

**SOUTH TIMNATH METROPOLITAN DISTRICT
DISTRICT NO. 2**

BASIC FINANCIAL STATEMENTS

December 31, 2020

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FINANCIAL SECTION



JOHN CUTLER & ASSOCIATES

Board of Directors
South Timnath Metropolitan District No. 2
Timnath, Colorado

INDEPENDENT AUDITORS' REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the South Timnath 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 from material misstatement.

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

We believe 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 South Timnath Metropolitan District No. 2, as of December 31, 2020, and the respective changes in financial position, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on page 18 be presented to supplement the basic financial statements. Such 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has not presented the management's discussion and analysis that governmental 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 is not affected by this missing information.

John Cutler & Associates, LLC

July 29, 2021

BASIC FINANCIAL STATEMENTS

SOUTH TIMNATH METROPOLITAN DISTRICT NO. 2

STATEMENT OF NET POSITION

As of December 31, 2020

| | <u>Governmental Activities</u> | |
|-------------------------------------|--------------------------------|------------------------|
| | <u>2020</u> | <u>2019</u> |
| ASSETS | | |
| Resticted Cash and Investments | \$ 1,361,666 | \$ 1,355,367 |
| Property Taxes Receivable | 921,646 | 915,567 |
| Capital Assets, Depreciated | <u>4,277,073</u> | <u>4,463,033</u> |
| TOTAL ASSETS | <u>6,560,385</u> | <u>6,733,967</u> |
| LIABILITIES | | |
| Accrued Interest | 2,514,691 | 1,444,539 |
| Noncurrent Liabilities | | |
| Due within One Year | 16,375,871 | 16,375,871 |
| Due in More than One Year | <u>15,626,862</u> | <u>15,643,478</u> |
| TOTAL LIABILITIES | <u>34,517,424</u> | <u>33,463,888</u> |
| DEFERRED INFLOW OF RESOURCES | | |
| Deferred Property Tax Revenue | <u>921,646</u> | <u>915,567</u> |
| NET POSITION | | |
| Reserved for Emergencies | 28,800 | 24,900 |
| Unrestricted | <u>(28,907,485)</u> | <u>(27,670,388)</u> |
| TOTAL NET POSITION | <u>\$ (28,878,685)</u> | <u>\$ (27,645,488)</u> |

See the accompanying independent auditors' report.

SOUTH TIMNATH METROPOLITAN DISTRICT NO. 2

STATEMENT OF ACTIVITIES
Year Ended December 31, 2020

| | <u>Governmental Activities</u> | |
|--------------------------------|--------------------------------|------------------------|
| | <u>2020</u> | <u>2019</u> |
| EXPENSES | | |
| Governmental Activities | | |
| General Government | \$ 192,164 | \$ 190,244 |
| Interest on Long-Term Debt | <u>1,070,152</u> | <u>2,889,078</u> |
| TOTAL EXPENSES | <u>1,262,316</u> | <u>3,079,322</u> |
| REVENUES | | |
| GENERAL REVENUES | | |
| Property Taxes | 886,593 | 737,275 |
| Specific Ownership Taxes | 60,384 | 65,165 |
| Interest | 28,455 | 27,135 |
| SPECIAL ITEMS | | |
| Transfer to Other District | (946,313) | (792,926) |
| Transfer from Other District | <u>-</u> | <u>9,239,301</u> |
| TOTAL REVENUES | <u>29,119</u> | <u>9,275,950</u> |
| CHANGE IN NET POSITION | (1,233,197) | 6,196,628 |
| NET POSITION, Beginning | <u>(27,645,488)</u> | <u>(33,842,116)</u> |
| NET POSITION, Ending | <u>\$ (28,878,685)</u> | <u>\$ (27,645,488)</u> |

See the accompanying independent auditors' report.

