

**SEVERANCE SHORES METROPOLITAN  
DISTRICT NO. 1  
Weld County, Colorado**

**FINANCIAL STATEMENTS**

**YEAR ENDED DECEMBER 31, 2020**

# SEVERANCE SHORES METROPOLITAN DISTRICT NO. 1


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To the Board of Directors of  
Severance Shores Metropolitan District No. 1

## Opinions

We have audited the accompanying financial statements of the governmental activities and each major fund, of Severance Shores Metropolitan District No. 1 (District), 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.

In our opinion, the accompanying 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 District, as of December 31, 2020, and the respective changes in financial position and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Responsibilities of Management 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, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

## Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

#### **Required Supplementary Information**

Management has omitted the management 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.

#### **Supplementary Information**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Capital Projects Fund is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Capital Projects Fund is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

*Haynie & Company*

Littleton, CO  
February 9, 2022

## **BASIC FINANCIAL STATEMENTS**

**Severance Shores Metropolitan District No. 1**  
**STATEMENT OF NET POSITION**  
**December 31, 2020**

	<b>Governmental Activities</b>
<b>ASSETS</b>	
Cash and investments	\$ 6,424
Accounts receivable	20,636
Due from other entities	23,481
Prepaid expense	6,933
Capital assets not depreciated	10,309,788
Total assets	10,367,262
 <b>LIABILITIES</b>	
Accounts payable	42,902
Due to other entities	56,640
Prepaid fees	3,204
Long-term liabilities	
Due in more than one year	4,219,543
Total liabilities	4,322,289
 <b>NET POSITION</b>	
Net investment in capital assets	6,090,245
Restricted	
Emergency reserve (TABOR)	6,260
Unrestricted	(51,532)
Total net position	\$ 6,044,973

These financial statements should be read only in connection with  
the accompanying notes to financial statements.

# Severance Shores Metropolitan District No. 1

## STATEMENT OF ACTIVITIES

Year Ended December 31, 2020

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Charges for Services</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Position</u>
			<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>
Primary government					
General government	\$ 210,976	\$ 183,362	\$ -	\$ 6,358,907	\$ 6,331,293
Interest on long-term debt and related costs	268,662	-	-	-	(268,662)
Total government activities	<u>\$ 479,638</u>	<u>\$ 183,362</u>	<u>\$ -</u>	<u>\$ 6,358,907</u>	<u>6,062,631</u>
Revenue:					
IGA					2,253
Miscellaneous income					1,012
Total general revenue					<u>3,265</u>
Transfer to other governmental entities					<u>(21,530)</u>
Change in net position					<u>6,044,366</u>
Net position - Beginning					<u>607</u>
Net position - Ending					<u>\$ 6,044,973</u>

These financial statements should be read only in connection with the accompanying notes to financial statements.

**Severance Shores Metropolitan District No. 1**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**December 31, 2020**

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>			
Cash and investments	\$ 6,424	\$ -	\$ 6,424
Accounts receivable	20,636	-	20,636
Due from other entities	23,481	-	23,481
Prepaid expense	6,933	-	6,933
Total assets	<u>\$ 57,474</u>	<u>\$ -</u>	<u>\$ 57,474</u>
<b>LIABILITIES AND FUND BALANCES (DEFICITS)</b>			
Accounts payable	\$ 42,902	\$ -	\$ 42,902
Due to other entities	56,640	-	56,640
Prepaid fees	3,204	-	3,204
Total liabilities	<u>102,746</u>	<u>-</u>	<u>102,746</u>
<b>FUND BALANCES (DEFICITS)</b>			
Nonspendable:			
Prepaid expenditures	6,933	-	6,933
Restricted:			
Emergency reserves	6,260	-	6,260
Unassigned	(58,465)	-	(58,465)
Total fund balance (deficit)	<u>(45,272)</u>	<u>-</u>	<u>(45,272)</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 57,474</u>	<u>\$ -</u>	

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.

