

STC METROPOLITAN DISTRICT NO. 2

Financial Statements

December 31, 2020

STC METROPOLITAN DISTRICT NO. 2

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Dazzio & Associates, PC

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Board of Directors
STC Metropolitan District No. 2
Boulder County, Colorado

We have audited the accompanying financial statements of the governmental activities and each major fund of the STC Metropolitan District No. 2 as of and for the year ended December 31, 2020, 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.

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. 2, as of December 31, 2020, 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. 2's basic financial statements. The budget to actual schedules for the Debt Service and Capital Projects Funds (Supplementary Information), the Schedule of Debt Service Requirements to Maturity and the Schedule of Future Debt Service Requirements (Other Information) are 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 relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplementary Information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Other Information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Daggio & Associates, P.C.

April 28, 2021

BASIC FINANCIAL STATEMENTS

STC METROPOLITAN DISTRICT NO. 2

STATEMENT OF NET POSITION

December 31, 2020

	<u>Governmental Activities</u>
Assets	
Cash and Investments	\$ 155,014
Cash and Investments - Restricted	46,116,625
Accounts Receivable	716
Due from District No. 1	4,973
Due from District No. 3	876
Prepaid Expenses	20,893
Receivable from County Treasurer	4,733
Property Taxes Receivable	589
Tax Increment Taxes Receivable	2,493,971
Capital Assets Not Being Depreciated	57,671,806
Capital Assets, Net	<u>2,090,595</u>
Total Assets	<u>108,560,791</u>
Liabilities	
Accounts Payable	72,033
Accrued Interest Payable	361,604
Noncurrent Liabilities	
Due In More Than One Year	<u>119,099,752</u>
Total Liabilities	<u>119,533,389</u>
Deferred Inflows of Resources	
Deferred Property Tax	589
Deferred Tax Increment Taxes	<u>2,493,664</u>
Total Deferred Inflows of Resources	<u>2,494,253</u>
Net Position	
Net Investment In Capital Assets	2,090,595
Restricted for	
TABOR Reserve	5,900
Unrestricted	<u>(15,563,346)</u>
Total Net Position	<u>\$ (13,466,851)</u>

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

STC METROPOLITAN DISTRICT NO. 2

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2020

Function/Program Activities	Expenses	Program Revenues			Net (Expense)
		Permits, Fees, Fines, and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Position
					Governmental Activities
Governmental Activities					
General Government	\$ 480,198	\$ -	\$ 103,133	\$ -	\$ (377,065)
Interest and Related Costs on Long-term Debt	5,968,732	-	-	394,627	(5,574,105)
Total Governmental Activities	\$ 6,448,930	\$ -	\$ 103,133	\$ 394,627	(5,951,170)
			General Revenues:		
			Property Taxes	629	
			Specific Ownership Tax	20,029	
			SURA Property Tax Increment	2,332,351	
			Net Investment Income	371,500	
			Miscellaneous	50	
			Total General Revenues	2,724,559	
			Changes In Net Position	(3,226,611)	
			Net Position - Beginning	(10,240,240)	
			Net Position - Ending	\$ (13,466,851)	

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

STC METROPOLITAN DISTRICT NO. 2

**BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2020**

	General	Debt Service	Capital Projects	Total
Assets				
Cash and Investments	\$ 155,014	\$ -	\$ -	\$ 155,014
Cash and Investments - Restricted	-	11,962,462	34,154,163	46,116,625
Accounts Receivable	716	-	-	716
Receivable from County Treasurer	390	4,343	-	4,733
Due from District No. 1	299	4,674	-	4,973
Due from District No. 3	121	755	-	876
Prepaid Expense	20,893	-	-	20,893
Due from Other Funds	4,191	-	42,907	47,098
Property Taxes Receivable	131	458	-	589
Tax Increment Taxes Receivable	83,676	2,410,295	-	2,493,971
Total Assets	\$ 265,431	\$ 14,382,987	\$ 34,197,070	\$ 48,845,488
Liabilities				
Accounts payable	\$ 54,033	\$ -	\$ 18,000	\$ 72,033
Due to Other Funds	-	47,098	-	47,098
Total Liabilities	54,033	47,098	18,000	119,131
Deferred Inflows of Resources				
Deferred Property Tax	131	458	-	589
Deferred Tax Increment Taxes	83,664	2,410,000	-	2,493,664
Total Deferred Inflows of Resources	83,795	2,410,458	-	2,494,253
Fund Balances				
Nonspendable				
Prepaid Expenses	20,893	-	-	20,893
Restricted for				
TABOR Reserve	5,900	-	-	5,900
Debt Service	-	11,925,431	-	11,925,431
Capital Projects	-	-	34,179,070	34,179,070
Assigned for Subsequent Year's Expenditures	100,810	-	-	100,810
Total Fund Balances	127,603	11,925,431	34,179,070	46,232,104
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 265,431	\$ 14,382,987	\$ 34,197,070	\$ 48,845,488

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

STC METROPOLITAN DISTRICT NO. 2

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

December 31, 2020

Total Fund Balances - Governmental Funds		\$ 46,232,104
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Total net position reported for governmental activities in the statement of
of net position is different because:

Capital assets used in governmental activities are not financial
resources and therefore are not reported in the funds. Those
assets consist of:

Capital Assets	\$ 59,887,006	
Less Accumulated Depreciation	<u>(124,605)</u>	59,762,401

Long-term liabilities applicable to the District's governmental
activities are not due and payable in the current period and
accordingly are not reported as fund liabilities. All liabilities,
both current and long-term, are reported in the statement of
net position.