SOUTH TIMNATH METROPOLITAN DISTRICT NO. 2

BALANCE SHEET
GOVERNMENTAL FUNDS
As of December 31, 2020

| | GENERAL FUND | |
|--|-----------------|-----------------|
| | 2020 | 2019 |
| ASSETS | | |
| Restricted Cash and Investments | \$ 1,361,666 | \$ 1,355,367 |
| Property Tax Receivable | 921,646 | 915,567 |
| | \$ 2,283,312 | \$ 2,270,934 |
| LIABILITIES, DEFERRED INFLOWS, AND FUND EQUITY | | |
| Deferred Property Tax Revenue | \$ 921,646 | \$ 915,567 |
| | 921,646 | 915,567 |
| FUND EQUITY | | |
| Fund Balance | | |
| Restricted for Emergencies | 28,800 | 24,900 |
| Unassigned | 1,332,866 | 1,330,467 |
| | 1,361,666 | 1,355,367 |
| Amounts reported for governmental activities in the statement of Net Position are different because: | | |
| Capital Assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. | 4,277,073 | 4,463,033 |
| Long-term liabilities are not due and payable in the current period and are not reported in the funds. These include bonds payable (\$15,145,000), bond premium (\$481,862) developer advances (\$16,375,871), and accrued interest payable (\$2,514,691). | (34,517,424) | (33,463,888) |
| Net Position of governmental activities | \$ (28,878,685) | \$ (27,645,488) |

See the accompanying independent auditors' report.

SOUTH TIMNATH METROPOLITAN DISTRICT NO. 2

STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
Year Ended December 31, 2020

| | GENERAL FUND | |
|---|--------------|--------------|
| | 2020 | 2019 |
| REVENUES | | |
| Property Taxes | \$ 886,593 | \$ 737,275 |
| Specific Ownership Taxes | 60,384 | 65,165 |
| Interest and Other | 11,839 | 27,135 |
| | 958,816 | 829,575 |
| EXPENDITURES | | |
| Current | | |
| General Government | 6,204 | 20,900 |
| Debt Service | | |
| Principal | - | 6,248,956 |
| Interest | - | 2,683,264 |
| | 6,204 | 8,953,120 |
| EXCESS OF REVENUES OVER (UNDER) EXPENSES | 952,612 | (8,123,545) |
| OTHER FINANCING SOURCES (USES) | | |
| Developer Advances | - | - |
| Transfer to Other District | (946,313) | (792,926) |
| Transfer from Other District | - | 9,239,301 |
| | (946,313) | 8,446,375 |
| TOTAL OTHER FINANCING SOURCES (USES) | (946,313) | 8,446,375 |
| NET CHANGE IN FUND BALANCES | 6,299 | 322,830 |
| FUND BALANCES, Beginning | 1,355,367 | 1,032,537 |
| FUND BALANCES, Ending | \$ 1,361,666 | \$ 1,355,367 |

See the accompanying independent auditors' report.

SOUTH TIMNATH METROPOLITAN DISTRICT NO. 2

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
Year Ended December 31, 2020

Amounts Reported for Governmental Activities in the Statement of Activities
are Different Because:

| | |
|--|-----------------------|
| Net Changes in Fund Balances - Total Governmental Funds | \$ 6,299 |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount of depreciation expense for the current period. | (185,960) |
| Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This is the change in accrued interest. | (1,070,152) |
| Bond premiums are reported in the governmental funds operating statement because these transactions require the use of current financial resources but are capitalized and amortized in the government wide statement of net position. This is the current year amortization. | <u>16,616</u> |
| Change in Net Position of Governmental Activities | <u>\$ (1,233,197)</u> |

See the accompanying independent auditors' report.

SOUTH TIMNATH METROPOLITAN DISTRICT NO. 2

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2020

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The South Timnath Metropolitan District No. 2 was formed to provide public services and improvements for the District and surrounding area within its boundaries. The District is governed by a five-member Board of Directors elected by the constituents.

The accounting policies of the South Timnath Metropolitan District No. 2 (the “District”) conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies:

Reporting Entity

In accordance with governmental accounting standards, the South Timnath Metropolitan District No. 2 has considered the possibility of inclusion of additional entities in its financial statements.

The definition of the reporting entity is based primarily on financial accountability. The District is financially accountable for organizations that make up its legal entity. It is also financially accountable for legally separate organizations if District officials appoint a voting majority of the organization’s governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the District. The District may also be financially accountable for organizations that are fiscally dependent upon it.

Based on the application of these criteria, the District does not include additional organizations in its reporting entity.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

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

SOUTH TIMNATH METROPOLITAN DISTRICT NO. 2

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2020

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-Wide and Fund Financial Statements (Continued)

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when the 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. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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 collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Service fees, grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

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.

