

**SECOND CREEK FARM
METROPOLITAN DISTRICT NO. 1
Commerce City, Colorado**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
YEAR ENDED DECEMBER 31, 2020**

**SECOND CREEK FARM METROPOLITAN DISTRICT NO. 1
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YEAR ENDED DECEMBER 31, 2020**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Second Creek Farm Metropolitan District No. 1
Commerce City, Colorado

We have audited the accompanying financial statements of the governmental activities and each major fund of Second Creek Farm Metropolitan District No. 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.

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Second Creek Farm Metropolitan District No. 1, as of December 31, 2020, and the respective changes in financial position thereof, 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.

Other Matters

Economic Dependency

The District has not yet established a revenue base sufficient to pay its operational expenditures. As discussed in Note 7, the District's continuation of operations may be dependent upon the Developer of the District's service area to provide funding for such expenditures.

Required Supplementary Information

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 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 and other information as listed in the table of contents (together, the information) is presented for the purposes of legal compliance and additional analysis and is not a required part of the basic financial statements. The 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 information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Fiscal Focus Partners, LLC

Greenwood Village, Colorado
September 27, 2021

BASIC FINANCIAL STATEMENTS

SECOND CREEK FARM METROPOLITAN DISTRICT NO. 1
STATEMENT OF NET POSITION
DECEMBER 31, 2020

	<u>Governmental Activities</u>
ASSETS	
Cash and Investments	\$ 141,851
Due from District No. 2	112
Property Tax Receivable	84
Prepaid Insurance	8,943
Capital Assets, Net	<u>9,876,437</u>
Total Assets	<u>10,027,427</u>
LIABILITIES	
Accounts Payable	86,273
Noncurrent Liabilities:	
Due in More Than One Year	<u>4,433,682</u>
Total Liabilities	<u>4,519,955</u>
DEFERRED INFLOWS OF RESOURCES	
Property Tax Revenue	<u>84</u>
Total Deferred Inflows of Resources	<u>84</u>
NET POSITION	
Net Investment in Capital Assets	6,957,792
Unrestricted	<u>(1,450,404)</u>
Total Net Position	<u><u>\$ 5,507,388</u></u>

See accompanying Notes to Basic Financial Statements.

SECOND CREEK FARM METROPOLITAN DISTRICT NO. 1
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2020

		Program Revenues			Net Revenues (Expenses) and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
	<u>Expenses</u>				
FUNCTIONS/PROGRAMS					
Primary Government:					
Governmental Activities:					
General Government	\$ 978,922	\$ -	\$ 143	\$ 6,132,345	\$ 5,153,566
Assignment of ERU Credits	68,540	-	-	-	(68,540)
Interest and Related Costs on Long-Term Debt	306,685	-	-	-	(306,685)
Total Governmental Activities	<u>\$ 1,354,147</u>	<u>\$ -</u>	<u>\$ 143</u>	<u>\$ 6,132,345</u>	4,778,341
Restated Net Position - Beginning of Year					<u>729,047</u>
NET POSITION - END OF YEAR					<u><u>\$ 5,507,388</u></u>

See accompanying Notes to Basic Financial Statements.

SECOND CREEK FARM METROPOLITAN DISTRICT NO. 1
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2020

	General	Capital Projects	Total Governmental Funds
ASSETS			
Cash and Investments	\$ 23,216	\$ 118,635	\$ 141,851
Due from District No. 2	112	-	112
Prepaid Insurance	8,943	-	8,943
Property Tax Receivable	84	-	84
Total Assets	<u>\$ 32,355</u>	<u>\$ 118,635</u>	<u>\$ 150,990</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES			
LIABILITIES			
Accounts Payable	\$ 9,299	\$ 76,974	\$ 86,273
Total Liabilities	<u>9,299</u>	<u>76,974</u>	<u>86,273</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred Property Tax Revenue	<u>84</u>	<u>-</u>	<u>84</u>
Total Deferred Inflows of Resources	<u>84</u>	<u>-</u>	<u>84</u>
FUND BALANCE			
Nonspendable:			
Prepays	8,943	-	8,943
Assigned to:			
Capital Projects	-	41,661	41,661
Unassigned	<u>14,029</u>	<u>-</u>	<u>14,029</u>
Total Fund Balances	<u>22,972</u>	<u>41,661</u>	<u>64,633</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 32,355</u>	<u>\$ 118,635</u>	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the funds.