Balances at December 31, 2020 are:

Bonds Payable	(110,823,000)	
Bond Premium	(5,342,661)	
Accrued Interest on Bonds	(1,927,512)	
Developer Advance Payable	(1,078,188)	
Accrued interest payable on Developer advance	<u>(289,995)</u>	<u>(119,461,356)</u>

Net Position - Governmental Activities		<u>\$ (13,466,851)</u>
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The notes to the financial statements are an integral part of this statement.

STC METROPOLITAN DISTRICT NO. 2

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

For the Year Ended December 31, 2020

	General	Debt Service	Capital Projects	Total
Revenues				
Property Taxes	\$ 140	\$ 489	\$ -	\$ 629
Specific Ownership Tax	4,451	15,578	-	20,029
SURA Property Tax Increment	86,085	2,246,266	-	2,332,351
Transfer from District No. 1	67,993	339,961	-	407,954
Transfer from District No. 3	27,333	54,666	-	81,999
Parking Garage Cost Share	7,807	-	-	7,807
Net Investment Income	2,313	89,326	279,861	371,500
Miscellaneous	50	-	-	50
Total Revenues	196,172	2,746,286	279,861	3,222,319
Expenditures				
Current				
Accounting	52,149	-	-	52,149
Audit	14,210	-	-	14,210
Directors Fees	7,700	-	-	7,700
Insurance	21,730	-	-	21,730
Election	3,114	-	-	3,114
Legal	117,237	-	20,818	138,055
Management	44,131	-	-	44,131
Miscellaneous	5,474	-	-	5,474
Treasurers Fees	2	7	-	9
Payroll Taxes	589	-	-	589
Utilities	25,474	-	-	25,474
Landscaping	45,222	-	-	45,222
Parking Garage	5,475	-	-	5,475
Roads & Sidewalks	80,259	-	-	80,259
Miscellaneous Operations	2,045	-	-	2,045
Capital Outlay				
Construction Expenses	-	-	10,435,897	10,435,897
Debt Service				
Bond Interest	-	4,122,288	-	4,122,288
Costs of Issuance	-	-	255,866	255,866
Paying Agent Fees	-	7,000	-	7,000
Total Expenditures	424,811	4,129,295	10,712,581	15,266,687
Excess Revenues Over (Under)				
Expenditures	(228,639)	(1,383,009)	(10,432,720)	(12,044,368)
Other Financing Sources (Uses)				
Bond Proceeds	-	-	263,000	263,000
Net Change in Fund Balances	(228,639)	(1,383,009)	(10,169,720)	(11,781,368)
Fund Balances - Beginning	356,242	13,308,440	44,348,790	58,013,472
Fund Balances - Ending	\$ 127,603	\$ 11,925,431	\$ 34,179,070	\$ 46,232,104

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

STC METROPOLITAN DISTRICT NO. 2

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

For the Year Ended December 31, 2020

Net Change in Fund Balances - Total Governmental Funds	\$ (11,781,368)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. In the statement of activities, capital outlay is not reported as an expenditure. However, the statement of activities will report as depreciation expense the allocation of the cost of any depreciable asset over the estimated useful life of the asset.	
Capital outlay	10,456,715
Depreciation Expense	(55,380)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. The net effect of these differences in the treatment of long-term debt is as follows:	
Bond Issuance	(263,000)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds	
Accrued interest on Developer advances	(98,638)
Accrued interest on bonds - Change in liability	(1,782,870)
Amortization of bond premium	297,930
	<hr/>
Change in Net Position - Governmental Activities	<u><u>\$ (3,226,611)</u></u>

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

STC METROPOLITAN DISTRICT NO. 2

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

GENERAL FUND

For the Year Ended December 31, 2020

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

	Original and Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)	2019 Actual
Revenues				
Property Taxes	\$ 155	\$ 140	\$ (15)	\$ 178
Specific Ownership Tax	8,200	4,451	(3,749)	4,352
SURA Property Tax Increment	90,423	86,085	(4,338)	80,009
Transfer from District No. 1	68,021	67,993	(28)	40,408
Transfer from District No. 3	27,389	27,333	(56)	4,648
Parking Garage Cost Share	22,000	7,807	(14,193)	5,598
Net Investment Income	2,670	2,313	(357)	5,592
Miscellaneous	-	50	50	2,050
Total Revenues	218,858	196,172	(22,686)	142,835
Expenditures				
Administrative				
Accounting	25,000	52,149	(27,149)	30,328
Audit	11,000	14,210	(3,210)	10,028
Directors Fees	5,000	7,700	(2,700)	2,600
Insurance	16,000	21,730	(5,730)	24,407
Election	1,500	3,114	(1,614)	-
Legal	40,000	117,237	(77,237)	62,183
Management	50,000	44,131	5,869	50,465
Miscellaneous	1,000	5,474	(4,474)	4,752
Treasurers Fees	3	2	1	13
Payroll Taxes	300	589	(289)	199
Utilities	9,000	25,474	(16,474)	22,057
Covenant Control	18,000	-	18,000	11,205
Aweida Inclusion	-	-	-	143
Contingency	122,457	-	122,457	-
Emergency Reserve	9,451	-	9,451	-
Operations and Maintenance				
Landscaping	45,000	45,222	(222)	47,913
Parking Garage	44,000	5,475	38,525	5,766
Mailboxes	2,000	-	2,000	-
Roads & Sidewalks	40,000	80,259	(40,259)	62,348
Field Services	6,500	-	6,500	-
Miscellaneous Operations	1,500	2,045	(545)	495
Reserve	3,224	-	3,224	-
Total Expenditures	450,935	424,811	26,124	334,902
Excess Revenues Over (Under)				
Expenditures	(232,077)	(228,639)	3,438	(192,067)
Other Financing Sources				
Developer Advances	-	-	-	415,711
Net Change in Fund Balance	(232,077)	(228,639)	3,438	223,644
Fund Balance - Beginning	232,077	356,242	124,165	132,598
Fund Balance - Ending	\$ -	\$ 127,603	\$ 127,603	\$ 356,242