In the fund financial statements, the District reports the following major governmental fund:

The *General Fund* is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

SOUTH TIMNATH METROPOLITAN DISTRICT NO. 2

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2020

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Cash and Investments

Cash equivalents include investments with original maturities of three months or less.

Investments are recorded at fair value.

Capital Assets

Capital assets, which include property and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of 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.

Property and equipment of the District is depreciated using the straight line method over the following estimated useful lives:

| | |
|----------------|----------|
| Infrastructure | 25 years |
|----------------|----------|

Long-Term Obligations

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the governmental activities fund type statement of net position.

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.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position and balance sheets will sometimes report a separate section for deferred outflows or resources. This separate financial statement element, *deferred outflow of resources*, represents a consumption of net position and fund balance that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

SOUTH TIMNATH METROPOLITAN DISTRICT NO. 2

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2020

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Outflows/Inflows of Resources (Continued)⁹

In addition to liabilities, the statement of financial position and balance sheets will sometimes report a separate section for deferred inflows or resources. This separate financial statement element, *deferred inflow of resources*, represents an acquisition of net position and fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Net Position

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

Net Investment in Capital Assets includes the District's capital assets (net of accumulated depreciation) reduced by the outstanding balances of bonds that are attributable to the acquisition, construction, or improvement of those assets. The District does not own any capital assets at December 31, 2019.

Restricted Net Position includes assets that have third-party (statutory, bond covenant, or granting agency) limitations on their use. The District typically uses restricted assets first, as appropriate opportunities arise, but reserves the right to selectively defer the use until a future project.

Unrestricted Net Position typically includes unrestricted liquid assets. The Board has the authority to revisit or alter this designation.

Net Position/Fund Balance Classification

In the government-wide financial statements, net position is restricted when constraints placed on the net position are externally imposed.

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- Restricted – This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. The District has classified Emergency Reserves as being restricted because their use is restricted by State Statute for declared emergencies.

SOUTH TIMNATH METROPOLITAN DISTRICT NO. 2

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2020

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Position/Fund Balance Classification (Continued)

- Committed – This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Board of Directors. These amounts cannot be used for any other purpose unless the Board of Directors removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.

The District did not have any committed resources as of December 31, 2020.

- Unassigned – This classification includes the residual fund balance for the General Fund. The Unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

The District would typically use restricted fund balances first, followed by committed resources, and then assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend Unassigned.

Property Taxes

Property taxes are levied on December 15 and attach as an enforceable lien on property on January 1. Taxes are payable in full on April 30 or in two installments on February 28 and June 15. The County Treasurer's office collects property taxes and remits to the District on a monthly basis.

Comparative Data

Comparative total data for the prior year has been presented in the accompanying financial statements in order to provide an understanding of changes in the District's financial position and operations. However, complete comparative data in accordance with generally accepted accounting principles has not been presented since its inclusion would make the financial statements unduly complex and difficult to read.

Data in these columns do not present financial position or results of operations in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

SOUTH TIMNATH METROPOLITAN DISTRICT NO. 2

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2020

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

- On or before October 15th, District Management submits to the Board of Directors a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.
- Public hearings are conducted to obtain taxpayer comments.
- Prior to December 31, the budget is legally enacted through passage of a resolution.
- District Management is authorized to transfer budgeted amounts between departments within any fund. However, any revisions that alter the total expenditures of any fund must be approved by the Board of Directors.
- Budgets are legally adopted for all funds of the District on a basis consistent with generally accepted accounting principles (GAAP).
- Budgeted amounts in the financial statements are as originally adopted or as amended by the Board of Directors. All appropriations lapse at year end.

NOTE 3: CASH AND INVESTMENTS

Deposits

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulations. At December 31, 2020, State regulatory commissioners have indicated that all financial institutions holding deposits for the District are eligible public depositories.

SOUTH TIMNATH METROPOLITAN DISTRICT NO. 2

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2020

NOTE 3: CASH AND INVESTMENTS (Continued)

Deposits (Continued)

Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral as determined by the PDPA. PDPA allows the financial institution to create a single collateral pool for all public funds held. The pool is to be maintained by another institution, or held in trust for all the uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the uninsured deposits. The District has no policy regarding custodial credit risk for deposits.