Construction in Progress	9,473,505
ERU Credits	402,932

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not recorded as liabilities in the funds.

Developer Advance Payable	(3,818,216)
Developer Advance - Accrued Interest	<u>(615,466)</u>

Net Position of Governmental Activities	<u>\$ 5,507,388</u>
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See accompanying Notes to Basic Financial Statements.

SECOND CREEK FARM METROPOLITAN DISTRICT NO. 1
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2020

	<u>General</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
REVENUES			
Facility Fees	\$ -	\$ 600,000	\$ 600,000
Transfers from District No. 2	143	-	143
Transfers from District No. 3	-	5,532,345	5,532,345
Total Revenues	<u>143</u>	<u>6,132,345</u>	<u>6,132,488</u>
EXPENDITURES			
Accounting	59,332	-	59,332
Auditing	12,500	-	12,500
Dues and Memberships	808	-	808
Election	1,672	-	1,672
Insurance and Bonds	9,720	-	9,720
Landscaping	1,171	-	1,171
Legal Services	44,504	66,027	110,531
Miscellaneous	344	-	344
Paying Agent Fees	9,500	-	9,500
Capital Outlay:			
Engineering	-	419,265	419,265
Fees and Other	-	363,730	363,730
Landscaping	-	69,312	69,312
Parks and Recreation	-	686,728	686,728
Streets	-	4,219,663	4,219,663
Water System	-	3,084,611	3,084,611
Total Expenditures	<u>139,551</u>	<u>8,909,336</u>	<u>9,048,887</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(139,408)	(2,776,991)	(2,916,399)
OTHER FINANCING SOURCES (USES)			
Developer Advances	226,607	5,457,284	5,683,891
Proceeds from Sale of ERU Credits	-	297,907	297,907
Repay Developer Advance Principal	-	(2,687,825)	(2,687,825)
Repay Developer Advance Interest	(33,585)	(248,714)	(282,299)
Total Other Financing Sources (Uses)	<u>193,022</u>	<u>2,818,652</u>	<u>3,011,674</u>
NET CHANGE IN FUND BALANCES	53,614	41,661	95,275
Fund Balances - Beginning of Year	<u>(30,642)</u>	<u>-</u>	<u>(30,642)</u>
FUND BALANCES - END OF YEAR	<u>\$ 22,972</u>	<u>\$ 41,661</u>	<u>\$ 64,633</u>

See accompanying Notes to Basic Financial Statements.

**SECOND CREEK FARM METROPOLITAN DISTRICT NO. 1
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE OF THE GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2020**

Net Change in Fund Balance - Total Governmental Funds	\$	95,275
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. In the statement of activities capital outlay is not reported as an expenditure. However, the statement of activities will report as depreciation expense the allocation of the cost of any depreciable asset over the estimated useful life of the asset.

Capital Outlay		8,069,965
Sale of ERU Credits		(366,447)

Long-term debt (e.g., bonds, Developer Advances) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.

Developer Advances		(5,683,891)
Repay Developer Advance Principal		2,687,825
Repay Developer Advance Interest		282,299

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Developer Advances - Change in Accrued Interest		(306,685)
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Change in Net Position of Governmental Activities	\$	4,778,341
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SECOND CREEK FARM METROPOLITAN DISTRICT NO. 1
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL
YEAR ENDED DECEMBER 31, 2020

	Budget		Actual	Variance with
	Original	Final	Amounts	Final Budget Positive (Negative)
REVENUES				
Property Taxes	\$ 136	\$ -	\$ -	\$ -
Specific Ownership Taxes	11	-	-	-
Transfer from District No. 2	137	143	143	-
Transfer from District No. 3	164	-	-	-
Other Revenue	302	-	-	-
Total Revenues	<u>750</u>	<u>143</u>	<u>143</u>	<u>-</u>
EXPENDITURES				
Current:				
Accounting	25,000	60,000	59,332	668
Auditing	-	12,500	12,500	-
Contingency	15,198	5,000	-	5,000
County Treasurer's Fee	2	-	-	-
Dues and Memberships	1,300	808	808	-
Election	2,000	1,672	1,672	-
Insurance and Bonds	11,500	9,720	9,720	-
Landscaping	-	2,500	1,171	1,329
Legal Services	50,000	45,000	44,504	496
Miscellaneous	5,000	500	344	156
Paying Agent Fees	-	9,500	9,500	-
Total Expenditures	<u>110,000</u>	<u>147,200</u>	<u>139,551</u>	<u>7,649</u>
EXCESS OF REVENUES OVER (UNDER)				
EXPENDITURES	(109,250)	(147,057)	(139,408)	7,649
OTHER FINANCING SOURCES (USES)				
Developer Advance	109,350	227,777	226,607	(1,170)
Repay Developer Advance Interest	-	(33,585)	(33,585)	-
Total Other Financing Sources (Uses)	<u>109,350</u>	<u>194,192</u>	<u>193,022</u>	<u>(1,170)</u>
NET CHANGE IN FUND BALANCE	100	47,135	53,614	6,479
Fund Balance - Beginning of Year	<u>-</u>	<u>(30,642)</u>	<u>(30,642)</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ 100</u>	<u>\$ 16,493</u>	<u>\$ 22,972</u>	<u>\$ 6,479</u>

