

SEVERANCE SOUTH METROPOLITAN DISTRICT NO. 1

FINANCIAL STATEMENTS

DECEMBER 31, 2020

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CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Severance South Metropolitan District No. 1
Weld County, Colorado

We have audited the accompanying financial statements of the governmental activities and each major fund of Severance South Metro District #1 (the 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.

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.

Auditors' 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 auditors' judgement, 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 Severance South Metropolitan District No. 1 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.

Other Matters

Required Supplementary Information

Management has omitted the Management Discussion & 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 District's basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

The Adams Group, LLC

July 12, 2021
Denver, Colorado

SEVERANCE SOUTH METROPOLITAN DISTRICT NO. 1
STATEMENT OF NET POSITION
DECEMBER 31, 2020

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 737,856
Due From Other Governments	3,601
Capital assets, not being depreciated	<u>882,000</u>
Total assets	<u><u>1,623,457</u></u>
 Liabilities	
Accounts payable	9,002
Accrued interest	3,552
Noncurrent liabilities:	
Due in more than one year	
Promissory Notes	<u>882,000</u>
Total liabilities	<u><u>894,554</u></u>
 Net Position	
Restricted for:	
Emergencies	16,939
Debt service	107,217
Unrestricted	<u>604,747</u>
Total net position	<u><u>\$ 728,903</u></u>

The notes are an integral part of these financial statements.

SEVERANCE SOUTH METROPOLITAN DISTRICT NO. 1
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2020

Functions Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities					
General government	\$ 43,306	\$ -	\$ -	\$ -	\$ (43,306)
Interest and fiscal charges	3,552	-	-	-	(3,552)
Total Governmental Activities	\$ 46,858	\$ -	\$ -	\$ -	(46,858)
		General Revenues:			
		Intergovernmental			\$64,638
		Local General Revenues			\$64,638
		Change in Net Position:			\$17,780
		Net Position - Beginning			211,123
		Net Position - Ending			\$ 228,903

The notes are an integral part of these financial statements.

SEVERANCE SOUTH METROPOLITAN DISTRICT NO. 1
BALANCE SHEET – GOVERNMENTAL FUNDS
DECEMBER 31, 2020

	General Fund	Debt Service Fund	Capital Projects Fund	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 627,175	\$ 110,388	\$ -	\$ 737,563
Due From Other Government	3,213	388	-	3,601
Total assets	\$ 630,688	\$ 110,769	\$ -	\$ 741,457
Liabilities				
Accounts payable	\$ 9,002	\$ -	\$ -	\$ 9,002
Total liabilities	9,002	-	-	9,002
Fund Balance				
Restricted:				
Debt service	-	110,769	-	110,769
Emergencies	16,939	-	-	16,939
Assigned:				
Subsequent year's budget appropriation	765	-	-	765
Unassigned	603,982	-	-	603,982
Total fund balances	621,686	110,769	-	732,455
Total liabilities, deferred inflows of resources and fund balances	\$ 630,688	\$ 110,769	\$ -	\$ 741,457

The notes are an integral part of these financial statements.

SEVERANCE SOUTH METROPOLITAN DISTRICT NO. 1
RECONCILIATION OF THE BALANCE SHEET OF THE
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2020

Amounts reported for governmental activities in the statement of net position are different because:

Fund balance of Governmental Funds	\$ 742,455
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	882,000
Some liabilities are not due in the current period and, therefore, are not reported in the fund balance sheet.	
Developer Advances	(882,000)
Accrued interest	<u>(3,552)</u>
Net Position of Governmental Activities	<u>\$ 728,903</u>

The notes are an integral part of these financial statements.

