SOUTH ACADEMY STATION METROPOLITAN DISTRICT NO. 1

Financial Statements

Year Ended December 31, 2025

with

Independent Auditor’s Report

C O N T E N T S

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
South Academy Station Metropolitan District No. 1
El Paso County, CO

Opinions

We have audited the accompanying financial statements of the governmental activities and each major fund of South Academy Station Metropolitan District No. 1 (the "District") as of and for the year ended December 31, 2025, 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 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 Academy Station Metropolitan District No. 1 as of December 31, 2025, and the respective changes in financial position and the budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 opinions. 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 with generally accepted auditing standards 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.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Matters

<u>Required Supplemental Information</u>

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinions on the basic financial statements are not affected by this missing information.

<u>Supplemental Information</u>

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplemental information as noted in the table of contents are presented for purposes of additional analysis and are 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 combining and individual nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Flynn CPA, LLC

Flynn CPA, LLC

Castle Pines, CO
July 28, 2026

SOUTH ACADEMY STATION METROPOLITAN DISTRICT NO. 1

BALANCE SHEET/STATEMENT OF NET POSITION
GOVERNMENTAL FUNDS
December 31, 2025

	General	Capital Projects	Total	Adjustments	Statement of Net Position
ASSETS					
Cash - Restricted	$ 196	$ -	$ 196	$ -	$ 196
Due from developer	5,334	-	5,334	(5,334)	-
Due from other funds	-	-	-	-	-
Capital assets not being depreciated	-	-	-	1,900,170	1,900,170
Total Assets	$ 5,530	$ -	$ 5,530	1,894,836	1,900,366
LIABILITIES					
Accounts payable	$ 5,530	$ -	$ 5,530	-	5,530
Long-term liabilities:					
Due in more than one year	-	-	-	3,349,283	3,349,283
Total Liabilities	5,530	-	5,530	3,349,283	3,354,813
FUND BALANCES/NET POSITION					
Fund Balances:					
Restricted:					
Emergencies	1,350	-	1,350	(1,350)	-
Unassigned	(1,350)	-	(1,350)	1,350	-
Total Fund Balances	-	-	-	-	-
Total Liabilities and Fund Balances	$ 5,530	$ -	$ 5,530		
Net Position:					
Restricted for:					
Emergencies				1,350	1,350
Unrestricted				(1,455,797)	(1,455,797)
Total Net Position				$ (1,454,447)	$ (1,454,447)

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

SOUTH ACADEMY STATION METROPOLITAN DISTRICT NO. 1

STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES/STATEMENT OF ACTIVITIES
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2025

	General	Capital Projects	Total	Adjustments	Statement of Activities
EXPENDITURES					
Accounting and audit	$ 4,402	$ -	$ 4,402	$ -	$ 4,402
Election expense	9,019	-	9,019	-	9,019
Insurance	358	-	358	-	358
Legal	17,750	-	17,750	-	17,750
Miscellaneous expenses	1,014	-	1,014	-	1,014
Transfer to District #3	-	166,500	166,500	-	166,500
Repay Developer Advances	-	2,061,000	2,061,000	(1,715,632)	345,368
Total Expenditures	32,543	2,227,500	2,260,043	(1,715,632)	544,411
GENERAL REVENUES					
Transfer from District #3	-	2,061,000	2,061,000	-	2,061,000
Miscellaneous income	50	-	50	-	50
Total General Revenues	50	2,061,000	2,061,050	-	2,061,050
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(32,493)	(166,500)	(198,993)	1,715,632	1,516,639
OTHER FINANCING SOURCES (USES)					
Developer advances	32,493	166,500	198,993	(198,993)	-
Total Other Financing Sources (Uses)	32,493	166,500	198,993	(198,993)	-
NET CHANGES IN FUND BALANCES	-	-	-	-	
CHANGE IN NET POSITION				1,516,639	1,516,639
FUND BALANCES/NET POSITION:					
BEGINNING OF YEAR	-	-	-	(2,971,086)	(2,971,086)
END OF YEAR	$ -	$ -	$ -	$ (1,454,447)	$ (1,454,447)

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

SOUTH ACADEMY STATION METROPOLITAN DISTRICT NO. 1

STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL -
GENERAL FUND
For the Year Ended December 31, 2025

