement

On October 18, 2013, the Districts entered into a Cost Sharing Agreement (CSA) with the Superior Urban Renewal Authority (SURA) and RC Superior, LLC (the Developer). The CSA provides that tax increment revenues received by the SURA from the Districts' respective mill levies be disbursed to District No. 2 as pledged revenues for any bonds or other financial obligations issued by District No. 2.

##### Capital Pledge Agreement

On April 8, 2015, District No. 2 issued \$17,055,000 Limited Tax General Obligation Senior Bonds, Series 2015A and \$7,000,000 Limited Tax General Obligation Subordinate Bonds, Series 2015B (the Bonds). In connection with the Bonds, District No. 1 and District No. 2 entered into a Capital Pledge Agreement, dated April 1, 2015, whereby District No. 1 agrees to impose the District No. 1 Required Mill Levy (as defined in the Capital Pledge Agreement) and assign and remit to District No. 2 all revenues resulting from the imposition of the District No. 1 Required Mill Levy and Specific Ownership Taxes, as well as certain other revenues of the District to pay a portion of the principal of and interest on the Bonds commencing in 2016 and each year thereafter so long as the Bonds remains outstanding.

On December 19, 2019, District No. 2 currently refunded \$15,795,000 of outstanding principal of the Series 2015A Bonds with an interest rate of 6% and \$7,000,000 of outstanding principal of the Series 2015B Bonds with an interest rate of 7.75% by the issuance of \$90,790,000 Limited Tax General Obligation and Special Revenue Refunding and Improvement Bonds, Series 2019A, dated December 19, 2019, with an average interest rate of 4.905%. A portion of the proceeds from the Series 2019A Bonds amounting to \$25,315,993, which included \$3,309,766 of existing District funds, were used to redeem the 2015A and 2015B and to pay the optional redemption premium. District No. 2 refunded the Series 2015 Bonds to take advantage of lower interest rates.

On December 19, 2019, District No. 2 issued \$90,790,000 Limited Tax General Obligation and Special Revenue Refunding and Improvement Bonds, Series 2019A, and \$19,770,000 Subordinate Limited Tax General Obligation and Special Revenue Bonds, Series 2019B<sub>(3)</sub> (the 2019 Bonds). In connection with the Bonds, the Districts entered into an Amended and Restated Capital Pledge Agreement dated December 1, 2019 whereby the Districts agree to impose up to a maximum mill levy as follows: (a) with respect to District No. 1, 50 mills (Gallagher-Adjusted); (b) with respect to District No. 2 (the Issuing District): (i) prior to and including levy year 2023, 35 mills (Gallagher-Adjusted), and (ii) commencing with levy year 2024, 44 mills (Gallagher-Adjusted); and (c) with respect to the District: (i) prior to and including levy year 2023, 20 mills (Gallagher-Adjusted), and (ii) commencing with levy year 2024, 29 mills (Gallagher-Adjusted); subject to the limitations and

## STC METROPOLITAN DISTRICT NO. 3

### NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2019

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adjustments described in the 2019A Senior and 2019B<sub>(3)</sub> Subordinate Bond Indenture, and assign and remit to District No. 2 all revenues resulting from the imposition of the District No. 1 and District No. 3 Required Mill Levy and Specific Ownership Taxes, as well as certain other revenues of District No. 1 and District No. 3 to pay a portion of the principal of and interest on the Bonds commencing in 2020 and each year thereafter so long as the Bonds remains outstanding.

Further, pursuant to the Urban Renewal Act and Superior Urban Renewal Plan, until the tax increment expiration date, the District Property Tax Increment Revenues are payable to SURA and that, pursuant to the Cost Sharing Agreement, SURA has agreed to disburse the District Property Tax Increment Revenues on a monthly basis to such persons or entities as may be designated by the Designated Representative (as defined in the Cost Sharing Agreement). The Pledged Revenues, including the District Property Tax Increment Revenues attributable to the District No. 1 and District No.3 Required Mill Levy, are pledged by District No. 1 and District No. 3 to District No. 2 for the payment of principal and interest on the Bonds.