SEVERANCE SOUTH METROPOLITAN DISTRICT NO. 1
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES – GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2020

	General Fund	Debt Service Fund	Capital Project Fund	Total Governmental Funds
Revenues				
Intergovernmental	\$ 491,206	\$ 73,432	\$ -	\$ 564,638
Total revenues	<u>491,206</u>	<u>73,432</u>	<u>-</u>	<u>564,638</u>
Expenditures				
Current:				
Accounting and Finance	14,490	-	-	14,490
District Management	12,360	-	-	12,360
Director Fees	861	-	-	861
Election	518	-	-	518
Insurance	1,000	-	-	1,000
Office, Dues, Newsletters, Other	3,183	-	-	3,183
Legal	10,894	-	-	10,894
Capital Outlay	-	-	882,000	882,000
Total expenditures	<u>43,306</u>	<u>-</u>	<u>882,000</u>	<u>925,306</u>
Other Financing Sources (Uses)				
Capital Note Proceeds	-	-	882,000	882,000
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>882,000</u>	<u>882,000</u>
Net change in fund balances	447,900	73,432	-	521,332
Fund balances, beginning of year	<u>173,786</u>	<u>37,337</u>	<u>-</u>	<u>211,123</u>
Fund balances, end of year	<u>\$ 621,686</u>	<u>\$ 110,769</u>	<u>\$ -</u>	<u>\$ 732,455</u>

The notes are an integral part of these financial statements.

SEVERANCE SOUTH METROPOLITAN DISTRICT NO. 1
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2020

Amounts reported for governmental activities in the Statement of Activities are different because:

Net change in fund balances - Total governmental funds	\$ 521,332
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Governmental funds report capital outlay as expenditures. However, in the Statement of Activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay	882,000
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Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long term liabilities in the statement of net position. This amount is the effect of these differences in the treatment of long term debt and related items:

Proceeds from Bond Issuance	(882,000)
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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 the Governmental funds.

Change in accrued interest payable	<u>(3,552)</u>
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Change in Net Position of Governmental Activities	<u>\$ 517,780</u>
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The notes are an integral part of these financial statements.

SEVERANCE SOUTH METROPOLITAN DISTRICT NO. 1
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND
YEAR ENDED DECEMBER 31, 2020

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues			
Intergovernmental	\$ 926,207	\$ 491,206	\$ (435,001)
Total revenues	<u>926,207</u>	<u>491,206</u>	<u>(435,001)</u>
Expenditures			
Current:			
Accounting and Finance	16,200	14,490	1,710
District Management	23,260	12,360	10,900
Director Fees	6,400	861	5,539
Election	1,500	518	982
Engineering	3,000	-	3,000
Insurance	3,360	1,000	2,360
Office, Dues, Newsletters, Other	3,980	3,183	797
Legal	20,000	10,894	9,106
Contingency	15,000	-	15,000
Total expenditures	<u>92,700</u>	<u>43,306</u>	<u>49,394</u>
Excess of revenues over: (under) expenditures	<u>833,507</u>	<u>447,900</u>	<u>(385,607)</u>
Net change in fund balance	<u>\$ 833,507</u>	<u>447,900</u>	<u>\$ (385,607)</u>
Fund balances, beginning of year		<u>173,786</u>	
Fund balances, end of year		<u>\$ 621,686</u>	

The notes are an integral part of these financial statements.

SEVERANCE SOUTH METROPOLITAN DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 1 - DEFINITION OF REPORTING ENTITY

Severance South Metropolitan District No. 1 (District), a quasi-municipal corporation and political subdivision of the State of Colorado was established on September 5, 2019 and is governed pursuant to provisions of the Colorado Special District Act (Title 32, Article 1, Colorado Revised Statutes). The District's service area is located within Weld County, Colorado.

The District was established principally to provide streets, traffic and safety controls, street lighting, storm drainage, landscaping, parks and recreation, for the use and benefit of property owners, residents, taxpayers, and system users within and without the boundaries of the District.

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 of the organization to provide specific financial benefits or burdens, and fiscal dependency.

The District is not financially accountable for any other District organization nor is the District a component unit of any other primary governmental entity.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the Statement of Net Position and the Statement of Activities) include all of the activities of the District. As a general rule, the effect of interfund activity has been removed from these statements. These financial statements include all of the activities of the primary government. The statement of net position reports all financial and capital resources of the District. The difference between the assets and deferred outflows of resources and liabilities and deferred inflows of resources of the District is reported as net position. The District is responsible for the construction of the aforementioned improvements and payment of operational costs of all of the Severance South Metropolitan Districts. Net position reflects a balance of \$728,903 as of December 31, 2020.