	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Miscellaneous income	$ -	$ 50	$ 50
Total Revenues	-	50	50
EXPENDITURES			
Accounting and audit	10,000	4,402	5,598
Dues and membership	5,000	-	5,000
Election expense	10,000	9,019	981
Insurance	5,000	358	4,642
Legal	15,000	17,750	(2,750)
Miscellaneous expenses	-	1,014	(1,014)
Contingency	3,650	-	3,650
Emergency reserve	1,350	-	1,350
Total Expenditures	50,000	32,543	17,457
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(50,000)	(32,493)	17,507
OTHER FINANCING SOURCES (USES)			
Developer advances	50,000	32,493	(17,507)
Total Other Financing Sources (Uses)	50,000	32,493	(17,507)
NET CHANGE IN FUND BALANCE	-	-	-
FUND BALANCE:			
BEGINNING OF YEAR	-	-	-
END OF YEAR	$ -	$ -	$ -

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

Note 1: Summary of Significant Accounting Policies

The accounting policies of the South Academy Station Metropolitan District No. 1 (the "District"), located in El Paso County, Colorado, conform to the accounting principles generally accepted in the United States of America ("GAAP") as applicable to governmental units. The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant policies consistently applied in the preparation of financial statements.

Definition of Reporting Entity

The District was organized by order and decree of the District Court for El Paso County (the "County") on January 9, 2008, as a quasi-municipal corporation and political subdivision of the State of Colorado and is governed under provisions of the State of Colorado Special District Act. The District was established to provide financing for the design, acquisition, installation, construction, operation and maintenance of all public improvements and services permitted under the Special District Act, including but not limited to water, sanitation, and storm sewer, street improvements, transportation, safety protection, mosquito control, television relay and translation, security, and park and recreation facilities. The District's primary revenues are developer advances. The District is governed by an elected Board of Directors.

As required by GAAP, these financial statements present the activities of the District, which is legally separate and financially independent of other state and local governments. The District follows the GASB pronouncements, which provide guidance for determining which governmental activities, organizations and functions should be included within the financial reporting entity. GASB sets 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 pronouncements also require including a possible component unit if it would be misleading to exclude it.

The District is not financially accountable for any other organization. The District has no employees and all operations and administrative functions are contracted.

Basis of Presentation

The accompanying financial statements are presented per GASB Statement No. 34 - Special Purpose Governments.

The government-wide financial statements (i.e. the governmental funds balance sheet/statement of net position and the governmental funds statement of revenues, expenditures, and changes in fund balances/statement of activities) report information on all of the governmental activities of the District. The statement of net position reports all financial and capital resources of the District. The difference between the (a) assets and deferred outflows of resources and the (b) liabilities and deferred inflows of resources of the District is reported as net position. The statement of activities demonstrates the degree to which expenditures/expenses of the governmental funds are supported by general revenues. For the most part, the effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the 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) 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.*

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 the related cash flows. Property taxes are recognized as revenues in the year for which they are collected.

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 material sources of revenue subject to accrual are property taxes and interest. Expenditures, other than interest on long-term obligations, are recorded when the liability is incurred or the long-term obligation is paid.

The District reports the following major governmental funds:

General Fund - The General Fund is the general operating fund of the District. It is used to account for all financial resources not accounted for and reported in another fund.

Capital Projects Fund – The Capital Projects Fund is used to account for all financial resources that are restricted, committed or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other assets.

Budgetary Accounting
In accordance with the State Budget Law of Colorado, 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 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. The appropriation is at the total fund expenditures level and lapses at year end.

On July 20, 2026, the District amended its total appropriations in the Capital Projects Fund from $0 to $2,227,500 primarily due to transfers from South Academy Station Metropolitan District No. 3 to repay developer advances that were not budgeted.

Assets, Liabilities and Net Position
Fair Value of Financial Instruments
The District's financial instruments include cash and investments, accounts receivable and accounts payable. The District estimates that the fair value of all financial instruments at December 31, 2025, does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying balance sheet. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

Deposits
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 follows the practice of pooling cash of all funds to maximize investment earnings. Except when required by trust or other agreements, all cash is deposited to and disbursed from a minimum number of bank accounts. Cash in excess of immediate operating requirements is pooled for deposit and investment flexibility.