See accompanying Notes to Basic Financial Statements.

SECOND CREEK FARM METROPOLITAN DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 1 DEFINITION OF REPORTING ENTITY

Second Creek Farm Metropolitan District No. 1 (the District), a quasi-municipal corporation and political subdivision of the State of Colorado, was organized on December 2, 2002 concurrently with the organization of Second Creek Farm Metropolitan District No. 2 (District No. 2). Second Creek Farm Metropolitan District No. 3 (District No. 3) and Second Creek Farm Metropolitan District No. 4 (District No. 4 and together with the District, District No. 2 and District No. 3, the Districts) were both formed in 2006. The Districts are governed by the Colorado Special District Act and other applicable statutes governing political subdivisions. The District's service area is located entirely within the City of Commerce City, Colorado (the City). The Districts were organized to work cooperatively to provide construction, installation, financing and operation of public improvements, including streets and safety controls, transportation, mosquito control, television relay, water, sanitary sewer, storm drainage, park and recreation improvements and facilities, and erosion control to their service area.

The District follows the Governmental Accounting Standards Board (GASB) accounting pronouncements which provide guidance for determining which governmental activities, organizations and functions should be included within the financial reporting entity. GASB pronouncements set forth the financial accountability of a governmental organization's elected governing body as the basic criterion for including a possible component governmental organization in a primary government's legal entity. Financial accountability includes, but is not limited to, appointment of a voting majority of the organization's governing body, ability to impose its will on the organization, a potential for the organization to provide specific financial benefits or burdens, and fiscal dependency.

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

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Government-Wide and Fund Financial Statements

The government-wide financial statements include the statement of net position and the statement of activities. These financial statements include all of the activities of the District. The effect of interfund activity has been removed from these statements. Governmental activities are normally supported by taxes and intergovernmental revenues.

The statement of net position reports all financial and capital resources of the District. The difference between the sum of assets and deferred outflows and the sum of liabilities and deferred inflows is reported as net position.

SECOND CREEK FARM METROPOLITAN DISTRICT NO. 1
NOTES TO BASIC 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 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.

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. Expenditures for property, plant and equipment are shown as increases in assets and redemption of bonds and notes are recorded as 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 in the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The major sources of revenue susceptible to accrual are property taxes. All other revenue items are considered to be measurable and available only when cash is received by the District. The District determined that Developer advances are not considered as revenue susceptible to accrual. Expenditures, other than interest on long-term obligations are recorded when the liability is incurred or the long-term obligation is due.

The District reports the following major governmental funds:

The 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 another fund.

The Capital Projects Fund is used to account for financial resources to be used for the acquisition and construction of capital equipment and facilities.

SECOND CREEK FARM METROPOLITAN DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budgets

In accordance with the State Budget Law, the District's Board of Directors holds 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 and other financing uses 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 total 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 District amended its annual budget for the year ended December 31, 2020.

Pooled Cash and Investments

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 single bank or investment account. 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.

Intergovernmental Revenue and Property Taxes

Property taxes are levied by the District's Board of Directors. The levy is based on assessed valuations determined by the County Assessor generally as of January 1 of each year. The levy is normally set by December 15 by certification to the Board of 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, at the taxpayer's election, or in equal installments in February and June. Delinquent taxpayers are notified in August and, generally, sale of the tax liens on delinquent properties are held in November or December. The County Treasurer remits the taxes collected monthly to the Districts.