#### **Facilities Funding, Construction and Operation Agreement (FFCO Agreement)**

On January 1, 2015, the Districts entered into a Facilities Funding, Construction and Operation Agreement (FFCO Agreement). The FFCO Agreement entirely replaced and superseded the Memorandum of Understanding (the District MOU) dated December 13, 2013, whereby the Districts agreed that District No. 1 would provide for the construction, design, operation and maintenance of the District Improvements, as well as the overall administration of the Districts.

The FFCO Agreement designates District No. 2 as the Operating District which will operate, maintain, finance and construct (including funding thereof) certain of the Public Improvements and the District and District No. 1 will contribute to those costs. District No. 1 and District No. 3 shall remit to District No. 2 their respective property tax revenue, specific ownership taxes and any other legally available revenue.

#### **Note 6 – Related Party**

Some of the members of the Board of Directors of the District may be or have been employees, owners of, or otherwise associated with the Developer, and may have conflicts of interest in dealing with the District.

**STC METROPOLITAN DISTRICT NO. 3**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2019**

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**Note 7 – Economic Dependency**

The District has not yet established a revenue base sufficient to pay the District's operational expenditures. Until an independent revenue base is established, continuation of operations in the District will be dependent upon actions by the Developer to advance funds for operations of the District.

**Note 8 – Risk Management**

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

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

The District pays annual premiums to the Pool for general and automobile liability, public officials, auto physical damage and worker's compensation coverage. In the event aggregate losses incurred by the Pool exceed amounts recoverable from reinsurance contracts and funds accumulated by the Pool, the Pool may require additional contributions from the Pool members. Any excess funds, which the Pool determines are not needed for purposes of the Pool, may be returned to the members pursuant to a distribution formula.

**Note 9 – Tax, Spending and Debt Limitations**

Article X, Section 20 of the Colorado Constitution, commonly known as the Taxpayer's Bill of Rights (TABOR) contains tax, spending, 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.

**STC METROPOLITAN DISTRICT NO. 3**

**NOTES TO FINANCIAL STATEMENTS  
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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.

The District transfers all of its General Fund revenue to District No. 2. Therefore, no Emergency Reserve has been provided for by the District. The Emergency Reserve related to the District's revenue stream is captured in District No. 2.

On November 5, 2013, the voters approved the District to increase property taxes \$2,000,000 annually for the purpose of paying the District's operations, maintenance expenses and capital expenses, without regard to any spending, revenue raising or other limitation contained within Article X, Section 20 of the Colorado Constitution or any other property tax limitation or law.

Additionally, the voters authorized the District to collect, retain and spend all revenues received by the District during 2014 and all subsequent years as voter-approved revenue changes without regard to any spending, revenue raising or other limitation.

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.

**SUPPLEMENTARY INFORMATION**

**STC METROPOLITAN DISTRICT NO. 3**

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

**For the Year Ended December 31, 2019  
(With Comparative Totals for the Year Ended December 31, 2018)**

	<b>Original and Final Budget</b>	<b>Actual Amounts</b>	<b>Variance with Final Budget - Positive (Negative)</b>	<b>2018 Actual</b>
<b>Revenues</b>				
Property Taxes	\$ 19	\$ 20	\$ 1	\$ 10
SURA Property Tax Increment	8,918	9,095	177	2,061
Specific Ownership Tax	715	477	(238)	234
<b>Total Revenues</b>	<b>9,652</b>	<b>9,592</b>	<b>(60)</b>	<b>2,305</b>
<b>Expenditures</b>				
Current				
Transfer to District No. 2	9,652	9,592	60	2,305
<b>Total Expenditures</b>	<b>9,652</b>	<b>9,592</b>	<b>60</b>	<b>2,305</b>
<b>Net Change in Fund Balance</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Fund Balance - Beginning</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Fund Balance - Ending</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

See the Independent Auditor's Report