Estimates
The preparation of these financial statements in conformity with GAAP requires the District management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Deferred Outflows/Inflows of Resources
In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District does not have any items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District does not have any items that qualify for reporting in this category.

Capital Assets
Capital assets, which include property, plant, equipment and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items), are reported in the applicable governmental activities columns 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 three years. Such assets are recorded at historical or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the life of the asset are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable using the straight-line method. Depreciation on property that will remain assets of the District is reported on the Statement of Activities as a current charge. Improvements that will be conveyed to other governmental entities are classified as construction in progress and are not depreciated.

Long-Term Obligations
In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities.

Fund Balance
Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. Because circumstances differ among governments, not every government or every governmental fund will present all of these components. The following classifications make the nature and extent of the constraints placed on a government's fund balance more transparent:

Nonspendable Fund Balance
Nonspendable fund balance includes amounts that cannot be spent because they are either not spendable in form (such as inventory or prepaids) or are legally or contractually required to be maintained intact.

Restricted Fund Balance
The restricted fund balance includes amounts restricted for a specific purpose by external parties such as grantors, bondholders, constitutional provisions or enabling legislation.

The restricted fund balance in the General Fund represents Emergency Reserves that have been provided as required by Article X, Section 20 of the Constitution of the State of Colorado. A total of $1,350 of the General Fund balance has been restricted in compliance with this requirement.

Committed Fund Balance

The portion of fund balance that can only be used for specific purposes pursuant to constraints imposed by a formal action of the government's highest level of decision-making authority, the Board of Directors. The constraint may be removed or changed only through formal action of the Board of Directors.

Assigned Fund Balance

Assigned fund balance includes amounts the District intends to use for a specific purpose. Intent can be expressed by the District's Board of Directors or by an official or body to which the Board of Directors delegates the authority.

Unassigned Fund Balance

Unassigned fund balance includes amounts that are available for any purpose. Positive amounts are reported only in the General Fund, all funds can report negative amounts.

For the classification of Governmental Fund balances, the District considers an expenditure to be made from the most restrictive first when more than one classification is available.

Net Position

Net Position represents the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources. The District can report three categories of net position, as follows:

Net investment in capital assets – consists of net capital assets, reduced by outstanding balances of any related debt obligations and deferred inflows of resources attributable to the acquisition, construction, or improvement of those assets and increased by balances of deferred outflows of resources related to those assets.

Restricted net position – net position is considered restricted if their use is constrained to a particular purpose. Restrictions are imposed by external organizations such as federal or state laws. Restricted net position is reduced by liabilities and deferred inflows of resources related to the restricted assets.

Unrestricted net position – consists of all other net position that does not meet the definition of the above two components and is available for general use by the District.

When an expense is incurred for purposes for which both restricted and unrestricted net position are available, the District will use the most restrictive net position first.

The District has a deficit in unrestricted net position as of December 31, 2025. This deficit amount is the result of the District being responsible for the payment of debt issued for public improvements that were conveyed to other governmental entities and which costs were removed from the District's financial records.

Adoption of New Accounting Standards

In December 2023, the GASB issued Statement No. 102, Certain Risk Disclosures ("Statement 102"). Statement 102 requires note disclosure when (a) a concentration or constraint is known prior to issuance of the financial statements, (b) it makes the reporting unit vulnerable to the risk of a substantial impact, and (c) an event associated with the concentration or constraint has occurred, has begun to occur, or is more likely than not to begin to occur within 12 months of issuance.

The District adopted the requirements of the guidance effective January 1, 2025, and has elected to apply the provisions of this standard to the beginning of the period of adoption. Management performed the analysis required under Statement 102 and did not identify any concentrations or constraints that require disclosure.

Note 2: Cash

As of December 31, 2025, cash is classified in the accompanying financial statements as follows:

Statement of Net Position:	
Cash – Restricted	$ 196
Total	$ 196

Cash and investments as of December 31, 2025, consist of the following:

Deposits with financial institutions	$ 196
	$ 196

Deposits

Custodial Credit Risk

The Colorado Public Deposit Protection Act, ("PDPA") requires that all units of local government deposit cash in eligible public depositories. State regulators determine eligibility. Amounts on deposit in excess of federal insurance levels 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 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 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 does not have a formal policy for deposits. None of the District's deposits were exposed to custodial credit risk.