Property taxes, net of estimated uncollectible taxes, are recorded initially as deferred inflow of resources in the year they are levied and measurable. The unearned property tax revenues are recorded as revenue in the year they are available or collected.

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 columns in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual costs of more than \$5,000. Such assets are recorded at historical costs or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

SECOND CREEK FARM METROPOLITAN DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets (Continued)

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable. Depreciation expense has been computed using the straight-line method over the following estimated economic useful lives.

Parks and Open Space	15 to 50 Years
Infrastructure	30 to 50 Years
Other Improvements	15 to 30 Years

South Adams County Water and Sanitation District Equivalent Residential Units for Water and Sewer Services (ERU Credits)

As of December 31, 2020, the District owns 45.51 ERU Credits originally acquired pursuant to a prior option agreement between the PV District Enterprise and the District at a cost of \$8,426 each. The cost of the ERU Credits includes the cost of acquisition plus an administrative fee. Since the ERU Credits have a perpetual life, they are not depreciated. All other costs, including costs incurred for the protection of the ERU Credits, are expensed. During 2020, the District assigned 43.49 ERU Credits to LGI Homes – Colorado LLC (LGI) for its use within the service area of the Districts.

Water Resources Agreement

Second Creek Holdings, LLC (SCH) (the owner of property within the service area of the Districts) and South Adams County Water and Sanitation District (SACWSD) entered into a Water Resources Agreement on October 21, 2019 pertaining to SCH's acquisition of 751 Large User Phase 4A water resources from SACWSD at the cost of \$6,850 per ERU to provide water service to the development within service area of the Districts. SACWSD has a policy that it will not make Phase 4A ERUs available for sale until any existing ERUs (such as the ones owned by the District) have been fully utilized. The District executed the SCH Water Resources Agreement to acknowledge that SCH will not be entitled to acquire any additional Phase 4A ERUs, in excess of the 751 Large User Phase 4A ERUs, until such time as the District's 45.51 ERUs have been fully utilized. The District intends to make the District's ERUs available to property owners within the District for landscaping and other water needs associated with development of Property within the Districts' service area. During 2020, the District acknowledged the assignment of 240 Phase 4A ERUs between SCH and LGI.

Deferred Inflows of Resources

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The District has one item that qualifies for reporting in this category. Accordingly, the item, deferred property tax revenue, is deferred and recognized as an inflow of resources in the period that the amount becomes available.

SECOND CREEK FARM METROPOLITAN DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Equity

Net Position

For government-wide presentation purposes, when both restricted and unrestricted resources are available for use, it is the District's practice to use restricted resources first, then unrestricted resources as they are needed.

Fund Balance

Fund balance for governmental funds should be reported in classifications that comprise a hierarchy based on the extent to which the government is bound to honor constraints on the specific purposes for which spending can occur. Governmental funds report up to five classifications of fund balance: nonspendable, restricted, committed, assigned, and unassigned. Because circumstances differ among governments, not every government or every governmental fund will present all of these components. The following classifications describe the relative strength of the spending constraints:

Nonspendable Fund Balance – The portion of fund balance that cannot be spent because it is either not in spendable form (such as prepaid amounts or inventory) or legally or contractually required to be maintained intact.

Restricted Fund Balance – The portion of fund balance that is constrained to being used for a specific purpose by external parties (such as bondholders), constitutional provisions, or enabling legislation.

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

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

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

SECOND CREEK FARM METROPOLITAN DISTRICT NO. 1
NOTES TO BASIC 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 Investments	<u>\$ 141,851</u>
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Cash and investments as of December 31, 2020, consist of the following:

Deposits with Financial Institutions	\$ 141,818
Investments	<u>33</u>
Total Cash and Investments	<u>\$ 141,851</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 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.

At December 31, 2020, the District's cash deposits had a bank statement balance of \$223,802 and a carrying balance of \$141,818. Outstanding checks at December 31, 2020 totaled \$81,984.

Investments

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

The District generally limits its concentration of investments to those noted with an asterisk (*) below, 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 or investment custodial risk disclosure requirements 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.

