

SADDLE ROCK SOUTH METROPOLITAN DISTRICT NO. 4

Financial Statements

Year Ended December 31, 2020

with

Independent Auditor's Report

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Independent Auditor's Report

Board of Directors
Saddle Rock South Metropolitan District No. 4
Arapahoe County, Colorado

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Saddle Rock South Metropolitan District No. 4 (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; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

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 Saddle Rock South Metropolitan District No. 4 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.

Other Matters

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's financial statements as a whole. The supplemental information as listed in the table of contents is presented for the purposes of legal compliance and additional analysis and is not a required part of the financial statements. The supplemental information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, such information is fairly stated in all material respects in relation to the financial statements as a whole.

Sincerely,



Wipfli LLP
Lakewood, Colorado

September 9, 2021

SADDLE ROCK SOUTH METROPOLITAN DISTRICT NO. 4

BALANCE SHEET/STATEMENT OF NET POSITION
GOVERNMENTAL FUNDS
December 31, 2020

| | <u>General</u> | <u>Debt Service</u> | <u>Total</u> | <u>Adjustments</u> | <u>Statement of Net Position</u> |
|---|-------------------|-------------------------|---------------------|------------------------|--|
| ASSETS | | | | | |
| Cash and investments | \$ 11,250 | \$ - | \$ 11,250 | \$ - | \$ 11,250 |
| Cash and investments - restricted | 276 | 259,055 | 259,331 | - | 259,331 |
| Receivable County Treasurer | 2,995 | 2,354 | 5,349 | - | 5,349 |
| Property taxes receivable | 614,686 | 482,968 | 1,097,654 | - | 1,097,654 |
| Due from District #2 | - | 11,473 | 11,473 | - | 11,473 |
| Due from District #3 | - | 13,964 | 13,964 | - | 13,964 |
| | <u>629,207</u> | <u>769,814</u> | <u>1,399,021</u> | <u>-</u> | <u>1,399,021</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | | | | |
| Deferred loss on refunding | - | - | - | 1,062,501 | 1,062,501 |
| Total Deferred Outflows of Resources | - | - | - | 1,062,501 | 1,062,501 |
| Total Assets and Deferred Outflows of Resources | <u>\$ 629,207</u> | <u>\$ 769,814</u> | <u>\$ 1,399,021</u> | | |
| LIABILITIES | | | | | |
| Due to Authority | \$ 14,521 | \$ - | \$ 14,521 | - | 14,521 |
| Accrued interest on bonds | - | - | - | 27,614 | 27,614 |
| Long-term liabilities: | | | | | |
| Due within one year | - | - | - | 605,000 | 605,000 |
| Due in more than one year | - | - | - | 11,445,000 | 11,445,000 |
| Total Liabilities | <u>14,521</u> | <u>-</u> | <u>14,521</u> | <u>12,077,614</u> | <u>12,092,135</u> |
| DEFERRED INFLOWS OF RESOURCES | | | | | |
| Deferred property taxes | 614,686 | 482,968 | 1,097,654 | - | 1,097,654 |
| Total Deferred Inflows of Resources | <u>614,686</u> | <u>482,968</u> | <u>1,097,654</u> | <u>-</u> | <u>1,097,654</u> |
| FUND BALANCES | | | | | |
| Restricted: | | | | | |
| Emergencies | 276 | - | 276 | (276) | - |
| Debt service | - | 286,846 | 286,846 | (286,846) | - |
| Unassigned | <u>(276)</u> | <u>-</u> | <u>(276)</u> | <u>276</u> | <u>-</u> |
| Total Fund Balances | <u>-</u> | <u>286,846</u> | <u>286,846</u> | <u>(286,846)</u> | <u>-</u> |
| Total Liabilities, Deferred Inflows of Resources and Fund Balances | <u>\$ 629,207</u> | <u>\$ 769,814</u> | <u>\$ 1,399,021</u> | | |
| NET POSITION | | | | | |
| Restricted for: | | | | | |
| Emergencies | | | | 276 | 276 |
| Debt service | | | | 286,846 | 286,846 |
| Unrestricted | | | | <u>(11,015,389)</u> | <u>(11,015,389)</u> |
| Total Net Position (Deficit) | | | | <u>\$ (10,728,267)</u> | <u>\$ (10,728,267)</u> |