Capital assets not depreciated 10,309,788

Long-term liabilities, including developer advance payable and accrued interest, are not due and payable in the current period and, therefore, are not included in the fund financial statements, but are included in the governmental activities of the Statement of Net Position:

Developer advance - principal and interest (4,219,543)

Net position of governmental activities \$ 6,044,973

These financial statements should be read only in connection with  
the accompanying notes to financial statements.

**Severance Shores Metropolitan District No. 1**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCES (DEFICITS) - GOVERNMENTAL FUNDS**  
**Year Ended December 31, 2020**

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>			
District fees	\$ 71,314	\$ -	\$ 71,314
Non potable water fees	81,216	-	81,216
Trash fees	27,756	-	27,756
IGA revenue	2,253	-	2,253
Fines/late fees	3,076	-	3,076
Miscellaneous income	1,012	-	1,012
Total revenue	<u>186,627</u>	<u>-</u>	<u>186,627</u>
<b>EXPENDITURES</b>			
General government			
District accounting, audit, enforcement and management	80,757	-	80,757
Dues and subscriptions	423	-	423
Elections	57	-	57
Insurance	2,632	-	2,632
Landscape maintenance	5,225	-	5,225
Legal	12,899	-	12,899
Park and open space maintenance	2,800	-	2,800
Snow removal	845	-	845
Trash service	25,830	-	25,830
Utilities	2,879	-	2,879
Water fees/costs/Hunters Overlook MD No. 1	72,696	-	72,696
Contingency/miscellaneous	3,933	-	3,933
Capital improvements	-	10,309,788	10,309,788
Total expenditures	<u>210,976</u>	<u>10,309,788</u>	<u>10,520,764</u>
<b>EXCESS OF REVENUE OVER (UNDER) EXPENDITURES</b>	<u>(24,349)</u>	<u>(10,309,788)</u>	<u>(10,334,137)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Developer advance	-	10,309,788	10,309,788
Promissory note- principal	-	(6,303,615)	(6,303,615)
Promissory note - interest	-	(55,292)	(55,292)
Transfer to District No. 4	(21,530)	-	(21,530)
Transfer from District No. 4	-	6,358,907	6,358,907
Total other financing sources (uses)	<u>(21,530)</u>	<u>10,309,788</u>	<u>10,288,258</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>(45,879)</u>	<u>-</u>	<u>(45,879)</u>
<b>FUND BALANCE (DEFICITS) - BEGINNING OF YEAR</b>	<u>607</u>	<u>-</u>	<u>607</u>
<b>FUND BALANCE (DEFICITS) - END OF YEAR</b>	<u>\$ (45,272)</u>	<u>\$ -</u>	<u>\$ (45,272)</u>

These financial statements should be read only in connection with  
the accompanying notes to financial statements.

**Severance Shores Metropolitan District No. 1**  
**RECONCILIATION OF THE STATEMENT OF REVENUES,**  
**EXPENDITURES AND CHANGES IN FUND BALANCES (DEFICITS) - GOVERNMENTAL FUNDS**  
**TO THE STATEMENT OF ACTIVITIES**  
**Year Ended December 31, 2020**

A reconciliation reflecting the differences between the governmental funds net change in fund balances and change in net position reported for governmental activities in the Statement of Activities as follows:

Net change in fund balances - Total governmental funds	\$	(45,879)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the costs of those assets is allocated over their estimated useful lives and reported as depreciation expense.		10,309,788
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net position.		
Repayment of Developer advance - principal		6,303,615
Repayment of Developer advance - interest		55,292
Developer advance		(10,309,788)
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.		
Interest on Developer advance		(268,662)
		(268,662)
Change in net position - Governmental activities	\$	6,044,366

These financial statements should be read only in connection with  
the accompanying notes to financial statements.