Colorado statutes specify investment instruments meeting defined rating and risk criteria in which local governments may invest which include:

SECOND CREEK FARM METROPOLITAN DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 3 CASH AND INVESTMENTS (CONTINUED)

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

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

<u>Investment</u>	<u>Maturity</u>	<u>Amount</u>
Colorado Surplus Asset Fund Trust (CSAFE)	Weighted-Average Under 60 Days	<u>\$ 33</u>

CSAFE

The District invested in the Colorado Surplus Asset Fund Trust (CSAFE) (the Trust), which is an investment vehicle established by state statute for local government entities to pool surplus assets. The State Securities Commissioner administers and enforces all State statutes governing the Trust. The Trust is similar to a money market fund, with each share valued at \$1.00. CSAFE may invest in U.S. Treasury securities, repurchase agreements collateralized by U.S. Treasury securities, certain money market funds and highest rated commercial paper. A designated custodial bank serves as custodian for CSAFE's portfolio pursuant to a custodian agreement. The custodian acts as safekeeping agent for CSAFE's investment portfolio and provides services as the depository in connection with direct investments and withdrawals. The custodian's internal records segregate investments owned by CSAFE. CSAFE is rated AAAM by Standard & Poor's. CSAFE records its investments at amortized cost and the District records at net asset value as determined by the amortization cost method. There are no unfunded commitments, the redemption frequency is daily and there is no redemption notice period.

NOTE 4 CAPITAL ASSETS

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

	Restated Balance at December 31, 2019	Increases	Decreases	Balance at December 31, 2020
Capital Assets, Not Being Depreciated:				
Construction in Progress	\$ 1,403,540	\$ 8,069,965	\$ -	\$ 9,473,505
ERU Credits	769,379	-	366,447	402,932
Total Capital Assets, Not Being Depreciated	<u>\$ 2,172,919</u>	<u>\$ 8,069,965</u>	<u>\$ 366,447</u>	<u>\$ 9,876,437</u>

SECOND CREEK FARM METROPOLITAN DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 5 LONG-TERM OBLIGATIONS

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

	Balance at December 31, 2019	Additions	Reductions	Balance at December 31, 2020	Due Within One Year
Governmental Activities					
Other Debts:					
Developer Advances - Capital	\$ 147,273	\$ 5,457,284	\$ 2,687,825	\$ 2,916,732	\$ -
Accrued Interest - Capital	2,433	248,194	248,714	1,913	-
Developer Advances - Operating	674,877	226,607	-	901,484	-
Accrued Interest - Operating	588,647	58,491	33,585	613,553	-
Total Long-Term Obligations	<u>\$ 1,413,230</u>	<u>\$ 5,990,576</u>	<u>\$ 2,970,124</u>	<u>\$ 4,433,682</u>	<u>\$ -</u>

Debt Authorization

The District authorized the incurrence of debt at elections held in 2002, 2005, and 2014 (the Elections). At December 31, 2020, the District had authorized (from the 2014 election) but unissued indebtedness in the following amount allocated for the following purposes:

	Debt Authorized	Authorization Used	Authorized But Unissued
Street Improvements	\$ 70,000,000	\$ -	\$ 70,000,000
Park and Recreation Facilities	70,000,000	-	70,000,000
Watery Supply	70,000,000	-	70,000,000
Sanitary Sewer	70,000,000	-	70,000,000
Transportation	70,000,000	-	70,000,000
Mosquito Control	70,000,000	-	70,000,000
Traffic and Safety Controls	70,000,000	-	70,000,000
Fire	70,000,000	-	70,000,000
Security	70,000,000	-	70,000,000
Television Relay and Translation	70,000,000	-	70,000,000
Operations and Maintenance	70,000,000	-	70,000,000
Refunding	70,000,000	-	70,000,000
Intergovernmental Agreements	70,000,000	-	70,000,000
Total	<u>\$ 910,000,000</u>	<u>\$ -</u>	<u>\$ 910,000,000</u>

Debt Authorization

Per the Service Plan, the District is limited to issuing \$70,000,000 in debt. In addition, the maximum debt service mill levy for the District is 50.000 mills, as adjusted for changes in the ratio of actual value to assessed value of property within the District.

SECOND CREEK FARM METROPOLITAN DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 5 LONG-TERM OBLIGATIONS (CONTINUED)

Facilities Funding and Acquisition Agreement

Effective December 1, 2016, the District and Second Creek Holdings, LLC (Developer) entered into a Facilities Funding and Acquisition Agreement. Pursuant to the Facilities Funding and Acquisition Agreement, the District acknowledged Developer has incurred organization expenses that are subject to reimbursement once the District issues bonds. In addition, the Developer has agreed to advance the District funds necessary to fund construction related expenses on a periodic basis for fiscal years 2017 through 2025. Estimated costs to complete construction are \$30,000,000. Advances made by the Developer shall accrue interest at 8.00% per annum from the Organization Date for organization expenses and from the date verified costs were incurred by the Developer for construction related expenses. Payments by the District to the Developer shall first be applied to unpaid interest and then to outstanding principal due.