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

STC METROPOLITAN DISTRICT NO. 2

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2020

Note 1 – Definition of Reporting Entity`

The STC Metropolitan District No. 2 (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 District No. 1 became a financing District (see Note 6).

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. 2

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2020

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 revenue*.

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 property taxes. All other

STC METROPOLITAN DISTRICT NO. 2

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2020

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.

Capital Projects Fund – This fund is used to account for financial resources earmarked or segregated for the acquisition and construction of major capital facilities and other project-oriented activities.

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.

Pooled Cash and Investments

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 single account. 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 and investments. Investments are carried at fair value.

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

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NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2020

Capital Assets

Capital assets, which include property and equipment, are reported in the government-wide financial statements. Capital assets defined by the District as assets include improvements to buildings and equipment with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. 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 costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Capital assets that are anticipated to be conveyed to other governmental entities are recorded as construction in progress and are not included in the calculation of the net investment in capital assets.

Depreciation expense has been computed using the straight-line method over the estimated economic useful life of 40 years.

Interfund Balances

The District reports interfund balances that are representative of lending/borrowing arrangements between funds in the fund financial statements as due to/from other funds. The interfund balances have been eliminated in the government-wide statements.

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.

STC METROPOLITAN DISTRICT NO. 2

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2020

Deferred Inflows of Resources

In addition to assets, the statement of net 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 until then.

In addition to liabilities, the statement of net position and the governmental funds balance sheet 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 one item that qualifies for reporting in this category. Accordingly, one item, unavailable revenue – property tax, is reported in both the government-wide statement of net position and the governmental funds balance sheet. This amount is deferred and recognized as inflow of resources in the period that the amounts become available.

Long-term Obligations and Original Issue Discount

In the government-wide financial statements, debt premiums and discounts are deferred and amortized over the life of the issue using the percentage of current principal payments to total debt issue. Debt issuance costs, except any portion related to prepaid insurance costs, are expensed when incurred.

In the fund financial statements, governmental fund types recognize debt premiums and discounts, as well as debt issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

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.

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NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2020

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.

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.

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

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

Cash and investments as of December 31, 2020, are classified in the accompanying financial statements as follows:

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Cash	\$ 155,014	\$ -	\$ 155,014
Investments	-	46,116,625	46,116,625
Total	<u>\$ 155,014</u>	<u>\$ 46,116,625</u>	<u>\$ 46,271,639</u>

Cash Deposits

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, 2020, the District had a bank balance of \$201,347 and a carrying balance of \$155,014.

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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.

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, 2020, the District had the following investments:

<u>Investment</u>	<u>Maturity</u>	<u>Fair Value</u>
Colorado Local Government Liquid Asset Trust (Colotrust)	Weighted average under 60 days	<u>\$ 46,116,625</u>

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The District invested in the Colorado Local Government Liquid Asset Trust (COLOTRUST) (the Trust), an investment vehicle established for local government entities in Colorado to pool surplus funds. The State Securities Commissioner administers and enforces all State statutes governing the Trust. The Trust operates similarly to a money market fund and each share is equal in value to \$1.00. The Trust offers shares in two portfolios, COLOTRUST PRIME and COLOTRUST PLUS+. Both portfolios may invest in U.S. Treasury securities and repurchase agreements collateralized by U.S. Treasury securities. COLOTRUST PLUS+ may also invest in certain obligations of U.S. government agencies, highest rated commercial paper and any security allowed under CRS 24-75-601. A designated custodial bank serves as custodian for the Trust's portfolios pursuant to a custodian agreement. The custodian acts as safekeeping agent for the Trust's investment portfolios and provides services as the depository in connection with direct investments and withdrawals. The custodian's internal records segregate investments owned by the Trust. COLOTRUST is rated AAAM by Standard & Poor's. COLOTRUST records its investments at fair value and the District records its investment in COLOTRUST using the net asset value method. There are no unfunded commitments, the redemption frequency is daily and there is no redemption notice period.

Restricted Cash and Investments

At December 31, 2020, cash and investments in the amount of \$46,116,625 are restricted. This includes cash and investments held by the Debt Service Fund for bond reserves and bond principal and interest payments (see Note 5).