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

SADDLE ROCK SOUTH METROPOLITAN DISTRICT NO. 4

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

For the Year Ended December 31, 2020

| | <u>General</u> | <u>Debt Service</u> | <u>Total</u> | <u>Adjustments</u> | <u>Statement of Activities</u> |
|------------------------------------|----------------|-------------------------|-------------------|------------------------|--|
| EXPENDITURES | | | | | |
| Miscellaneous | \$ 58 | \$ - | \$ 58 | \$ - | \$ 58 |
| Bond interest | - | 347,600 | 347,600 | 74,995 | 422,595 |
| Bond principal | - | 590,000 | 590,000 | (590,000) | - |
| Paying agent fees | - | 3,000 | 3,000 | - | 3,000 |
| Treasurer fees | 9,037 | 7,100 | 16,137 | - | 16,137 |
| Transfers to Authority | <u>645,929</u> | <u>-</u> | <u>645,929</u> | <u>-</u> | <u>645,929</u> |
| Total Expenditures | <u>655,024</u> | <u>947,700</u> | <u>1,602,724</u> | <u>(515,005)</u> | <u>1,087,719</u> |
| GENERAL REVENUES | | | | | |
| Property taxes | 602,514 | 473,408 | 1,075,922 | - | 1,075,922 |
| Specific ownership taxes | 43,388 | 34,090 | 77,478 | - | 77,478 |
| Transfers in - District #2 and #3 | - | 499,183 | 499,183 | - | 499,183 |
| Interest/Miscellaneous income | <u>-</u> | <u>3,915</u> | <u>3,915</u> | <u>-</u> | <u>3,915</u> |
| Total General Revenues | <u>645,902</u> | <u>1,010,596</u> | <u>1,656,498</u> | <u>-</u> | <u>1,656,498</u> |
| NET CHANGE IN FUND BALANCES | (9,122) | 62,896 | 53,774 | (53,774) | |
| CHANGES IN NET POSITION | | | | 568,779 | 568,779 |
| FUND BALANCES/NET POSITION: | | | | | |
| BEGINNING OF YEAR | <u>9,122</u> | <u>223,950</u> | <u>233,072</u> | <u>(11,530,118)</u> | <u>(11,297,046)</u> |
| END OF YEAR | <u>\$ -</u> | <u>\$ 286,846</u> | <u>\$ 286,846</u> | <u>\$ (11,015,113)</u> | <u>\$ (10,728,267)</u> |

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

SADDLE ROCK SOUTH METROPOLITAN DISTRICT NO. 4

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

For the Year Ended December 31, 2020

| | Original <u>Budget</u> | Final <u>Budget</u> | <u>Actual</u> | Variance Favorable <u>(Unfavorable)</u> |
|--------------------------------------|---------------------------|------------------------|--------------------|---|
| REVENUES | | | | |
| Property taxes | \$ 612,267 | \$ 612,267 | \$ 602,514 | \$ (9,753) |
| Specific ownership taxes | 42,325 | 43,388 | 43,388 | - |
| Interest/Miscellaneous income | <u>1,000</u> | <u>5,223</u> | <u>-</u> | <u>(5,223)</u> |
| Total Revenues | <u>655,592</u> | <u>660,878</u> | <u>645,902</u> | <u>(14,976)</u> |
| EXPENDITURES | | | | |
| Treasurer fees | 9,177 | 9,177 | 9,037 | 140 |
| Transfers to Authority | <u>646,415</u> | <u>660,823</u> | <u>645,929</u> | <u>14,894</u> |
| Total Expenditures | <u>655,592</u> | <u>670,000</u> | <u>655,024</u> | <u>14,976</u> |
| NET CHANGE IN FUND BALANCE | - | (9,122) | (9,122) | - |
| FUND BALANCE - BEGINNING OF YEAR | <u>-</u> | <u>9,122</u> | <u>9,122</u> | <u>-</u> |
| FUND BALANCE - END OF YEAR | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