Operation Funding Agreement

Effective January 1, 2017, and as amended on March 14, 2018 and October 30, 2018, the District and Developer entered into an Operation Funding Agreement. A Termination of the Operating Funding Agreement (Termination Agreement) was entered into on October 19, 2020 with an effective date of January 1, 2019. Per the Termination Agreement, any reimbursement for Outstanding Advances payable under the Operation Funding Agreement are directed to a separate Amended and Restated Operation Funding Agreement.

Amended and Restated Operation Funding Agreement

Entered into October 19, 2020 with an effective date of December 1, 2016, the District and Developer entered into an Amended and Restated Operation Funding Agreement. Pursuant to the Amended and Restated Operation Funding Agreement, the Developer agreed to advance funds up to \$965,000 for 2017-2021 to the District to pay the operation and maintenance expenses of the District. The District agreed to exercise reasonable efforts to impose and collect its operations mill levy and to impose and collect its rates, fees, tolls and charges set forth in the District's Service Plan until all amounts advanced to the District under this Agreement have been paid to the Developer. Advances made by the Developer shall accrue interest at 8.00% per annum and be paid on December 1 of each year to the extent the District has funds available from the imposition of its fees, rates, tolls and charges and from any other revenue legally available after the payment of its annual debt service obligations and annual administrative, operations and maintenance expenses. Payment shall be applied first to interest then principal (a) first to the Developer for the prior advances; then (b) to Developer for the 2017 Operating Funding Agreement advances; and then (c) to the Developer Advance under the Amended and Restated Operating Funding Agreement.

NOTE 6 RELATED PARTY

All of the members of the Board of Directors of the District 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. Also, the Developer has various agreements with the District.

SECOND CREEK FARM METROPOLITAN DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 7 ECONOMIC DEPENDENCY

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

NOTE 8 AGREEMENTS

Facilities Funding, Construction and Operations Agreement

On February 8, 2006, and as amended and restated on January 1, 2019, the District entered into an Amended and Restated Facilities Funding, Construction and Operations Agreement (FFCO) with District Nos. 2-4 (Consumer Districts) establishing certain obligations as to the financing, construction, operation and maintenance of improvements as contemplated in the Service Plans for the purpose of providing essential services within the Districts in a timely and coordinated fashion.

Pursuant to the FFCO, the District is designated as the Service District and agrees to provide the following: (1) district operation and maintenance services (including, but not limited to, drafting proposals, supervising and ensuring contract compliance, procuring all inventory, providing operators supervision, and other service with respect to the operations and maintenance of the District); and (2) administration services (generally comprised of serving as the official custodian of the Districts, coordinating all District Board meetings, ongoing District maintenance and administration, budget preparation and coordinating activities); and (3) project administration services (including drafting and reviewing proposals, site coordination, contractor scheduling, oversight and review of construction activities).

The FFCO provides that the Consumer Districts agree to pay the Service District revenue from the imposition of a mill levy against all property within its respective boundaries and specific ownership taxes. All revenue received from the Consumer Districts will be transferred on a monthly basis to the Service District.

Amounts outstanding with the Prior Developer from District Nos. 2, 3, and 4 were assigned and assumed by the District in furtherance of its role as the Service District under the FFCO.

Cooperation and Reimbursement Agreement

As amended on August 30, 2019 and January 15, 2020, the District, District No. 3, Second Creek Holdings, LLC, Stratus Buffalo Highlands (Stratus), LLC, Meritage Homes of Colorado Inc., Lennar Colorado LLC (Lennar), and LGI entered into an agreement (Cooperation Agreement) to share the costs to construct Telluride Street from East 88th Avenue to East 96th Avenue (Telluride Street Improvements). The term of the Cooperation Agreement shall extend to the date until the Sanitary Improvements and Storm Drainage Improvements have been constructed and accepted by the City and SACWSD and the cost reimbursement provision has been satisfied. If the District fails to pay any portion of the reimbursement when due, Buffalo has the right to record a lien against property within the Second Creek Development. A portion of the Second Creek Development acquired by LGI was released from this lien as a result of the District setting money aside to pay for its portion of the Telluride Street Improvements.