Note 4 – Capital Assets

An analysis of the changes in capital assets for the year ended December 31, 2020 follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital assets not being depreciated				
Construction in Progress	<u>\$ 47,215,091</u>	<u>\$ 10,456,715</u>	<u>\$ -</u>	<u>\$ 57,671,806</u>
Capital assets not being depreciated				
Parking Structure	2,215,200	-	-	2,215,200
Less accumulated depreciation for:				
Parking Structure	<u>(69,225)</u>	<u>(55,380)</u>	<u>-</u>	<u>(124,605)</u>
Net total depreciable assets	<u>2,145,975</u>	<u>(55,380)</u>	<u>-</u>	<u>2,090,595</u>
Governmental activities capital assets, net	<u>\$ 49,361,066</u>	<u>\$ 10,401,335</u>	<u>\$ -</u>	<u>\$ 59,762,401</u>

STC METROPOLITAN DISTRICT NO. 2

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

Note 5 – Long-Term Obligations

The following is an analysis of changes in the District’s long-term obligations for the year ended December 31, 2020:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<u>Governmental Activities:</u>					
General Obligation Limited Tax Bonds, Series 2019A	\$ 90,790,000	\$ -	\$ -	\$ 90,790,000	\$ -
Series 2019A Premium	5,640,591	-	297,930	5,342,661	-
General Obligation Limited Tax Bonds, Series 2019B ⁽³⁾	19,770,000	-	-	19,770,000	-
General Obligation Limited Tax Bonds, Series 2020C	-	263,000	-	263,000	-
Accrued and Unpaid Interest - 2019B ⁽³⁾	-	1,564,027	-	1,564,027	-
Accrued and Unpaid Interest - 2020C	-	1,881	-	1,881	-
Developer Advances: Operating	1,078,188	-	-	1,078,188	-
Developer Advance Accrued Interest: Operating	191,357	98,638	-	289,995	-
	<u>\$ 117,470,136</u>	<u>\$ 1,927,546</u>	<u>\$ 297,930</u>	<u>\$ 119,099,752</u>	<u>\$ -</u>

The details of the District’s long-term obligations are as follows:

General Obligation Bonds

Limited Tax General Obligation and Special Revenue Refunding and Improvement Bonds, Series 2019A, dated December 19, 2019 (the 2019A Senior Bonds) in the original amount of \$90,790,000 with interest rates ranging from 3.00% to 5.00%, payable semiannually on June 1 and December 1, beginning on June 1, 2020. Annual mandatory sinking fund principal payments are due on December 1, beginning on December 1, 2024. The 2019A Bonds mature on December 1, 2049, and are subject to redemption prior to maturity, at the option of the District, on December 1, 2024, and on any date thereafter, upon payment of par, accrued interest, and a redemption premium of a percentage of the principal amount so redeemed, as follows:

<u>Date of Redemption</u>	<u>Redemption Premium</u>
December 1, 2024, to November 30, 2025	3.00%
December 1, 2025, to November 30, 2026	2.00%
December 1, 2026, to November 30, 2027	1.00%
December 1, 2027, and thereafter	0.00%

STC METROPOLITAN DISTRICT NO. 2

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2020

The proceeds from the sale of the 2019A Senior Bonds and 2019B Subordinate Bonds, as hereinafter defined, were used for the purposes of: (i) paying or reimbursing the costs of capital infrastructure improvements; (ii) providing capitalized interest for the Senior Bonds; (iii) funding a Reserve Fund securing the Senior Bonds; refunding the Series 2015 Bonds and; (iv) paying costs of issuance of the Senior and Subordinate Bonds.

The 2019A Senior Bonds, as hereinafter defined, are limited tax general obligations of the District secured by and payable solely from the Pledged Revenue, generally consisting of: (a) all District Property Tax Revenue, generally comprised of the revenues resulting from imposition by the Districts of the applicable Required Mill Levy pursuant to the Capital Pledge Agreement, including the portion thereof constituting TC Increment (i.e., tax increment revenues) payable to the District by SURA in accordance with the Cost Sharing Agreement; ; (b) all Specific Ownership Tax Revenues; (c) all SURA Pledged Revenue (comprised of certain property tax increment revenues payable to the District in accordance with the Cost Sharing Agreement); (d) all PILOT Revenue (constituting certain payments in lieu of taxes) if any; and (e) any other legally available moneys which the District determines, in its absolute discretion, to credit to the Senior Bond Fund.

The 2019A Senior Bonds Indenture requires the Districts impose a Required Mill Levy, as defined in the Amended and Restated Capital Pledge Agreement dated as of December 1, 2019, in an amount sufficient to pay the principal of and interest on the 2019A Senior Bonds, 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 District No. 3: (i) prior to and including levy year 2023, 20 mills (Gallagher-Adjusted), and (ii) commencing with levy year 2024, 29 mills (Gallagher-Adjusted). For the levy year 2020, District No. 1, the District and District No. 3, levied 55.664, 35.000 and 20.000 mills, respectively, for collection in 2021.