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

SADDLE ROCK SOUTH METROPOLITAN DISTRICT NO. 4

Notes to Financial Statements December 31, 2020

Note 1: Summary of Significant Accounting Policies

The accounting policies of the Saddle Rock South Metropolitan District No. 4 (the “District”), located in the City of Aurora (“Aurora”) in Arapahoe 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 on November 16, 1998, as a quasi-municipal corporation and political subdivision of the State of Colorado established under the State of Colorado Special District Act. The District was established to provide funding to Saddle Rock South Metropolitan District No. 1 (“Operating District” or “District No. 1”) for the construction, operation and maintenance of facilities and improvements through the issuance of bonds. The District's primary revenues are property taxes. The District is governed by an elected Board of Directors.

District No. 1 was given the power to provide water, sanitation, streets, traffic and safety controls, television relay and translator services, transportation and park and recreation improvements and other related improvements for the benefit of taxpayers and service users within the Districts’ boundaries. The Consolidated Service Plan requires the Operating District to convey the streets, water, sanitation and storm drainage improvements to Aurora for ownership and maintenance. The Operating District will own and maintain the parks and recreation improvements, including landscaping, entry features, parks and trails, as well as television relay and translator facilities.

On July 11, 2019, the Saddle Rock South Authority (the “Authority”) was established pursuant to the Saddle Rock South Authority Establishment Agreement (the “Establishment Agreement”) whereby Saddle Rock South Metropolitan District No. 2 (“District No. 2”), Saddle Rock South Metropolitan District No. 3 (“District No. 3”) and the District agreed to establish the Authority. The Authority was organized as a political subdivision and public corporation of the State of Colorado, for the purpose of planning, financing, designing, constructing, installing, operating, maintaining, repairing and replacing public improvements and facilities and providing services to the residents of the Saddle Rock South districts. All rights, obligations and assets of District No. 1 were assigned to the Authority and District No. 1 was subsequently dissolved.

SADDLE ROCK SOUTH METROPOLITAN DISTRICT NO. 4

Notes to Financial Statements December 31, 2020

The District, District Nos. 1, 2, & 3, and Aurora have entered into an Intergovernmental Agreement as required by the Aurora City Code and the Districts' Consolidated Service Plan. Under this agreement, the Districts must obtain the approval of the Aurora City Council prior to: (i) any inclusion of property in or exclusion of property from the boundaries of the Districts, (ii) any refunding of bonds of the Districts which could shorten or extend the maturity of such bonds or increase the total debt service thereon (subject to certain exception), or (iii) any consolidation with any other special districts. The Intergovernmental Agreement was partially terminated with respect to District No. 1 upon dissolution of District No. 1. Pursuant to the Establishment Agreement, the Authority now services as the "operating district", while District Nos. 2, 3 and 4 are intended to serve as the "taxing districts". The Authority is responsible for providing the day to day operations and administrative management of all three districts.

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 component units as defined by the GASB.

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

SADDLE ROCK SOUTH METROPOLITAN DISTRICT NO. 4

Notes to Financial Statements December 31, 2020

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.

SADDLE ROCK SOUTH METROPOLITAN DISTRICT NO. 4

Notes to Financial Statements December 31, 2020

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.

Debt Service Fund - The Debt Service Fund is used to account for all financial resources that are restricted, committed or assigned to expenditures for principal, interest and other debt related costs.

Budgetary Accounting

Budgets are adopted on a non-GAAP basis for the governmental funds. In accordance with the Local Government Budget Law of Colorado, the District's Board of Directors holds public hearings in the fall of each year to adopt 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.

In November 2020, the District amended its total appropriations in the General Fund from \$655,592 to \$670,000 primarily due to higher expected transfers to District No. 1 and the Authority.

Assets, Liabilities and Net Position

Fair Value of Financial Instruments

The District's financial instruments include cash and cash equivalents, accounts receivable and accounts payable. The District estimates that the fair value of all financial instruments at December 31, 2020, 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 and Investments

The District's cash and cash equivalents are considered to be cash on hand and short-term investments with maturities of three months or less from the date of acquisition. Investments for the District are reported at fair value.