SEVERANCE SOUTH METROPOLITAN DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government-Wide and Fund Financial Statements (Continued)

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

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Intergovernmental and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider has been met. Expenditures for property and equipment are shown as increases in assets and redemption of bonds, notes, and developer advances 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 of the end of the current fiscal period. The major sources of revenue susceptible to accrual are property taxes, capital fees and interest. All other revenue items are considered to be measurable and available only when cash is received by the District. Expenditures, other than interest on long-term obligations are recorded when the liability is incurred or the long-term obligation paid. When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted first, then unrestricted resources as they are needed.

SEVERANCE SOUTH METROPOLITAN DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

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

General Fund is the District's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in other funds.

Capital Projects Fund accounts for the resources accumulated and available for capital expenditure within the development.

Debt Service Fund accounts for the resources accumulated and payments made for principal, interest, and related expenses on the long-term general obligation debt of the governmental funds.

Budgets

In accordance with the State Budget Law, the District's Board of Directors hold 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'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.

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Fund Balance Net Position

Cash and Cash Equivalents

Cash on hand, cash in the bank and all highly liquid investments with a maturity of three months or less when purchased or subject to withdrawal, are considered to be cash and cash equivalents. The District deposits funds in Colorado financial institutions that are eligible public depositories under the Colorado Public Deposit Protection Act, PDPA.

Investments

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the

SEVERANCE SOUTH METROPOLITAN DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Fund Balance Net Position (Continued)

valuation inputs used to measure fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs, Level 3 inputs are significant unobservable inputs. The District has no investments required to be reported under the fair value hierarchy.

Property Tax

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 30 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. For the year ended December 31, 2020 and budget fiscal year 2021, there were no mills levied by the District, so total property tax revenues and receivables reflect a total of \$0 on the financial statements.

Property taxes, net of estimated uncollectible taxes, are recorded initially as deferred inflows of resources in the year they are levied and measurable. The deferred inflows of resources related to property tax revenues are recorded as revenue in the year for which they are levied, in most instances in the year in which collection occurs.

Deferred Inflows and Deferred Outflows of Resources

In addition to assets, the statement of net position and balance sheets will sometimes report a separate section for deferred outflows of 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 (expenditure) until then.

In addition to liabilities, the statement of net position and balance sheets 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 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.

SEVERANCE SOUTH METROPOLITAN DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Fund Balance Net Position (Continued)

Fund Balances—Governmental Funds

The District's governmental fund balances may consist of five classifications based on the relative strength of the spending constraints:

Nonspendable fund balance — the amount of fund balance that is not in spendable form (such as inventory or prepaids) or is legally or contractually required to be maintained intact. At December 31, 2020, the District had no nonspendable fund balance.

Restricted fund balance — the amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation. At December 31, 2020, the District had \$127,708 in restricted fund balance.

Committed fund balance — amounts constrained to specific purposes by the District itself, using its highest level of decision-making authority (i.e., Board of Directors). To be reported as committed, amounts cannot be used for any other purpose unless the District takes the same highest-level action to remove or change the constraint. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Board. At December 31, 2020, the District had no committed fund balance.

Assigned fund balance — amounts the District intends to use for a specific purpose. Intent can be expressed by the District Board of Directors or by an official or body to which the District Board of Directors delegates the authority. At December 31, 2020, the District had \$765 of fund balance assigned for subsequent year's budget appropriation.

Unassigned fund balance — amounts that are available for any purpose. At December 31, 2020, the general fund had unassigned fund balance of \$603,982.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and then unassigned funds.

SEVERANCE SOUTH METROPOLITAN DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 3 - CASH AND INVESTMENTS

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

Statement of net position:

Cash and cash equivalents	S 737,856
Total cash and cash equivalents	<u>S 737,856</u>

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. 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 State Commissioners for banks and financial services are required by statute to monitor the naming of eligible depositories and the reporting of the uninsured deposits and assets maintained in the collateral pools.