The District has no deposits at December 31, 2020.

Investments

Interest Rate Risk

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

Colorado statutes specify in which instruments the units of local government may invest which includes:

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

The above investments are authorized for all funds and fund types used by Colorado municipalities.

Fair Value

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

SOUTH TIMNATH METROPOLITAN DISTRICT NO. 2

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2020

NOTE 3: CASH AND INVESTMENTS (Continued)

Fair Value (Continued)

The District has no investments requiring categorization as of December 31, 2020.

Local Government Investment Pools

The District had invested \$1,361,666 in the Colorado Surplus Asset Fund Trust (CSAFE) an investment vehicle established for local government entities in Colorado pursuant to Title 24, Article 75, Part 7 of the Colorado Revised Statutes, to pool surplus funds for investment purposes. The State Securities Commissioner administers and enforces the requirements of creating and operating the Pools. CSAFE reports its underlying investments at amortized cost and is considered a qualifying external investment pool under GASB Statement 79. CSAFE operates similar to money market funds where each share is equal in value to \$1.00. The fair value of the position in the pools is the same as the value of the pooled shares.

CSAFE is rated AAAM by Standard and Poor's. The designated custodial bank provides safekeeping and depository services in connection with the direct investment and withdrawal functions. Substantially all securities are owned by the pools and held by the Federal Reserve Bank in the account maintained for the custodial bank. The custodian's internal records identify the investments owned by the pools. Investments of the pools comply with state statutes, consisting of U.S. Treasury bills, notes and note strips, repurchase agreements, U.S. Instrumentalities, Commercial Paper, Bank Deposits and Money Market Funds. CSAFE does not have any limitations or restrictions on participant withdrawals.

Restricted Cash and Investments

Cash and investments in the amount of \$1,361,666 are restricted for debt service.

NOTE 4: CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2020, is summarized below:

| | <u>Balances</u> <u>12/31/19</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balances</u> <u>12/31/20</u> |
|-------------------------------------|------------------------------------|-------------------|------------------|------------------------------------|
| Governmental Activities | | | | |
| Capital Assets, depreciated | | | | |
| Infrastructure | \$ 4,648,993 | \$ - | \$ - | \$ 4,648,993 |
| Accumulated Depreciation | <u>185,960</u> | <u>185,960</u> | <u>-</u> | <u>371,920</u> |
| Capital Assets, Net of Depreciation | <u>\$ 4,463,033</u> | <u>\$ 185,960</u> | <u>\$ -</u> | <u>\$ 4,277,073</u> |

SOUTH TIMNATH METROPOLITAN DISTRICT NO. 2

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2020

NOTE 4: LONG-TERM DEBT

Following is a summary of long-term debt transactions for the governmental activities for the year ended December 31, 2020.

| | Balance <u>12/31/19</u> | <u>Additions</u> | <u>Payments</u> | Balance <u>12/31/20</u> | Due In <u>One Year</u> |
|----------------|----------------------------|--------------------|-------------------------|----------------------------|----------------------------|
| Bond Payable | \$15,145,000 | \$ - | \$ - | \$15,145,000 | \$ - |
| Bond Premium | 498,478 | - | 16,616 | 481,862 | - |
| Developer Note | <u>16,375,871</u> | <u>-</u> | <u>-</u> | <u>16,375,871</u> | <u>16,375,871</u> |
| Total | <u>\$38,284,921</u> | <u>\$ -</u> | <u>\$ 16,614</u> | <u>\$32,002,733</u> | <u>\$16,375,871</u> |

Loan Payable

On October 28, 2013, the District entered into a loan agreement with Vectra Bank in the amount of \$7,750,000. An initial advance of \$6,660,000 was received in 2013 and the remaining funds in the amount of \$1,090,000 were distributed to the District on November 12, 2014. Proceeds from the initial advance were transferred to the South Timnath Metropolitan District No. 1 to pay off that District's bonded debt and proceeds from the final advance were used to pay accrued interest accrued on the Developer Advances. The interest rate on the initial advance of \$6,660,000 is 3.500% and the rate on the final advance of \$1,090,000 is 3.346%, subject to change. Interest is due and payable semi-annually on June 1 and December 1. Principal payments are due annually on December 1 through 2044. The loan was paid in full using proceeds from the 2018 Limited General Obligation Refunding Bonds issued in December 2018.