The District follows the practice of pooling cash and investments of all funds to maximize investment earnings. Except when required by trust or other agreements, all cash is deposited to and disbursed from a minimum number of bank accounts. Cash in excess of immediate operating requirements is pooled for deposit and investment flexibility. Investment earnings are allocated periodically to the participating funds based upon each fund's average equity balance in the total cash.

SADDLE ROCK SOUTH METROPOLITAN DISTRICT NO. 4

Notes to Financial Statements December 31, 2020

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 only has one item that qualifies for reporting in this category. It is the deferred loss on refunding reported in the government-wide statement of net position. A deferred loss on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

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 has one item that qualifies for reporting in this category. Deferred property taxes are deferred and recognized as an inflow of resources in the period that the amounts become available.

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.

Deferred Loss on Refunding

In the government-wide financial statements, the deferred loss on bond refunding is being amortized using the straight-line method over the shorter of the life of the refunded bonds or the new bonds. The amortization amount is a component of interest expense and the unamortized deferred costs is reflected as a deferred outflow of resources. The issuance of the 2015A and 2015B General Obligation Refunding Bonds resulted in a deferred loss on refunding of \$1,450,603 (see Note 3). Accumulated amortization and amortization expense of the Deferred Loss on Refunding at December 31, 2020, is \$388,102 and \$76,348, respectively.

SADDLE ROCK SOUTH METROPOLITAN DISTRICT NO. 4

Notes to Financial Statements December 31, 2020

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 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 taxpayers' election, in February and June. Delinquent taxpayers are notified in July or August and the sales of the resultant tax liens on delinquent properties are generally held in November or December. The County Treasurer remits the taxes collected monthly to the District.

Property taxes, net of estimated uncollectible taxes, are recorded initially as deferred inflow in the year they are levied and measurable since they are not normally available nor are they budgeted as a resource until the subsequent year. The deferred property taxes are recorded as revenue in the subsequent year when they are available or collected.

Fund Equity

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 \$276 of the General Fund balance has been reserved in compliance with this requirement.

The restricted fund balance in the Debt Service Fund in the amount of \$286,846 is reserved for the payment of the debt service costs associated with the General Obligation Refunding Bonds, Series 2015A and 2015B (see Note 3).

SADDLE ROCK SOUTH METROPOLITAN DISTRICT NO. 4

Notes to Financial Statements December 31, 2020

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 or resources related to those assets. At December 31, 2020, the District did not have any amount to report in this category.

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.

SADDLE ROCK SOUTH METROPOLITAN DISTRICT NO. 4

Notes to Financial Statements
December 31, 2020

Note 2: Cash and Investments

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

Statement of Net Position:

| | |
|-----------------------------------|-------------------|
| Cash and investments | \$ 11,250 |
| Cash and investments - restricted | <u>259,331</u> |
| | <u>\$ 270,581</u> |

Cash and investments as of December 31, 2020, consist of the following:

| | |
|--------------------------------------|-------------------|
| Deposits with financial institutions | \$ 27,150 |
| Investments – COLOTRUST | <u>243,431</u> |
| | <u>\$ 270,581</u> |

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. As of December 31, 2020, none of the District’s deposits were exposed to custodial credit risk.

Investments

Investment Valuation

Certain investments are measured at fair value within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The District’s investment is not required to be categorized within the fair value hierarchy. This investment’s value is calculated using the net asset value method (NAV) per share.

SADDLE ROCK SOUTH METROPOLITAN DISTRICT NO. 4

Notes to Financial Statements December 31, 2020

Credit Risk

The District has not adopted a formal investment policy; however, the District follows state statutes regarding investments. Colorado statutes specify the types of investments meeting defined rating and risk criteria in which local governments may invest. These investments include obligations of the United States and certain U.S. Government agency entities, certain money market funds, guaranteed investment contracts, and local government investment pools.