SECOND CREEK FARM METROPOLITAN DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 8 AGREEMENTS (CONTINUED)

Cooperation and Reimbursement Agreement (Continued)

The Party that is required by the City to construct Telluride Street is entitled to recover 50% of construction costs from the other Party in this Cooperation Agreement. The reimbursement amount includes the Constructors hard, soft costs (not to exceed 7% of hard costs), and insurance costs made before final acceptance by the City. The reimbursement obligation shall accrue interest at 5% per annum from the date the improvements are initially accepted by the City and payable when the Reimbursor commences development. The District paid Lennar and Stratus, \$401,476 each related to these costs on January 30, 2020, representing one-half of the amount payable plus accrued interest for Completed Work under the Agreement.

The City also requires the construction of 93rd Avenue to 88th Avenue (Telluride Remaining Portion). The District and Stratus are to agree upon a good faith estimate plus a 25% contingency amount needed to construct the Telluride Remaining Portion. Once the remaining portion has been determined the District will deposit the balance in an account held in escrow. After the \$802,952 payment on January 30, 2020, the remaining Telluride funds totaled \$1,666,191 (Remaining Telluride Funds) and were transferred to an escrow account during 2020.

The Cooperation Agreement also defines costs to construct a Waterline (Waterline Costs) that are reimbursable costs. The District agrees to deposit an amount equal to 125% of the Waterline Costs in an account held for escrow to be used to pay for the actual cost to construct the Waterline totaling \$93,111.

Agreement Regarding Payment Obligations

On September 5, 2019, and as amended on March 9, 2020, the District, District No. 3, Second Creek Holding LLC, and LGI entered into an Agreement Regarding Payment Obligations whereby the District agreed to set aside \$2,494,527 in relation to the Districts agreement to reimburse certain costs associated with Telluride Street under the Cooperation and Reimbursement Agreement. The District agreed to acquire related improvements from the construction of the South Half of 88th Avenue and its connection to Telluride Street (88th Avenue Improvements) through the South Half 88th Avenue Facilities Funding and Acquisition Agreement.

Under the Agreement the District will allocate and earmark project funds from District No. 3's 2019 Bond issuance in the following order of priority, (1) Telluride Reimbursement (the District commits to set aside \$2,494,527), (2) 88th FFA (the District commits to set aside \$729,649 for the cost of constructing the 88th Avenue Improvements), (3) Sanitary Stub and Grading Work and (4) Second Creek Funding Agreements (any obligations under the FFCO, Second Creek Funding Agreements and any other Agreement in such order).

SECOND CREEK FARM METROPOLITAN DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 8 AGREEMENTS (CONTINUED)

South Half of 88th Avenue Facilities Funding and Acquisition Agreement

On September 10, 2019, and as amended on March 6, 2020, the District, District No. 3, and LGI acknowledged that LGI intends to design, construct and complete improvements required to develop the South Half of 88th Avenue (88th Avenue Improvements). In return, the District has agreed to earmark and use a portion of District No. 3's Series 2019A Bond proceeds to pay for the construction of the 88th Avenue Improvements up to the amount of 115% of the preliminary construction costs (Maximum Reimbursement Amount). Estimated and earmarked construction costs related to the 88th Avenue Improvements total \$675,208. Upon final payment of the earmarked funds, the District shall acquire the 88th Avenue Improvements or elect that the 88th Avenue Improvements be conveyed directly to the City.

Intergovernmental Reimbursement Agreement

On August 5, 2019, the District entered into an Intergovernmental Reimbursement Agreement (IRA) with the City to undertake and complete the construction of the South Half of 88th Avenue which is adjacent to property purchased by the City. In return, the City will reimburse the District for their pro rata share of the design and construction of the South Half of 88th Avenue in an amount not to exceed \$399,501 upon written certification from the District within 30 days after work has been completed. The \$399,501 was subsequently reimbursed by the City in 2021.

Facilities Fees

As amended on April 7, 2021, the District adopted a facilities fee resolution imposing facilities fees which are due and payable upon issuance of a building permit to a buyer by the City or Adams County. The resolution was amended and restated on October 19, 2020. The fee, at the District's discretion, may be used for costs associated with capital improvements, operations and maintenance, and/or pledged for debt service payments. The fees are \$2,500 per single family detached dwelling unit and \$1,500 per attached single-family attached dwelling unit. During 2020, the District collected \$600,000 in fees. The District may also establish a facilities fee rate for commercial property.