**Severance Shores Metropolitan District No. 1**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN**  
**FUND BALANCE (DEFICIT) - BUDGET AND ACTUAL**  
**GENERAL FUND**  
**For the Year Ended December 31, 2020**

	<u>Budgeted Amounts</u>	<u>Budgeted Amounts</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
District fees	\$ 40,000	\$ 71,314	\$ 71,314	\$ -
Non potable water fees	72,000	81,216	81,216	-
Trash fees	13,608	27,756	27,756	-
IGA Revenue	2,314	2,253	2,253	-
Fines/late fees	-	3,076	3,076	-
Miscellaneous income	-	1,012	1,012	-
Total Revenue	<u>127,922</u>	<u>186,627</u>	<u>186,627</u>	<u>-</u>
<b>EXPENDITURES</b>				
General government:				
District accounting, management and enforcement services	41,500	80,757	80,757	-
Audit	-	-	-	-
Dues and subscriptions	500	423	423	-
Election	1,000	57	57	-
Insurance	1,500	2,632	2,632	-
Landscape maintenance	30,000	5,225	5,225	-
Legal	20,000	12,899	12,899	-
Newsletter/PR	1,000	-	-	-
Park and open space maintenance	-	2,800	2,800	-
Snow removal	-	845	845	-
Trash service	13,608	25,830	25,830	-
Utilities	-	2,879	2,879	-
Water fees/costs/Hunters Overlook MD No. 1	72,000	72,696	72,696	-
Contingency/miscellaneous	509	3,933	3,933	-
Total Expenditures	<u>181,617</u>	<u>210,976</u>	<u>210,976</u>	<u>-</u>
<b>EXCESS OF REVENUE OVER (UNDER)</b>				
<b>EXPENDITURES</b>	<u>(53,695)</u>	<u>(24,349)</u>	<u>(24,349)</u>	<u>-</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Developer advance	36,780	-	-	-
Transfers (to) other districts	-	(21,530)	(21,530)	-
Total other financing sources (uses)	<u>36,780</u>	<u>(21,530)</u>	<u>(21,530)</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCE</b>				
	<u>(16,915)</u>	<u>(45,879)</u>	<u>(45,879)</u>	<u>-</u>
<b>FUND BALANCE - BEGINNING OF YEAR</b>				
	<u>16,915</u>	<u>607</u>	<u>607</u>	<u>-</u>
<b>FUND BALANCE (DEFICIT) - END OF YEAR</b>				
	<u>\$ -</u>	<u>\$ (45,272)</u>	<u>\$ (45,272)</u>	<u>\$ -</u>

These financial statements should be read only in connection with the  
accompanying notes to financial statements.

**NOTES TO BASIC FINANCIAL STATEMENTS**

# SEVERANCE SHORES DISTRICT NO. 1

## NOTES TO FINANCIAL STATEMENTS

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### 1. DEFINITION OF REPORTING ENTITY

Severance Shores Metropolitan District No. 1 (the "District") is a quasi-municipal political subdivision of the State of Colorado organized on November 25, 2015 concurrently with three other Districts. Severance Shores District Nos. 1-4 ("the Districts") were organized to provide for the construction and financing of street, safety control and landscaping improvements. The Districts' service area is located entirely within the Town of Severance in Weld County, Colorado, commonly known as "Severance Shores". District No. 1 is the "Coordinating District" and expected to coordinate the financing, construction and maintenance of all public improvements. District Nos. 2-4, as "Financing Districts", are expected to contain residential development, include future development and provide revenue to support the Districts' activities. As such, the District obtained financing for reimbursing and acquiring public improvement projects. District Nos. 2 – 4 ("Taxing Districts") are responsible for providing the funding and tax base needed to support the Coordinating District and service debt. The revenue from property taxes levied by the Taxing Districts are pledged to District No. 1 for operations and District No. 4 for debt service.

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 for any other organization, nor is the District a component unit of any other primary governmental entity.

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

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

**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 non-fiduciary activities of the government. Eliminations have been made to minimize the double counting of internal activities. These 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 of the financial and capital resources of the District. The difference between the assets and the liabilities and deferred inflows of resources is reported as net position.

# SEVERANCE SHORES DISTRICT NO. 1

## NOTES TO FINANCIAL STATEMENTS (continued)

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The statement of activities demonstrates the degree to which direct and indirect expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) fees and 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. Revenues that are not classified as program revenues, including all taxes, are reported as general revenues.