Bond Payable

In December of 2017, the District issued \$15,145,000 in Series 2017 Limited General Obligation Refunding Bonds. Proceeds were used to pay off the District's loan payable and to pay down a portion of the District's developer debt. The bonds carry interest rates ranging from 2.4% to 4.2%. Semi-annual principal and interest payments are due on June 1 and December 1 through 2050.

The bonds maturing on or before December 1, 2027 are not subject to redemption prior to maturity at the option of the District. The Bonds maturing on and after December 1, 2022 are subject to redemption prior to maturity, at the option of the District, in whole or in part, in integral multiples of \$5,000, from such maturities and interest rates as are selected by the District and by lot within a maturity and interest rate.

The term bonds maturing on December 1, 2042 and December 1, 2050 are subject to mandatory sinking fund redemption at a redemption price equal the principal amount thereof plus accrued interest to the redemption date.

SOUTH TIMNATH METROPOLITAN DISTRICT NO. 2

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2020

NOTE 4: LONG-TERM DEBT (Continued)

Developer Note

On November 12, 2013 the District entered into a Funding and Reimbursement Agreement (the “Agreement”) with South Timnath Holdings, LLC (the “Developer”) to advance funds to the District for administration, operations and maintenance costs. Pursuant to the Agreement, the District made a note to the Developer further evidencing the District’s obligation to make repayment of all amounts borrowed from the Developer. The agreement will continue until fully performed or terminated by mutual agreement of the parties. The District will reimburse the Developer for advances to the extent it has funds available from the imposition of its mill levy and other sources of District revenue after payment of its annual debt service obligation and annual operations and maintenance expenses.

On November 8, 2019 the District accepted the 1st Filing Third Amended Phase 1 -4 tracts and open space and all associated debt incurred by the Developer in the amount of \$4,648,993. The District will be responsible for the operation and maintenance of said tracts and open space and any other needed improvements.

Estimated annual debt service requirements for the outstanding bonds at December 31, 2019 are as follows:

| <u>Year Ended</u> <u>December 31,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|--|-----------------------------|----------------------------|-----------------------------|
| 2021 | \$ - | \$ 679,550 | \$ 679,550 |
| 2022 | - | 679,550 | 679,550 |
| 2023 | 50,000 | 679,550 | 729,550 |
| 2024 | 100,000 | 677,050 | 777,050 |
| 2025 | 125,000 | 672,050 | 797,050 |
| 2026 – 2030 | 1,115,000 | 3,231,750 | 4,346,750 |
| 2031 – 2035 | 1,820,000 | 2,884,500 | 4,704,500 |
| 2036 – 2040 | 2,755,000 | 2,340,500 | 5,095,500 |
| 2041 – 2045 | 3,790,000 | 1,569,850 | 5,359,850 |
| 2046 – 2050 | <u>5,390,000</u> | <u>702,000</u> | <u>6,092,000</u> |
| Total | <u>\$ 15,145,000</u> | <u>\$14,116,350</u> | <u>\$ 29,261,350</u> |

NOTE 5: RELATED PARTIES

All of the members of the Board of Directors are either investors in the Developer, or otherwise affiliated with the Developer. The District owes the Developer \$16,375,871 in note principal and \$2,514,691 in accrued interest as of December 31, 2020.

SOUTH TIMNATH METROPOLITAN DISTRICT NO. 2

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2020

NOTE 6: RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; injuries to employees; and natural disasters. The District participates in the Colorado Special Districts Property and Liability Insurance Pool. The Pool insures property and liability exposures through contributions made by member districts. The District does not maintain an equity interest in the self insurance pool. The District funds its pool contributions, outside insurance purchases, deductibles, and uninsured losses through the General Fund.

Settled claims resulting from these risks have not exceeded commercial or District coverages in any of the past three years.