As of December 31, 2020, the District had the following investments:

COLOTRUST

The local government investment pool, Colorado Local Government Liquid Asset Trust (“COLOTRUST” or the “Trust”) is rated AAAM by Standard & Poor’s with a weighted average maturity of under 60 days. COLOTRUST is an investment trust/joint venture established for local government entities in Colorado to pool surplus funds. The State Securities Commissioner administers and enforces all State statutes governing the Trust. COLOTRUST records its investments at fair value and the District records its investment in COLOTRUST using the net asset value method. The Trust operates similarly to a money market fund with each share maintaining a value of \$1.00. The Trust offers shares in two portfolios, COLOTRUST PRIME and COLOTRUST PLUS+. Both investments consist of U.S. Treasury bills and notes and repurchase agreements collateralized by U.S. Treasury securities. COLOTRUST PLUS+ may also invest in certain obligations of U.S. government agencies, highest rated commercial paper and repurchase agreements collateralized by certain obligations of U.S. government agencies. Designated custodian banks provide safekeeping and depository services to the Trust. Substantially all securities owned by the Trust are held by the Federal Reserve Bank in the accounts maintained for the custodian banks. The custodians’ internal records identify the investments owned by COLOTRUST. At December 31, 2020, the District had \$243,431 invested in COLOTRUST.

Custodial and Concentration of Credit Risk

None of the District’s investments are subject to custodial or concentration of credit risk.

Interest Rate Risk

Colorado revised statutes limit investment maturities to five years or less unless formally approved by the Board of Directors.

SADDLE ROCK SOUTH METROPOLITAN DISTRICT NO. 4

Notes to Financial Statements
December 31, 2020

Note 3: Long-Term Debt

Taxable (Convertible to Tax Exempt in 2016) General Obligation Refunding Bonds, Series 2015A and Taxable (Convertible to Tax Exempt in 2017) General Obligation Refunding Bonds Series 2015B

On December 1, 2015 the District issued \$10,000,000 of General Obligation Refunding Bonds Series 2015A and \$4,720,000 of General Obligation Refunding Bonds Series 2015B, dated December 1, 2015 (“Series 2015 Bonds”) for the purpose of advance refunding the District No. 2 Series 2007 Bonds, the District No. 3 Series 2007 Bonds and the District No. 4 Series 2007 Bonds (“Refunded Bonds”) and pay the cost of issuance of the bonds. District No. 4 transferred \$3,655,303 to District No. 2 and \$3,932,731 to District No. 3 to advance refund the 2007 Bonds outstanding for each District. Initially the Series 2015 Bonds bore interest between the rates of 3.75% - 7.45%, payable semiannually on each June 1 and December 1, commencing on June 1, 2016. After the Conversion dates, the Bonds bear interest between the rates of 2.75% - 4.75%. The Series 2015 Bonds are due December 1, 2037, and are subject to a mandatory sinking fund redemption commencing on December 1, 2016. On September 8, 2016, the Series 2015A Bonds were converted to tax exempt bonds, and, during 2017 the Series 2015 B Bonds converted to tax exempt bonds. The Series 2015 Bonds are subject to an early redemption at the option of the District, in whole or in integral multiples of \$5,000 on any date, or in part on any interest payment date, at any time on or after December 1, 2025 at the redemption price equal to the par amount of each Series 2015 Bond plus accrued interest thereon to the date of redemption. The Series 2015 Bonds are secured by Pledged Revenues including ad valorem taxes on all of the taxable property within the District.

As a result of the issuance of the Series 2015 Bonds, the Refunded Bonds are considered to be defeased and the liabilities have been removed from the governmental activities column of the statement of net position. The reacquisition price of the old debt exceeded the net carrying amount by \$2,429,596. The amounts allocable to each District were reported on that District’s statements in the amounts of \$432,090 for District No. 2, \$546,903 for District No. 3, and \$1,450,603 for District No. 4. This amount for District No. 4 was recorded as a deferred outflow and is being amortized over the original remaining life of the refunded bonds. The amounts for Districts No. 2 and 3 were expensed in 2015 since the Series 2015 Bonds were recorded within District No. 4 only. The refunding resulted in an economic gain of \$693,337 due to the average interest rate of the Series 2015 Bonds being lower than the refunded bonds.