Separate financials are provided for governmental funds.

**Measurement Focus, Basis of Accounting and Financial Statement Presentation** — The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flow.

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 period or soon enough thereafter to pay liabilities of the current fiscal period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Those revenues susceptible to accrual are property taxes and are recognized as revenue by the District. All other revenue items, including developer advances, are considered to be measurable and available only when cash is received by the District.

Expenditures are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

The District reports the following major governmental funds:

*General Fund* – The General Fund is the government's general operating fund. It is used to account for all financial resources not accounted for and reported in another fund.

*Capital Projects Fund* – The Capital Projects Fund accounts for the financial resources to be used for the acquisition and construction of capital infrastructure.

When both restricted and unrestricted resources are available for use, it is the District's policy to apply restricted resources first, then unrestricted resources as they are needed.

# SEVERANCE SHORES DISTRICT NO. 1

## NOTES TO FINANCIAL STATEMENTS (continued)

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

**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 inflows 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.

**Cash and Investments** — The District's cash and investments are considered to be cash on hand and short-term investments with maturities of three months or less from the date of acquisition. The District's investments are reported at net asset value (NAV).

The use of certain cash and investments of the District is restricted. These cash and investment items are classified as restricted assets on the balance sheet because they are maintained in separate accounts and their use is limited by debt agreements.

**Deferred Inflows of Resources** - In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The District had no Deferred Inflows of Resources at December 31, 2020.

**Fund Balance Classification** — The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy based on the extent to which the District is bound to honor constraints on the specific purposes for which spending can occur. Governmental funds report up to five classification 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:

*Non-spendable* — The portion of fund balance that cannot be spent because it is either not spendable form (such as prepaid expenses) or is legally or contractually required to be maintained intact.

*Restricted* — The portion of fund balance constrained to being used for a specific purpose by external parties (such as grantors or bondholders), constitutional provisions or enabling

# SEVERANCE SHORES DISTRICT NO. 1

## NOTES TO FINANCIAL STATEMENTS (continued)

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legislation.

*Committed* – The portion of fund balance constrained for specific purposes according to limitations imposed by the District’s highest level of decision making authority, the Board of Directors, prior to the end of the current fiscal year. The constraint may be removed or changed only through formal action of the Board of Directors.

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

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

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

**Estimates** — The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

### 3. CASH AND INVESTMENTS

**Deposits with financial institutions** — The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulators. Amounts on deposit in excess of federal insurance levels must be collateralized. As of December 31, 2020, the federal insurance limit was \$250,000. The eligible collateral is determined by the PDPA. The 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 State Commissioners for banks and financial services are required by statute to monitor the naming of eligible depositories and reporting of the uninsured deposits and assets maintained in the collateral pools.

The District had cash deposits of \$6,424 at December 31, 2020.

**Investments** – The District has not adopted a formal investment policy, however, the District follows state statutes regarding investments. As of December 31, 2020, the District had no investments.

# SEVERANCE SHORES DISTRICT NO. 1

## NOTES TO FINANCIAL STATEMENTS (continued)

### 4. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2020 was as follows

	Balance at December 31, 2019	Additions	Reductions	Balance at December 31, 2020
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Construction in progress	\$ -	\$ 10,309,788	\$ -	\$ 10,309,788
Total capital assets, not being depreciated	<u>\$ -</u>	<u>\$ 10,309,788</u>	<u>\$ -</u>	<u>\$ 10,309,788</u>

All or a majority of the governmental capital assets will be conveyed to another governmental entity.