The 2019A Senior Bonds are also secured by amounts held in the Senior Reserve Fund, which was funded upon issuance of the 2019A Senior Bonds in the amount of the Required Reserve equal to \$7,046,563, and amounts accumulated in the Surplus Fund, if any. Pledged Revenue that is not needed to pay debt service on the 2019A Senior Bonds in any year will be deposited to and held in the Surplus Fund, up to the Maximum Surplus Amount of \$9,079,000. The Surplus Fund is to be maintained for so long as any Bonds are outstanding. Amounts on deposit in the Surplus Fund (if any) on the final maturity date of the Bonds shall be applied to the payment of the Bonds. The availability of such amount shall be taken into account in calculating the Required Mill Levy to be imposed in 2048 for collection in 2049. The District has acknowledged that State Law places certain restrictions on the use of money derived from the Required Mill Levy.

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NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2020

Outstanding bond principal and interest mature as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ -	\$ 4,339,250	\$ 4,339,250
2022	-	4,339,250	4,339,250
2023	-	4,339,250	4,339,250
2024	1,105,000	4,339,250	5,444,250
2025	2,230,000	4,306,100	6,536,100
2026-2030	17,260,000	19,898,000	37,158,000
2031-2035	23,630,000	15,339,000	38,969,000
2036-2040	21,115,000	8,868,250	29,983,250
2041-2045	8,930,000	5,527,000	14,457,000
2046-2049	16,520,000	2,628,000	19,148,000
	<u>\$ 90,790,000</u>	<u>\$ 73,923,350</u>	<u>\$ 164,713,350</u>

Subordinate Limited Tax General Obligation and Special Revenue Bonds, Series 2019B⁽³⁾ Dated December 19, 2019 (the 2019B Subordinate Bonds) in the original amount of \$19,770,000 with interest of 8.00%, payable annually from Subordinate Pledged Revenue on December 15, beginning on December 15, 2020. The 2019B Subordinate Bonds are structured as cash flow bonds meaning that there are no scheduled payments of principal prior to the final maturity date. Subordinate Pledged Revenue are those revenues available after the payment of all amounts due on the 2019B Subordinate Bonds, including funding the Senior Reserve Fund and the Surplus Fund as required in the Indenture. Unpaid interest on the 2019B Subordinate Bonds compounds annually on each December 15. The 2019B Subordinate Bonds are also subject to redemption prior to maturity, at the option of the District, on December 1, 2024, and on any date thereafter, upon payment of par, accrued interest, and a redemption premium of a percentage of the principal amount so redeemed, as follows:

<u>Date of Redemption</u>	<u>Redemption Premium</u>
December 1, 2024, to November 30, 2025	3.00%
December 1, 2025, to November 30, 2026	2.00%
December 1, 2026, to November 30, 2027	1.00%
December 1, 2027, and thereafter	0.00%

In the event that, on December 15, 2059 any amount of principal of or interest on the 2019B Subordinate Bonds remains unpaid after application of all Subordinate Pledged Revenue available therefor in accordance with the Subordinate Indenture, the 2019B Subordinate Bonds and the lien of the Subordinate Indenture securing payment thereof is to be deemed discharged.

Due to the uncertainty of the timing of the principal and interest payments on the 2019B Subordinate Bonds, a schedule of the timing of these payments is not available.

STC METROPOLITAN DISTRICT NO. 2

NOTES TO FINANCIAL STATEMENTS

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Junior Limited Tax General Obligation Bonds, Series 2020C, in the total maximum principal amount of \$16,215,000 (the “Series 2020C Junior Bond”), and the **Taxable Junior Limited Tax General Obligation Bond, Series 2020D**, in the total maximum principal amount of \$18,958,000 (the “Series 2020D Junior Bond”, dated December 2, 2020 (together the 2020 Junior Bonds) with interest of 9.00%, payable annually from the Junior Pledged Revenue on December 16, beginning on December 16, 2020. The 2020 Junior Bonds are structured as draw-down obligations in order to finance or reimburse the costs of certain public improvements authorized by the Issuer’s Service Plan. There are no scheduled payments of principal or interest prior to the final maturity date of June 1, 2060. Junior Pledged Revenue are those revenues available after amounts are applied to the 2019A Senior Bonds and the 2019B Subordinate Bonds. To the extent interest on the Series 2020C Bond is not paid when due, such interest shall compound annually on each December 16. To the extent interest on the Series 2020D Junior Bond is not paid when due, such interest shall continue to accrue, but shall not compound.

On December 2, 2020 the District made the initial draw on the 2020C Junior Bond in the amount of \$263,000.

The 2020C/D Junior Bonds are also subject to redemption prior to maturity, at the option of the District, on December 16, 2024, and on any date thereafter, upon payment of par, accrued interest, and a redemption premium of a percentage of the principal amount so redeemed, as follows:

<u>Date of Redemption</u>	<u>Redemption Premium</u>
December 16, 2024, to December 15, 2025	3.00%
December 16, 2025, to December 15, 2026	2.00%
December 16, 2026, to December 15, 2027	1.00%
December 16, 2027, and thereafter	0.00%

In the event that, on December 16, 2090 any amount of principal of or interest on the 2020 Junior Bonds remains unpaid after application of all Junior Pledged Revenue available therefor in accordance with the Junior Indenture, the 2020 Junior Bonds and the lien of the Junior Indenture securing payment thereof is to be deemed discharged.

Due to the uncertainty of the timing of the principal and interest payments on the 2020 Junior Bonds, a schedule of the timing of these payments is not available.