The following is an analysis of change in long-term debt for the year ending December 31, 2020:

| | Balance 1/1/2020 | Additions | Deletions | Balance 12/31/2020 | Current Portion |
|----------------------------|----------------------|-------------|-------------------|-----------------------|--------------------|
| 2015A G.O. Refunding Bonds | \$ 8,575,000 | \$ - | \$ 400,000 | \$ 8,175,000 | \$ 410,000 |
| 2015B G.O. Refunding Bonds | 4,065,000 | - | 190,000 | 3,875,000 | 195,000 |
| | <u>\$ 12,640,000</u> | <u>\$ -</u> | <u>\$ 590,000</u> | <u>\$ 12,050,000</u> | <u>\$ 605,000</u> |

SADDLE ROCK SOUTH METROPOLITAN DISTRICT NO. 4

Notes to Financial Statements
December 31, 2020

The following is a summary of the annual long-term debt principal and interest requirements:

| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-----------|----------------------|---------------------|----------------------|
| 2021 | \$ 605,000 | \$ 331,375 | \$ 936,375 |
| 2022 | 620,000 | 314,738 | 934,738 |
| 2023 | 640,000 | 297,688 | 937,688 |
| 2024 | 655,000 | 280,088 | 935,088 |
| 2025 | 675,000 | 262,075 | 937,075 |
| 2026-2030 | 3,365,000 | 1,322,475 | 4,687,475 |
| 2031-2035 | 3,735,000 | 965,675 | 4,700,675 |
| 2036-2037 | 1,755,000 | 126,113 | 1,881,113 |
| | <u>\$ 12,050,000</u> | <u>\$ 3,900,225</u> | <u>\$ 15,950,225</u> |

As of December 31, 2020, the District has a remaining principal electoral authorization of \$15,546,842 as authorized in the May 2, 2000 election, and the November 7, 2000 election. The debt authorized in the prior elections, will expire May of 2020 and November of 2020. To issue any additional debt, the District will have to hold an election for new voter authorization. Pursuant to the Service Plan, the combined new money general obligation debt of the Districts may not exceed \$18,510,000. In aggregate, the Districts have issued \$18,510,000 in new money general obligation debt, thus, the Districts do not have any new money general obligation authorization remaining under the Service Plan.

Note 4: Agreements with Other Governments

District Administrative Service Agreement

In November, 2015, Saddle Rock South Metropolitan District No. 1 and Saddle Rock South Metropolitan Districts Nos. 2, 3, and 4 entered into a District Administrative Service Agreement which details the functions and responsibilities of the Operating District and the rights and obligations of the Taxing Districts regarding the Administrative Services provided on their behalf by the Operating District. The Agreement is annually appropriated. The Agreement was terminated on July 11, 2019, upon establishment of the Authority.

Capital Pledge Agreement

On December 1, 2015, Districts No. 2, 3, and 4 entered into a Capital Pledge Agreement whereby amounts were pledged by District Nos. 2 and 3 to District No. 4 for the payment of the Series 2015 Bonds and any refunding obligations. Certain limitations were also placed on the total obligation by District No. 2.

SADDLE ROCK SOUTH METROPOLITAN DISTRICT NO. 4

Notes to Financial Statements December 31, 2020

Establishment Agreement

On July 11, 2019, the District, District No. 2, and District No. 3 entered into the Establishment Agreement whereby the Authority was established. The Authority was organized as a political subdivision and public corporation of the State of Colorado, for the purpose of planning, financing, designing, constructing, installing, operating, maintaining, repairing and replacing public improvements and facilities and providing services to the residents of the Saddle Rock South districts. All rights, obligations and assets of District No.1 were assigned to the Authority and District No. 1 was subsequently dissolved.

Note 5: 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 3, 1998 a majority of the District’s electors authorized the District to impose a mill levy for the payment of operations and maintenance and other general and administrative expenses, which is unlimited as to the rate or the amount and may be increased from year to year, and collect, expend, and retain annual District revenues generated from the mill levy or any other legally available revenues in 1999 and each year thereafter without regard to any limitations under TABOR.

Also on November 3, 1998, a majority of the District’s electors authorized the District to maintain fiscal year spending and collect annual District revenues from sources not excluded from fiscal year spending in 1999 and each year thereafter as a voter-approved revenue change without regard to any limitations under TABOR.

SADDLE ROCK SOUTH METROPOLITAN DISTRICT NO. 4

Notes to Financial Statements December 31, 2020

On November 7, 2017, a majority of the District's electors authorized the District to increase taxes in an amount of \$480,000 for collection year 2018, and by the amounts that are raised annually thereafter by the imposition of an unlimited ad valorem property tax levy or such lesser amount as necessary to pay the District's administration, covenant enforcement, design review, operations, maintenance and other similar expenses.