### 5. LONG-TERM LIABILITIES

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

	Balance at 2019	Additions	Reductions	Balance at 2020	Due One Year
<b>Governmental activities:</b>					
Promissory note - capital	\$ -	\$ 10,309,788	\$ 6,303,615	\$ 4,006,173	\$ -
Accrued interest on promissory notes	-	268,662	55,292	213,370	-
	<u>\$ -</u>	<u>\$ 10,578,450</u>	<u>\$ 6,358,907</u>	<u>\$ 4,219,543</u>	<u>\$ -</u>

**Advance and Reimbursement Agreement** — On August 15, 2018, the Districts, collectively, entered into an Advance and Reimbursement Agreement with Severance Overlook Investments, LLC (the "Developer"). Under the terms of the agreement, the Developer agreed to advance to the Districts amounts not to exceed \$7,700,000 in installments available to the Districts through December 1, 2020. The funds advanced under the agreement shall be applied to capital costs of the Districts as established in the Districts' annual budgets. Amounts advanced under the terms of the agreement shall bear an interest rate of 2% plus the current Federal Reserve board prime rate.

### 6. DEBT AUTHORIZATION

On November 3, 2015, the electors of the Districts, collectively, authorized the issuance of indebtedness in an amount not to exceed \$57,200,000 for improvements, \$5,720,000 for operations and maintenance, and \$11,440,000 for refunding, refinancing or defeasing district debt and other fiscal obligations. Pursuant to the Service Plan, the District is permitted to issue indebtedness of up to \$7,700,000. As of December 31, 2020, the Districts had \$291,000 remaining authority under the Service Plan.

### 7. AGREEMENTS

**Intergovernmental Agreement** — On August 15, 2018, the Districts entered into an Intergovernmental Agreement (the "IGA") in order to implement the Service Plan. According to the Service Plan, District No. 1 is the coordinating district and is expected to coordinate the financing, construction and maintenance of all public improvements. District Nos. 2 through 4 are

# SEVERANCE SHORES DISTRICT NO. 1

## NOTES TO FINANCIAL STATEMENTS (continued)

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financing districts and contain residential development. The financing districts are expected to include development and provide revenue to support the Districts' activities. The IGA provides that District No. 1 shall be the owner and operator of district owned improvements and may provide for the funding of construction, operation or maintenance of the public improvements through further and future indebtedness. District Nos. 2-4 shall impose and collect any property taxes, remit the proceeds of any indebtedness, taxes or otherwise provide for the funding of the construction, operation or maintenance of the public improvements. The IGA stipulates the obligations and limitations of District No. 1 as the "operator" of the public improvements.

The IGA also engages District No. 1 as the "district administrator" for all the Districts. District administration includes preparation of annual budgets, engagement of legal counsel and other consultants and statutory compliance measures.

**Advance and Reimbursement Agreement** — On August 15, 2018, the Districts, collectively, entered into an Advance and Reimbursement Agreement with Severance Overlook Investments, LLC (the "Developer"). Under the terms of the agreement, the Developer agreed to advance to the Districts amounts not to exceed \$7,700,000 in installments available to the Districts through December 1, 2020. The funds advanced under the agreement shall be applied to capital costs of the Districts as established in the Districts' annual budgets. Amounts advanced under the terms of the agreement shall bear an interest rate of 2% plus the current Federal Reserve board prime rate.

**Funding and Reimbursement Agreement** — On August 15, 2018, the Districts, collectively, entered into an Advance and Reimbursement Agreement with Severance Overlook Investments, LLC (the "Developer"). Under the terms of the agreement, the Developer agreed to advance to the Districts amounts not to exceed \$500,000. The funds advanced under the agreement shall be applied to costs associated with formation, administration, operations and maintenance of public facilities and for other budgeted general fund expenditures during the term of the Agreement. The term of the agreement is annually renewable for one year terms to be considered at the time of the budget approval of the Districts. Upon request of the Developer, the Districts agreed to issue Promissory Notes to evidence the repayment obligation of the existing loan advances. Amounts advanced under the terms of the agreement shall bear an interest rate of 2% plus the current Federal Reserve board prime rate.

**Improvement Acquisition Agreement** — On August 15, 2018, the Districts, collectively, entered into an Improvement Acquisition Agreement with Severance Overlook Investments, LLC (the "Developer"). The Developer has designed and constructed certain improvements on behalf of the District. Pursuant to the agreement, the Districts agreed to acquire from the Developer completed improvements or improvements under construction and improvements constructed in the future. The purchase price shall be equal to the District's costs. As of the date of the agreement, the Districts did not have funds available to pay for the acquisition of improvements. The Districts agreed to acquire the improvements from bond proceeds and subordinate obligations issued to the Developer.