NOTE 9 NET POSITION

The District has net position consisting of two components – net investment in capital assets and unrestricted.

Net investment in capital assets consist of capital assets, net of accumulated depreciation and reduced by the outstanding balances of bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

The District has a deficit in unrestricted net position. The deficit is a result of the District recording and being responsible for project administration and District No. 3 being responsible for the repayment of bonds issued for such constructed public improvements.

SECOND CREEK FARM METROPOLITAN DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 10 RISK MANAGEMENT

The District is 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.

The District is a member of the Colorado Special Districts Property and Liability Pool (Pool). The Pool is an organization created by intergovernmental agreement to provide property, liability, public officials' liability, boiler and machinery and workers compensation coverage to its members. Settled claims have not exceeded this coverage in any of the past three fiscal years.

The District pays annual premiums to the Pool for liability, property, public official's liability and workers compensation coverage. In the event aggregated losses incurred by the Pool exceed amounts recoverable from reinsurance contracts and funds accumulated by the Pool, the Pool may require additional contributions from the Pool members. Any excess funds which the Pool determines are not needed for purposes of the Pool may be returned to the members pursuant to a distribution formula.

NOTE 11 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.

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. TABOR reserve is not provided when the District's ending fund balance is a deficit.

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.

At the Elections, a majority of the District's electors authorized the District to collect and spend or retain in a reserve all currently levied taxes and fees of the District without regard to any limitations under TABOR and also authorized the District to increase property taxes by up to \$2,000,000 annually.

SECOND CREEK FARM METROPOLITAN DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 12 RESTATEMENT

A retroactive adjustment of \$5,144,350 was applied to the December 31, 2019 fund balances. This retroactive adjustment lowered the District's capital assets to reflect the fact that the District did not own the 751 Larger User Phase 4A ERUs connected with the Water Resources Agreement.

SUPPLEMENTARY INFORMATION

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

	Budget		Actual	Variance with
	Original	Final	Amounts	Final Budget Positive (Negative)
REVENUES				
Facility Fees	\$ -	\$ 600,000	\$ 600,000	\$ -
Transfer from District No. 3	-	5,532,345	5,532,345	-
Total Revenues	-	6,132,345	6,132,345	-
EXPENDITURES				
Capital Outlay	400,000	8,435,000	8,424,044	10,956
Engineering	-	425,000	419,265	5,735
Legal Services	-	70,000	66,027	3,973
Total Expenditures	400,000	8,930,000	8,909,336	20,664
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(400,000)	(2,797,655)	(2,776,991)	20,664
OTHER FINANCING SOURCES (USES)				
Developer Advances	400,000	5,457,284	5,457,284	-
Proceeds from Sale of ERU Credits	-	297,907	297,907	-
Repay Developer Advance Principal	-	(2,687,825)	(2,687,825)	-
Repay Developer Advance Interest	-	(248,714)	(248,714)	-
Total Other Financing Sources (Uses)	400,000	2,818,652	2,818,652	-
NET CHANGE IN FUND BALANCE	-	20,997	41,661	20,664
Fund Balance - Beginning of Year	-	-	-	-
FUND BALANCE - END OF YEAR	\$ -	\$ 20,997	\$ 41,661	\$ 20,664

OTHER INFORMATION

SECOND CREEK FARM METROPOLITAN DISTRICT NO. 1
SCHEDULE OF ASSESSED VALUATION, MILL LEVY, AND PROPERTY TAXES COLLECTED
DECEMBER 31, 2020

Year Ended December 31.	Prior Year Assessed Valuation for Current Year Tax Levy	Mills Levied		Total Property Taxes		Percent Collected to Levied
		General	Debt Service	Levied	Collected	
2016	\$ 3,440	0.000	0.000	\$ -	\$ -	-
2017	2,820	0.000	0.000	-	-	-
2018	3,640	0.000	0.000	-	-	-
2019	3,380	0.000	0.000	-	-	-
2020	12,210	11.132	0.000	136	-	-
Estimated for the Year Ending December 31.						
2021	\$ 7,560	11.132	0.000	84		

NOTE:

Property taxes shown as collected in any one year may include collection of delinquent property taxes assessed in prior years. This presentation does not attempt to identify specific year of assessment.