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NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2020

Developer Advances

The District entered into an Operation Funding Agreement and a Facilities Funding and Acquisition Agreement with the Developer as follows:

Operation Funding Agreement (OFA)

On November 3, 2014, and amended on March 6, 2019, with an effective date of January 1, 2015, the District entered into an OFA with RC Superior, LLC. (the Developer). The OFA provides that the District will reimburse the Developer for any advances made to the District for operations and maintenance expenses for fiscal years 2015 through 2019, up to \$1,100,000, together with interest at a rate of 9% per annum. On December 9, 2019, with an effective date of January 1, 2015, the District entered into Amended and Restated Operation Funding Agreement with the Developer (Amended OFA) which amends and restates the OFA. The Amended OFA provides that the District will reimburse the Developer for any advances made to the District for operations and maintenance expenses for fiscal years 2015 through 2020, up to \$900,000, together with interest at a rate of 9% per annum. On January 6, 2021, with an effective date of January 1, 2015, the District entered into a First Amendment to the Amended and Restated Operation Funding Agreement with the Developer (the Amendment) which amends the Amended OFA. The Amendment provides that the District will reimburse the Developer for any advances made to the District for operations and maintenance expenses for fiscal years 2015 through 2021, up to \$1,115,000, together with interest at a rate of 9% per annum.

The obligation of the Developer to advance funds under the Amended OFA expires on December 31, 2060. In the event the District has not reimbursed the Developer for any Developer Advance(s) made pursuant to the Amended OFA on or before December 31, 2060, any amount of principal and accrued interest outstanding on such date shall be deemed to be forever discharged and satisfied in full. At December 31, 2020, the total amount advanced was \$1,078,188, plus accrued interest of \$289,995.

Facilities Funding and Acquisition Agreement (FFAA)

On November 3, 2014, with an effective date of January 1, 2014, the District entered into a FFAA with the Developer. The FFAA provides that the District will reimburse the Developer for any advances made to the District for organization expenses (Organization Expenses) and construction related expenses (Construction Expenses) associated with the costs of improvements to be provided by the District for the period commencing January 1, 2014 through December 31, 2017, up to the Annual Shortfall Amount for each budget year, as determined during the District's budget process. For budget year 2015, the estimated Annual Shortfall Amount was \$200,000.

For advances made for Organization Expenses, interest shall accrue from the date of organization of the District until paid at the rate nine percent (9%) per annum, compounded annually. For

STC METROPOLITAN DISTRICT NO. 2

**NOTES TO FINANCIAL STATEMENTS
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Construction Expenses, interest shall accrue on each Developer Advance from the date of deposit into the District's account until paid at the rate of nine percent (9%) per annum, compounded annually. The Parties agree that payments by the District to the Developer shall credit first against accrued and unpaid interest and then to the principal amount due.

On October 9, 2018, the FFAA was amended (First Amendment) to change the Annual Shortfall Amount to a cumulative Annual Shortfall Amount (Cumulative Shortfall Amount) for the budget years 2015 through 2018 to the amount of \$19,147,234.

The District and Developer entered into a real estate contract (MOB Parking Structure) dated October 9, 2018 (PSA) where the District purchased a parking structure from the Developer in the amount of \$2,215,200. The PSA provides that this amount be added to the amounts payable under the FFAA. Reimbursement of costs under the FFAA is contingent upon the Town's approval that the cost of the parking structure are considered eligible costs under the Cost Sharing Agreement (see Note 6). On July 22, 2019, the Town approved reimbursement by the District of the purchase price of the MOB Parking Structure.

On March 6, 2019, with an effective date of January 1, 2014, the FFAA was amended (Second Amendment) to change the Cumulative Shortfall Amount to \$25,100,000 for budget years 2015 through 2019.

On December 1, 2019, with an effective date of January 1, 2014, the District entered into an Amended and Restated Facilities Funding and Acquisition Agreement (Restated FFAA) to change the Cumulative Shortfall Amount to \$60,000,000 for budget years 2014 through 2020.

The Town, by letter dated September 23, 2019, found certain System Development Fees to be for public infrastructure and therefore the expenses incurred by the Developer in paying the System Development Fees are reimbursable to the Developer under the Restated FFAA.

In the event the District has not reimbursed the Developer for any Developer Advance(s) made pursuant to this Restated FFAA on or before December 31, 2054, any amount of principal and accrued interest outstanding on such date shall be deemed to be forever discharged and satisfied in full.

During the year ended December 31, 2019, \$10,661,225 was advanced under the Restated FFAA, including the cost of the MOB Parking Structure described above and the District reimbursed the Developer \$33,408,021, including \$4,540,536 of accrued interest.

As of December 31, 2020, no amounts were outstanding under the Restated FFAA.

STC METROPOLITAN DISTRICT NO. 2

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

Facilities Acquisition and Reimbursement Agreement

On December 31, 2020, the District entered into an agreement with the Developer and CP VII Superior, LLC (the Purchaser) whereby the District agreed to reimburse the Purchaser for certain Parking Improvements up to a maximum amount of \$4,365,000 and certain Internal Civic Space Improvements up to a maximum amount of \$3,160,000. Reimbursement is subject to the certification of costs by an independent engineer that the costs are qualified public improvements under the District’s Service Plan and the Cost Sharing Agreement discussed previously.