At December 31, 2020, the District's cash deposits had a bank balance of \$737,856, and a carrying balance of \$737,856. At December 31, 2020, of the District's deposits were covered by the Federal Deposit Insurance Corporation (FDIC).

Investments

The District has not adopted a formal investment policy, however, the District follows State statutes regarding investments.

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. Agency securities, and securities of the World Bank
- General obligations and revenue bonds of U.S. local government entities

SEVERANCE SOUTH METROPOLITAN DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

- 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*

The District generally limits its concentration of investments to those noted with an asterisk (*) above, 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 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.

As of December 31, 2020, the District had no investments:

NOTE 4 - CAPITAL ASSETS

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

Governmental Activities	Balance 12/31/2019	Additions	Deletions	Balance 12/31/2020
Capital assets, not being depreciated:				
Water Rights	\$ -	\$ 882,000	\$ -	\$ 882,000
Total Capital Assets	\$ -	\$ 882,000	\$ -	\$ 882,000

Improvements are intended to be for the use and benefit of all the taxpayers, residents, and owners of real property within the District boundaries. Upon completion, the District plans to transfer all of the improvements and property to the Town of Severance or other appropriate governmental or quasi-governmental entities.

SEVERANCE SOUTH METROPOLITAN DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 5 - LONG-TERM OBLIGATIONS

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

	<u>Balance</u> <u>12/31/2019</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/2020</u>	<u>Due Within</u> <u>One Year</u>
Governmental activities:					
Capital Note	\$ -	\$ 882,000	\$ -	\$ 882,000	\$ -
	<u>\$ -</u>	<u>\$ 882,000</u>	<u>\$ -</u>	<u>\$ 882,000</u>	<u>\$ -</u>

Capital Promissory Notes

On December 3, 2020 the District issued a promissory note to Windsor LV II, LLC for \$425,250 in exchange for the acquisition of water rights. The promissory note matures on December 31, 2050, and bears an interest rate of Prime Plus 2% adjusted annually. The interest rate in effect for the year ended December 31, 2020 was 5.25%. The note is subject to redemption prior to maturity, at the option of the District in whole or in part, at any time at a redemption price equal to the principal amount of the note plus accrued interest thereon to the date of redemption. The District made no principal payments on the note in 2020, and accrued \$1,712 of interest on the note for the year ended December 31, 2020.

On December 3, 2020 the District issued a promissory note to Windsor LV, LLC for \$456,750 in exchange for the acquisition of water rights. The promissory note matures on December 31, 2050, and bears an interest rate of Prime Plus 2% adjusted annually. The interest rate in effect for the year ended December 31, 2020 was 5.25%. The note is subject to redemption prior to maturity, at the option of the District in whole or in part, at any time at a redemption price equal to the principal amount of the note plus accrued interest thereon to the date of redemption. The District made no principal payments on the note in 2020, and accrued \$1,840 of interest on the note for the year ended December 31, 2020.

Authorized Debt

On September 8, 2017, a majority of qualified electors of the District authorized the issuance of indebtedness in an amount not to exceed \$135,832,954 to fund the development.

At December 31, 2020, the District had authorized and issued indebtedness from the election in the following amounts:

	<u>Authorized</u>	<u>Remaining</u>
Voter debt authorization limit	\$ 135,832,954	\$ 134,950,954

SEVERANCE SOUTH METROPOLITAN DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 6 - NET POSITION

The District's net position consists of two components – restricted and unrestricted.

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

	Government Activities
Restricted net position:	
Emergencies	\$ 16,939
Debt service	107,217
Capital projects	-
	\$ 124,156

In the government-wide financial statements, the District's assets exceeded liabilities by \$728,903 as a result of service fee collections from other Severance South Metropolitan Districts No. 2-4.

NOTE 7 - RISK MANAGEMENT

Except as provided in the Colorado Governmental Immunity Act, the District may be exposed to various risks of loss related to torts, thefts of, damage to, or destruction of assets; errors or omissions; injuries to employees; or acts of God. For the year ended December 31, 2020, the District did not have liability insurance due to there being no employees of the District or capital improvement projects that started since inception of the District.