### 8. NET POSITION

The District's net position includes three components: net investment in capital assets; restricted and unrestricted.

# SEVERANCE SHORES DISTRICT NO. 1

## NOTES TO FINANCIAL STATEMENTS (continued)

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Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the

Restricted assets which have restrictions placed on the use of the assets through external constraints imposed by creditors (such as through debt covenants), contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. Net position includes:

<u>Restricted:</u>	
Emergency reserves	\$ 6,260
Total restricted net position	<u>\$ 6,260</u>

Unrestricted net position consists of the net amount of assets, liabilities and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position. As of December 31, 2020, the District had net investment in capital assets of \$6,090,245 and unrestricted net position of (\$51,532).

### 9. RELATED PARTY

The Developer of the property which constitutes the District is Severance Overlook Investments LLC. The members of the Board of Directors are employees, owners or are otherwise associated with the Developer and its affiliates and may have conflicts of interest dealing with the District. At December 31, 2020, the District owed Severance Overlook Investments, LLC \$4,219,543, as evidenced by the Promissory Note described in Note 5.

### 10. RISK MANAGEMENT

The District is exposed to various risks of losses related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District became a member of the Colorado Special Districts Property and Liability Pool (Pool) in 2020, under Severance Shores Metropolitan District No. 1. The Pool is an organization created by an intergovernmental agreement to provide property, liability, public officials liability, boiler and machinery and workers compensation insurance to its members.

District No. 1 pays annual premiums to the Pool for liability and public officials liability coverage. In the event aggregated 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.

### 11. TAX, SPENDING AND DEBT LIMITATIONS

Article X, Section 20 of the Colorado Constitution, referred to 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.

# SEVERANCE SHORES DISTRICT NO. 1

## NOTES TO FINANCIAL STATEMENTS (continued)

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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. All revenues of the District are transferred to District No. 1 pursuant to the IGA; therefore, District No. 1 has established the Emergency Reserves for all Districts within the project.

On November 3, 2015, a majority of District electors authorized the District to collect and spend or retain in a reserve all currently levied taxes and other revenue of the District for 2017 and any year thereafter, without regard to limitations under TABOR.

The Amendment is complex and subject to judicial interpretation. The District believes it is in compliance with the requirements of the amendment. However, the District has made certain interpretations of the amendment's language in order to determine its compliance.

This information is an integral part of the accompanying financial statements.

**SUPPLEMENTAL INFORMATION**

**Severance Shores Metropolitan District No. 1**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN**  
**FUND BALANCE - BUDGET AND ACTUAL**  
**CAPITAL PROJECTS FUND**  
**For the Year Ended December 31, 2020**

	<u>Budgeted Amounts</u> <u>Original</u>	<u>Budgeted Amounts</u> <u>Final</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
<b>REVENUES</b>				
Developer Advance	\$ 10,500,000	\$ 10,500,000	\$ 10,309,788	\$ (190,212)
Total Revenue	<u>10,500,000</u>	<u>10,500,000</u>	<u>10,309,788</u>	<u>(190,212)</u>
<b>EXPENDITURES</b>				
Capital improvements	10,500,000	10,500,000	10,309,788	190,212
Total Expenditures	<u>10,500,000</u>	<u>10,500,000</u>	<u>10,309,788</u>	<u>190,212</u>
<b>EXCESS OF REVENUE OVER (UNDER) EXPENDITURES</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Repayment of developer advance - principal	-	(6,303,615)	(6,303,615)	-
Repayment of developer advance - interest	-	(55,292)	(55,292)	-
Transfer from District No. 4	-	6,358,907	6,358,907	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>FUND BALANCE - BEGINNING OF YEAR</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>FUND BALANCE - END OF YEAR</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

These financial statements should be read only in connection with the the accompanying notes to financial statements.