Note 6: 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 ("the 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 7: Reconciliation of Government-Wide Financial Statements and Fund Financial Statements

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

- 1) Long-term liabilities such as bonds payable, accrued bond interest payable, are not due and payable in the current period and, therefore, are not in the funds; and
- 2) deferred losses on refunding are reported as deferred charges and amortized over the term of the related debt in the government-wide financial statements.

SADDLE ROCK SOUTH METROPOLITAN DISTRICT NO. 4

Notes to Financial Statements
December 31, 2020

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 deferred losses as an expenditure, however, in the statement of activities, these costs are amortized over the term of the related debt;
- 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; and
- 3) 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

SADDLE ROCK SOUTH METROPOLITAN DISTRICT NO. 4

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

For the Year Ended December 31, 2020

| | Original & Final | | Variance |
|---|------------------|------------|----------------------------|
| | Budget | Actual | Favorable (Unfavorable) |
| REVENUES | | | |
| Property taxes | \$ 481,067 | \$ 473,408 | \$ (7,659) |
| Specific ownership taxes | 33,675 | 34,090 | 415 |
| Transfers in - District #2 and #3 | 501,427 | 499,183 | (2,244) |
| Interest/Miscellaneous income | 14,000 | 3,915 | (10,085) |
| Total Revenues | 1,030,169 | 1,010,596 | (19,573) |
| EXPENDITURES | | | |
| Bond interest | 347,600 | 347,600 | - |
| Bond principal | 590,000 | 590,000 | - |
| Paying agent fees | 3,000 | 3,000 | - |
| Treasurers' fees | 7,210 | 7,100 | 110 |
| Total Expenditures | 947,810 | 947,700 | 110 |
| NET CHANGE IN FUND BALANCE | 82,359 | 62,896 | (19,463) |
| FUND BALANCE - BEGINNING OF YEAR | 220,644 | 223,950 | 3,306 |
| FUND BALANCE - END OF YEAR | \$ 303,003 | \$ 286,846 | \$ (16,157) |

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

Saddle Rock South Metropolitan District No. 4

SUMMARY OF ASSESSED VALUATION, MILL LEVY
AND PROPERTY TAXES COLLECTED
December 31, 2020

| <u>Year Ended December 31,</u> | <u>Prior Year Assessed Valuation for Current Year Property Tax Levy</u> | <u>General Fund</u> | <u>Mills Levied</u> | | <u>Contract</u> | <u>Total Property Tax</u> | | <u>Percent Collected to Levied</u> |
|--|---|---------------------|---------------------|--|-----------------|---------------------------|------------------|--|
| | | | <u>Debt Service</u> | | | <u>Levied</u> | <u>Collected</u> | |
| 2015 | \$ 27,101,998 | 14.000 | 14.000 | | 0.000 | \$ 758,856 | \$ 757,606 | 99.84% |
| 2016 | \$ 32,538,874 | 12.000 | 14.000 | | 0.000 | \$ 846,010 | \$ 844,582 | 99.83% |
| 2017 | \$ 32,545,708 | 0.000 | 14.000 | | 0.000 | \$ 455,640 | \$ 452,873 | 99.39% |
| 2018 | \$ 36,686,062 | 13.000 | 12.000 | | 0.000 | \$ 917,152 | \$ 899,448 | 98.07% |
| 2019 | \$ 37,404,858 | 13.000 | 12.000 | | 0.000 | \$ 935,121 | \$ 928,837 | 99.33% |
| 2020 | \$ 43,733,368 | 14.000 | 11.000 | | 0.000 | \$ 1,093,334 | \$ 1,075,922 | 98.41% |
| Estimated for year ending December 31, 2021 | \$ 43,906,150 | 14.000 | 11.000 | | 0.000 | \$ 1,097,654 | | |

NOTE

Property taxes collected in any one year include collection of delinquent property taxes levied and/or abatements or valuations in prior years. Information received from the County Treasurer does not permit identification of specific year assessment.