NOTE 8 - CONTINGENCY

The property in the service area of the District is currently vacant and undeveloped and there is no assurance that it will be developed as currently contemplated or at all. A number of factors may affect the development, including the overall economy of the region, Weld County, and the Town of Severance metropolitan area in particular. The collection of property and other taxes is dependent on the development occurring in the District, and the timing of debt service payments is, in part, dependent on the collection of property and other taxes.

SEVERANCE SOUTH METROPOLITAN DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 9 - TAX, SPENDING AND DEBT LIMITATIONS

Article X, Section 20 of the Colorado Constitution, commonly known as the Taxpayer's Bill of Rights (TABOR), contains tax, spending, revenue and debt limitations which apply to the State of Colorado and all local governments, except those governmental activities designated as Enterprises.

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 September 8, 2017 the District's voters passed an election question authorizing the retention of all revenues received from any source during the 2020 budget year and each budget year thereafter that are in excess of the revenue and fiscal year spending limits that would otherwise apply under Article X, Section 20 of the Colorado Constitution or any other law.

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.

NOTE 10 - DISTRICT FACILITIES CONSTRUCTION AND SERVICE AGREEMENT

In order to implement the Service Plan, the District entered into an intergovernmental agreement with Severance South Metropolitan Districts No. 2-4 on September 8, 2017. The agreement shall remain in full force and effect until such time as each of the terms and conditions have been performed in their entirety or until the agreement is terminated by agreement amongst all Districts. Districts No. 2 through No. 4 are responsible for providing the funding needed to support the costs of public improvements for the Districts.

The District is to construct the facilities benefitting the four Districts and convey them to the Town of Severance. Districts No. 2 through No. 4 are responsible for providing the funding needed to support the costs of public improvements for the Districts.

SEVERANCE SOUTH METROPOLITAN DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 10 - DISTRICT FACILITIES CONSTRUCTION AND SERVICE AGREEMENT
CONTINUED)

During 2020, Districts No. 2 – No.4 transferred \$564,638 to Severance South Metropolitan District No. 1 which is included in intergovernmental revenues in the accompanying statement of revenues, expenditures, and changes in fund balances.

SUPPLEMENTARY INFORMATION

SEVERANCE SOUTH METROPOLITAN DISTRICT NO. 1
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE – BUDGET AND ACTUAL – CAPITAL PROJECTS FUND
YEAR ENDED DECEMBER 31, 2020

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
Expenditures				
Current				
Capital Outlay	\$ -	\$ 1,200,000	\$ 832,000	\$ 318,000
Total expenditures	<u>-</u>	<u>1,200,000</u>	<u>832,000</u>	<u>318,000</u>
Excess of revenues over (under) expenditures	<u>-</u>	<u>(1,200,000)</u>	<u>(832,000)</u>	<u>318,000</u>
Other Financing Sources (Uses)				
Proceeds from Capital Note	-	1,200,000	832,000	(318,000)
Total other financing sources and uses	<u>-</u>	<u>1,200,000</u>	<u>832,000</u>	<u>(318,000)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
Fund balances, beginning of year			<u>-</u>	
Fund balances, end of year			<u>\$ -</u>	

SEVERANCE SOUTH METROPOLITAN DISTRICT NO. 1
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE – BUDGET AND ACTUAL – DEBT SERVICE FUND
YEAR ENDED DECEMBER 31, 2020

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues			
Intergovernmental Revenue	\$ 111,961	\$ 73,432	\$ 38,529
Total revenues	<u>111,961</u>	<u>73,432</u>	<u>38,529</u>
Expenditures			
Debt Service			
Repayment of Capital Advances	<u>149,204</u>	-	<u>149,204</u>
Total expenditures	<u>149,204</u>	-	<u>149,204</u>
Excess of revenues over (under) expenditures	<u>(37,243)</u>	<u>73,432</u>	<u>187,733</u>
Net change in fund balance	<u>\$ (37,243)</u>	<u>73,432</u>	<u>\$ 187,733</u>
Fund balances, beginning of year		<u>37,337</u>	
Fund balances, end of year		<u><u>\$ 110,769</u></u>	