Reimbursement Agreement Tract H

On August 14, 2020, the District entered into an agreement with the Developer and the Town whereby the District agreed to reimburse the Town for certain costs deemed “eligible costs” under the Cost Sharing Agreement for the improvements on Tract H. The Developer acknowledged that the Town’s improvements are a benefit to the District and consented to the District’s use of bond proceeds (despite the Developer’s priority right under the FFAA) to pay a maximum of \$1,065,901 to the Town. The District approved the Certified Construction Costs for Tract H and payment of \$919,577.88 was remitted to the Town on December 16, 2020.

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.

At December 31, 2020, 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	2019A Limited Tax GO Bonds	2019B ₍₃₎ Limited Tax GO Bonds	2020C/D Limited Tax GO Bonds	Authorized but Unissued
Streets	\$ 145,000,000	\$ 12,195,885	\$ 49,991,322	\$ 14,974,426	\$ 184,779	\$ 67,653,588
Parks and Recreation	145,000,000	144,330	6,082,936	1,822,086	19,276	136,931,372
Water	145,000,000	2,092,785	4,051,277	1,213,522	17,619	137,624,797
Sanitation/Storm	145,000,000	9,622,000	5,875,553	1,759,966	41,326	127,701,155
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 Maintenance	145,000,000	-	-	-	-	145,000,000
Intergovernmental Agreements	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>\$ 263,000</u>	<u>\$ 1,772,617,009</u>

STC METROPOLITAN DISTRICT NO. 2

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2020

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.

Note 6 – 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, net of Rocky Mountain Fire Protection District and collection fees, be disbursed to the District as pledged revenues for any bonds or other financial obligations issued by the District.

Capital Pledge Agreement

On April 14, 2015, the District 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, the District and District No. 1 entered into a Capital Pledge Agreement dated April 1, 2015 whereby District No. 1 agrees to impose the District No. 1 Required Mill Levy, generally equal to 50 mills, subject to the limitations and adjustments described in the 2015 Bond Indenture (see Note 5), and assign and remit to the District 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 District No. 1 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, the District 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₍₃₎ (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 District No. 3: (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 adjustments described

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NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2020

in the 2019A Senior and 2019B Subordinate Bond Indenture (see Note 5), and assign and remit to the District 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.

On December 2, 2020, District No. 2 issued the total maximum principal amount of \$16,215,000 Junior Limited Tax General Obligation Bonds, Series 2020C and the total maximum principal amount of \$18,958,000 Taxable Junior Limited Tax General Obligation Bond, Series 2020D (the 2020 Bonds). The 2020 Bonds are limited tax general obligations and revenue obligations of the District and shall be payable solely from the Junior Pledged Revenue as defined above, which includes amounts derived under the Capital Pledge Agreement.

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

Additionally, the Districts agree that the District assumes the obligations of District No.1 with respect to Developer Advances made pursuant to the 2013 – 2014 Operation Funding Agreement dated December 11, 2013 between District No. 1 and the Developer and the Facilities Funding and Acquisition Agreement dated December 11, 2013 between District No. 1 and the Developer (see Note 5).

STC METROPOLITAN DISTRICT NO. 2

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2020

Public Improvement Fees

Pursuant to the Declaration of Covenants Imposing and Implementing the Superior Town Center Public Improvement Fees and Payment in Lieu of Taxes, recorded on April 14, 2015, as amended by that certain First Amendment to the Declaration of Covenants Imposing and Implementing the Superior Town Center Public Improvement Fees and Payment in Lieu of Taxes recorded on May 16, 2016 (the Original PIF/PILOT Covenant) against certain property within the District, the owner of the subject property is obligated to pay public improvement fees (PIF) to the District. Revenues derived from the PIF are pledged for the payment of the 2015 Bonds (see Note 5). The PIF is the amount payable annually for years 2015 through 2044. At the time of the Original PIF/PILOT Covenant, the Developer was the owner of all the property subject to the terms of the original PIF/PILOT Covenant.

An Amended and Restated Declaration of the Superior Town Center Public Improvement Fees and Payment in Lieu of Taxes was recorded on December 19, 2019 to restate and replace the Original PIF/PILOT Covenant and eliminates the imposition of the PIF on the PIF Property Owner but continues to impose the PILOT on property included in the boundaries of District No. 1, District No. 2 or District No. 3.

Note 7 – Net Position

The District’s net position consists of three components: 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 balance of bonds that are attributable to the acquisition, construction, or improvement of those assets. As of December 31, 2020, the District had net investment in capital assets calculated as follows:

Net Investment in Capital Assets	
Capital assets, net	<u>\$ 2,090,595</u>

Restricted net position includes assets that are restricted for use either externally imposed by creditors, grantors, contributors, or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

The District had restricted net position as of December 31, 2020 as follows:

Restricted Net Position - Emergency Reserves	<u>\$ 5,900</u>
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STC METROPOLITAN DISTRICT NO. 2

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2020

The District had restricted net position of \$5,900 as required by Article X, Section 20 of the Constitution of the State of Colorado (See Note 11).

The District has a deficit in unrestricted net position. The deficit is a result of certain debt and operating related expenses funded with bond proceeds and developer advances.

Note 8 – Related Party

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.

Note 9 – 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 10 – 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.

STC METROPOLITAN DISTRICT NO. 2

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

Note 11 – 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.

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.