Note 3: Capital Assets

An analysis of the changes in capital assets for the year ended December 31, 2025, follows:

Governmental Type Activities:	Balance 1/1/2025	Additions	Deletions	Balance 12/31/2025
Capital assets not being depreciated:				
Construction in progress	$ 1,900,170	$ -	$ -	$ 1,900,170
Total capital assets not being depreciated	1,900,170	-	-	1,900,170
Government type assets	$ 1,900,170	$ -	$ -	$ 1,900,170

Note 4: Long Term Debt

A description of the long-term obligations as of December 31, 2025, is as follows:

Funding and Reimbursement Agreement
The District entered into a Funding and Reimbursement Agreement dated November 19, 2008, with HC Development & Management Services, Inc. (HC), whereby HC agreed to advance funds for costs associated with the organization and development of the District and for the services and improvements related to the construction of capital infrastructure for which the District is authorized. The District is to reimburse HC, subject to annual appropriation and budget approval, from funds available within any fiscal year and not otherwise required for operations, capital improvements and debt service costs and expenses of the District. Loan advances made under the agreement prior to the issuance of one or more reimbursement notes (Reimbursement Obligations) reflecting the advance, bear interest at 7.5% per annum, unless such rate exceeds the prime rate plus 2% from the date any such advance is made.

Upon issuance of a Reimbursement Obligation, unless otherwise consented to by the Developer, any interest then accrued on any previously advanced amounts shall be added to the amount of the loan advances and reflected as principal

On June 25, 2025, the District, HC and CS 2005 Investments III, LLC ("CS 2005") entered into an Assignment and Assumption of Funding and Reimbursement Agreement (the "Assignment Agreement"). Under the Assignment Agreement, HC hereby assigns to CS 2005 all of its duties, interest, obligations, and rights as Developer under the Funding and Reimbursement Agreement and CS 2005 accepts such assignment of the duties, interest, obligations and rights as Developer under the Reimbursement Agreement.

During 2025, the District recorded advances the amount of $193,659, of which $166,500 was related to capital improvements and $27,519 was loaned to the District to pay for operations. During 2025, the District repaid $2,061,000 of interest to CS 2005. At December 31, 2025, the balance owing to CS 2005 was $3,349,283, which includes $1,202,589 of accrued interest.

The following is an analysis of changes in long-term debt for the year ending December 31, 2025:

	Balance 12/31/2024	Additions	Deletions	Balance 12/31/2025	Current Portion
Other					
Developer Advance - Operating	329,407	27,159	-	356,566	-
Developer accrued interest - Operating	277,698	25,067	-	302,765	-
Developer Advance - Capital	1,623,628	166,500	-	1,790,128	-
Devloper accrued interest - Capital	2,640,523	320,301	(2,061,000)	899,824	-
	$ 4,871,256	$ 539,027	$ (2,061,000)	$ 3,349,283	$ -

As of December 31, 2025, the District had remaining voted debt authorization of approximately $456,500,000. The District has not budgeted to issue any additional debt in 2026. Per the Amended Service Plan, the District shall not issue Debt in excess of $26,500,000. As of December 31, 2025, the District has $26,500,000 of authorization remining under the Service Plan.

Note 5: Intergovernmental Agreements

District Operating Agreement

The District entered into a District Operating Agreement with South Academy Station Metropolitan District Nos. 2, 3, 4 and 5 (the Taxing Districts) on June 24, 2008. The agreement sets forth the rights and obligations of the District to provide operations and management to the Taxing Districts, and the Taxing Districts will fully fund the cost of operations for the District.

The District agrees to provide operations contemplated by the Service Plan to the Taxing Districts, provided that the Taxing Districts appropriate sufficient funds to defray the corresponding operations costs. The District may suspend or curtail operations in its ordinary judgment as necessary or appropriate to address funding shortfalls that have accrued or are anticipated. The District is permitted to enter into agreements with other entities or persons for the provision of operations.

No Taxing District shall be required to impose an operations mill levy until such time as the assessed valuation in the Taxing District is $250,000 or higher.