NOTE 7: DEBT AUTHORIZATION

On May 2, 2006, a majority of the qualified electors of the District authorized the issuance of general obligation indebtedness as follows:

- An amount not to exceed \$160,000,000 at an interest rate not to exceed 15% per annum, for providing public improvements; and
- An amount not to exceed \$20,000,000 at an interest rate not to exceed 15% per annum, for IGA purposes; and
- An amount not to exceed \$40,000,000 at an interest rate not to exceed 15% per annum, for refunding purposes.
- An amount not to exceed \$20,000,000 at an interest rate not to exceed 15% per annum, for operations and maintenance purposes; and
- An amount not to exceed \$20,000,000 at an interest rate not to exceed 15% per annum, for mosquito and security purposes; and
- An amount not to exceed \$20,000,000 at an interest rate not to exceed 15% per annum, for reimbursement agreement purposes.

The District's Service Plan includes a debt authorization limit of \$20,000,000.

As of December 31, 2020, the amount of debt authorized but unissued was \$4,855,000. The District intends to issue over time a part or all of the remaining authorized but unissued general obligation debt for purposes of providing public improvements to support development as it occurs within the District's service area.

SOUTH TIMNATH METROPOLITAN DISTRICT NO. 2

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2020

NOTE 8: DEFICIT NET POSITION

As of December 31, 2020, the District had a government-wide net position deficit of \$28,878,685. This deficit was created as the District assumed a note payable to the Developer from South Timnath Metropolitan District No. 1 in addition to entering into a loan agreement to transfer funds to South Metropolitan District No. 1 to pay off that District's bond debt.

NOTE 9: COMMITMENTS AND CONTINGENCIES

TABOR Amendment - Colorado voters passed an amendment to the State Constitution, Article X, Section 20, which has several limitations, including revenue raising, spending abilities, and other specific requirements of state and local government. The Amendment is complex and subject to judicial interpretation. The District believes it is in compliance with the requirements of the Amendment.

The District has established an emergency reserve, representing 3% of fiscal year spending, as required by the Amendment. At December 31, 2020, the emergency reserve of \$28,800 was recorded in the General Fund.

NOTE 10: SUBSEQUENT EVENTS

The District has evaluated subsequent events through the date which the financial statements were issued. There were no material subsequent events that required recognition or additional disclosure.

REQUIRED SUPPLEMENTAL INFORMATION

SOUTH TIMNATH METROPOLITAN DISTRICT NO. 2

GENERAL FUND
 BUDGETARY COMPARISON SCHEDULE
 Year Ended December 31, 2020

| | 2020 | | VARIANCE Positive (Negative) | 2019 ACTUAL |
|---|---------------------------------|------------------|------------------------------------|--------------------|
| | ORIGINAL AND FINAL BUDGET | ACTUAL | | |
| REVENUES | | | | |
| Property Taxes | \$ 915,565 | \$ 886,593 | \$ (28,972) | \$ 737,275 |
| Specific Ownership Taxes | 54,933 | 60,384 | 5,451 | 65,165 |
| Interest and Other | - | 11,839 | 11,839 | 27,135 |
| TOTAL REVENUES | 970,498 | 958,816 | (11,682) | 829,575 |
| EXPENDITURES | | | | |
| Current | | | | |
| General Government | | | | |
| Other Expenses | 14,557 | 6,204 | 8,353 | 20,900 |
| Debt Service | | | | |
| Principal | - | - | - | 6,248,956 |
| Interest | - | - | - | 2,683,264 |
| TOTAL EXPENDITURES | 14,557 | 6,204 | 8,353 | 8,953,120 |
| EXCESS OF REVENUES OVER (UNDER) EXPENDITURES | 955,941 | 952,612 | (3,329) | (8,123,545) |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfer to Other District | (955,941) | (946,313) | 9,628 | (792,926) |
| Transfer from Other District | - | - | - | 9,239,301 |
| TOTAL OTHER FINANCING SOURCES (USES) | (955,941) | (946,313) | 9,628 | 8,446,375 |
| CHANGE IN FUND BALANCES | - | 6,299 | 6,299 | 322,830 |
| FUND BALANCE, Beginning | - | 1,355,367 | 1,355,367 | 1,032,537 |
| FUND BALANCE, Ending | \$ - | \$ 1,361,666 | \$ 1,361,666 | \$ 1,355,367 |

See the accompanying independent auditors' report.