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. 2

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

DEBT SERVICE FUND

For the Year Ended December 31, 2020

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

	Original and Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)	2019 Actual
Revenues				
Property Taxes	\$ 545	\$ 489	\$ (56)	\$ 625
SURA Property Tax Increment	2,199,911	2,246,266	46,355	1,790,393
Specific Ownership Tax	19,064	15,578	(3,486)	15,231
Transfer from District No. 1	358,148	339,961	(18,187)	202,048
Transfer from District No. 3	27,389	54,666	27,277	9,592
Net investment income	18,000	89,326	71,326	90,152
Total Revenues	2,623,057	2,746,286	123,229	2,108,041
Expenditures				
Debt service				
Principal	-	-	-	22,795,000
Interest	4,374,450	4,122,288	252,162	4,601,947
Miscellaneous	500	-	500	-
Treasurer's Fees	8	7	1	46
Paying Agent Fees	8,000	7,000	1,000	4,000
Total Expenditures	4,382,958	4,129,295	253,663	27,400,993
Excess Revenues Over (Under) Expenditures	(1,759,901)	(1,383,009)	376,892	(25,292,952)
Other Financing Sources				
Transfers In	-	-	-	35,352,702
Net Change in Fund Balance	(1,759,901)	(1,383,009)	376,892	10,059,750
Fund Balance - Beginning	13,630,586	13,308,440	(322,146)	3,248,690
Fund Balance - Ending	\$ 11,870,685	\$ 11,925,431	\$ 54,746	\$ 13,308,440

See the Independent Auditor's Report

STC METROPOLITAN DISTRICT NO. 2

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

CAPITAL PROJECTS FUND

For the Year Ended December 31, 2020

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

	Original and Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)	2019 Actual
Revenues				
Net Investment Income	\$ 1,000	\$ 279,861	\$ 278,861	\$ 31,970
Expenditures				
Current				
Management	2,500	-	2,500	-
Accounting	5,000	-	5,000	8,914
Legal	55,000	20,818	34,182	42,520
Miscellaneous	1,000	-	1,000	-
Capital Outlay				
Construction Expenses	39,033,559	10,435,897	28,597,662	10,734,092
Developer Reimbursement				
Principal	-	-	-	28,867,485
Interest	-	-	-	4,540,536
Costs of Issuance	-	255,866	(255,866)	2,998,747
Total Expenditures	39,097,059	10,712,581	28,384,478	47,192,294
Excess Revenues Over (Under)				
Expenditures	(39,096,059)	(10,432,720)	28,663,339	(47,160,324)
Other Financing Sources (Uses)				
Bond Proceeds	-	263,000	263,000	110,560,000
Bond Premium	-	-	-	5,640,591
Developer Advances	5,000,000	-	(5,000,000)	10,661,225
Transfers Out	-	-	-	(35,352,702)
Total Other Financing Sources (Uses)	5,000,000	263,000	(4,737,000)	91,509,114
Net Change in Fund Balance	(34,096,059)	(10,169,720)	23,926,339	44,348,790
Fund Balance - Beginning	37,298,059	44,348,790	7,050,731	-
Fund Balance - Ending	\$ 3,202,000	\$ 34,179,070	\$ 30,977,070	\$ 44,348,790

See the Independent Auditor's Report

OTHER INFORMATION

STC METROPOLITAN DISTRICT NO. 2

**Schedule of Future Debt Service Requirements
December 31, 2020**

**\$90,790,000 Limited Tax General Obligation and Special Revenue
Refunding and Improvement Bonds
Series 2019A**

<u>Year</u>	<u>Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	-	\$ -	\$ 4,339,250	\$ 4,339,250
2022	-	-	4,339,250	4,339,250
2023	-	-	4,339,250	4,339,250
2024	3.000	1,105,000	4,339,250	5,444,250
2025	3.000	2,230,000	4,306,100	6,536,100
2026	4.000	3,075,000	4,239,200	7,314,200
2027	4.000	3,200,000	4,116,200	7,316,200
2028	4.000	3,470,000	3,988,200	7,458,200
2029	4.000	3,610,000	3,849,400	7,459,400
2030	5.000	3,905,000	3,705,000	7,610,000
2031	5.000	4,100,000	3,509,750	7,609,750
2032	5.000	4,455,000	3,304,750	7,759,750
2033	5.000	4,680,000	3,082,000	7,762,000
2034	5.000	5,070,000	2,848,000	7,918,000
2035	5.000	5,325,000	2,594,500	7,919,500
2036	5.000	5,750,000	2,328,250	8,078,250
2037	5.000	6,035,000	2,040,750	8,075,750
2038	5.000	6,500,000	1,739,000	8,239,000
2039	5.000	1,355,000	1,414,000	2,769,000
2040	5.000	1,475,000	1,346,250	2,821,250
2041	5.000	1,550,000	1,272,500	2,822,500
2042	5.000	1,685,000	1,195,000	2,880,000
2043	5.000	1,770,000	1,110,750	2,880,750
2044	5.000	1,915,000	1,022,250	2,937,250
2045	5.000	2,010,000	926,500	2,936,500
2046	5.000	2,170,000	826,000	2,996,000
2047	5.000	2,280,000	717,500	2,997,500
2048	5.000	2,450,000	603,500	3,053,500
2049	5.000	9,620,000	481,000	10,101,000
		<u>\$ 90,790,000</u>	<u>\$ 73,923,350</u>	<u>\$ 164,713,350</u>