The Agreement may be terminated by mutual, written agreements of the Districts. If the agreement is terminated, the District shall be paid for operations satisfactorily performed prior to the designated termination date.

Note 6: Related Parties

All of the Board of Directors are employees, owners or are otherwise associated with the Developer and may have conflicts of interest in dealing with the District. Management believes that all potential conflicts, if any, have been disclosed to the Board.

Note 7: Economic Dependency

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

Note 8: Tax, Spending and Debt Limitations

Article X, Section 20 of the Colorado Constitution, commonly known as the Taxpayer Bill of Rights ("TABOR") contains tax, spending, revenue and debt limitations which apply to the State of Colorado and all local governments.

Spending and revenue limits are determined based on the prior year's Fiscal Year Spending adjusted for allowable increases based upon inflation and local growth. Fiscal Year Spending is generally defined as expenditures plus reserve increases with certain exceptions. Revenue in excess of the Fiscal Year Spending limit must be refunded unless the voters approve retention of such revenue.

TABOR requires local governments to establish Emergency Reserves. These reserves must be at least 3% of Fiscal Year Spending (excluding bonded debt service). Local governments are not allowed to use the emergency reserves to compensate for economic conditions, revenue shortfalls, or salary or benefit increases.

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.

On November 4, 2025, the District's voters authorized the District to collect, retain and spend all revenues in excess of TABOR spending, revenue raising or other limitations. Electors also authorized the District to increase property taxes and fees up to $10,000,000 each, annually, as necessary, to pay for the operations and maintenance of the District.

Note 9: Risk Management

Except as provided in the Colorado Governmental Immunity Act, 24-10-101, et seq., CRS, the District may be exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets; errors or omissions; injuries to agents; and natural disasters. The District has elected to participate in the Colorado Special Districts Property and Liability Pool ("Pool") which is an organization created by intergovernmental agreement to provide common liability and casualty insurance coverage to its members at a cost that is considered economically appropriate. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

The District pays annual premiums to the Pool for auto, public officials' liability, and property and general liability coverage. In the event aggregated losses incurred by the Pool exceed its amounts recoverable from reinsurance contracts and its accumulated reserves, the District may be called upon to make additional contributions to the Pool on the basis proportionate to other members. Any excess funds which the Pool determines are not needed for purposes of the Pool may be returned to the members pursuant to a distribution formula.

Note 10: Reconciliation of Government-Wide Financial Statements and Fund Financial Statements

The Governmental Funds Balance Sheet/Statement of Net Position includes an adjustments column. The adjustments have the following elements:

1) Capital assets used in government activities are not financial resources and, therefore are not reported in the funds; and

2) long-term liabilities such as developer advances and accrued developer advance interest payable are not due and payable in the current period and, therefore, are not in the funds.

The Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balances/Statement of Activities includes an adjustments column. The adjustments have the following elements:

1) Governmental funds report capital outlays as expenditures, however, in the statement of activities, the costs of those assets are held as construction in process pending transfer to other governmental entities or depreciated over their useful lives;

2) governmental funds report interest expense on the modified accrual basis; however, interest expense is reported on the full accrual method on the Statement of Activities;

3) governmental funds report developer advances as revenue; and,

4) governmental funds report long-term debt payments as expenditures, however, in the statement of activities, the payment of long-term debt is recorded as a decrease of long-term liabilities.

SUPPLEMENTAL INFORMATION

SOUTH ACADEMY STATION 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, 2025

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
Transfer from District #3	$ -	$ 2,061,000	$ 2,061,000	$ -
Total Revenues	-	2,061,000	2,061,000	-
EXPENDITURES				
Transfer to District #3		166,500	166,500	-
Repay Developer Advances	-	2,061,000	2,061,000	-
Total Expenditures	-	2,227,500	2,227,500	-
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	-	(166,500)	(166,500)	-
OTHER FINANCING SOURCES (USES)				
Developer advances	-	166,500	166,500	-
Total Other Financing Sources (Uses)	-	166,500	166,500	-
NET CHANGE IN FUND BALANCE	-	-	-	-
FUND BALANCE:				
BEGINNING OF YEAR	-	-	-	-
END OF YEAR	$ -	$ -	$ -	$ -

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