

SOUTHSHORE METROPOLITAN DISTRICT NO. 1

Financial Statements

Year Ended December 31, 2022

with

Independent Auditor's Report

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Board of Directors
Southshore Metropolitan District No. 1
Arapahoe County, Colorado

Independent Auditor’s Report

Opinions

We have audited the accompanying financial statements of the governmental activities and each major fund of Southshore Metropolitan District No. 1 (the “District”), as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the District’s basic financial statements, as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Southshore Metropolitan District No. 1 as of December 31, 2022, and the respective changes in financial position and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP), and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

Exercise professional judgment and maintain professional skepticism throughout the audit.

Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.

Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

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

Other Matters

Required Supplemental Information

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 opinions on the basic financial statements are not affected by this missing information.

Supplemental Information

Our audit was conducted for the purpose of forming opinions 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.

Wipfli LLP

Wipfli LLP
Lakewood, Colorado

September 28, 2023

SOUTHSHORE METROPOLITAN DISTRICT NO. 1

BALANCE SHEET/STATEMENT OF NET POSITION - GOVERNMENTAL FUNDS December 31, 2022

	<u>General</u>	<u>Capital Projects</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
ASSETS					
Cash and investments - restricted	\$ 23,732	\$ -	\$ 23,732	\$ -	\$ 23,732
Prepaid expenses	64,959	-	64,959	-	64,959
Due from District No. 2	7,746	137,476	145,222	-	145,222
Capital assets not being depreciated	<u>-</u>	<u>-</u>	<u>-</u>	<u>50,984,546</u>	<u>50,984,546</u>
Total Assets	<u>\$ 96,437</u>	<u>\$ 137,476</u>	<u>\$ 233,913</u>	<u>50,984,546</u>	<u>51,218,459</u>
LIABILITIES					
Accounts payable	\$ 34,764	\$ -	\$ 34,764	-	34,764
Retainage payable	<u>-</u>	<u>137,476</u>	<u>137,476</u>	<u>-</u>	<u>137,476</u>
Total Liabilities	<u>34,764</u>	<u>137,476</u>	<u>172,240</u>	<u>-</u>	<u>172,240</u>
FUND BALANCES/NET POSITION					
Fund Balances:					
Nonspendable:					
Prepays	64,959	-	64,959	(64,959)	-
Restricted:					
Emergencies	23,732	-	23,732	(23,732)	-
Unassigned	<u>(27,018)</u>	<u>-</u>	<u>(27,018)</u>	<u>27,018</u>	<u>-</u>
	<u>61,673</u>	<u>-</u>	<u>61,673</u>	<u>(61,673)</u>	<u>-</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 96,437</u>	<u>\$ 137,476</u>	<u>\$ 233,913</u>		
Net Position:					
Net investment in capital assets				50,984,546	50,984,546
Restricted for:					
Emergencies				23,732	23,732
Unrestricted				<u>175,417</u>	<u>175,417</u>
Total Net Position				<u>\$ 51,046,219</u>	<u>\$ 51,046,219</u>

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

SOUTHSHORE METROPOLITAN DISTRICT NO. 1

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

For the Year Ended December 31, 2022

	<u>General</u>	<u>Capital Projects</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
EXPENDITURES					
Accounting and audit	\$ 51,580	\$ -	\$ 51,580	\$ -	\$ 51,580
Insurance	38,440	-	38,440	-	38,440
Legal	130,890	-	130,890	-	130,890
Miscellaneous expenses	579	-	579	-	579
Irrigation water and electric	66,365	-	66,365	-	66,365
Landscape maintenance	25,430	-	25,430	-	25,430
Facilities acquisition	-	2,558,239	2,558,239	(2,558,239)	-
Capital improvements	-	447,498	447,498	(447,498)	-
Total Expenditures	<u>313,284</u>	<u>3,005,737</u>	<u>3,319,021</u>	<u>(3,005,737)</u>	<u>313,284</u>
GENERAL REVENUES					
Transfer from District No. 2	468,098	292,684	760,782	-	760,782
Total General Revenues	<u>468,098</u>	<u>292,684</u>	<u>760,782</u>	<u>-</u>	<u>760,782</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES					
	154,814	(2,713,053)	(2,558,239)	3,005,737	447,498
OTHER FINANCING SOURCES (USES)					
Investor forgiveness of debt	-	-	-	902,183	902,183
Investor contribution	-	2,558,239	2,558,239	-	-
Transfer (to) from other funds	(154,814)	154,814	-	-	-
Total Other Financing Sources (Uses)	<u>(154,814)</u>	<u>2,713,053</u>	<u>2,558,239</u>	<u>902,183</u>	<u>902,183</u>
NET CHANGES IN FUND BALANCES					
	-	-	-	-	
CHANGE IN NET POSITION					
				3,907,920	3,907,920
FUND BALANCES/NET POSITION:					
BEGINNING OF YEAR	61,673	-	61,673	47,076,626	47,138,299
END OF YEAR	<u>\$ 61,673</u>	<u>\$ -</u>	<u>\$ 61,673</u>	<u>\$ 50,984,546</u>	<u>\$ 51,046,219</u>

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

SOUTHSHORE METROPOLITAN DISTRICT NO. 1

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

For the Year Ended December 31, 2022

	<u>Original and</u> <u>Final Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
REVENUES			
Transfer from District No. 2	\$ 497,574	\$ 468,098	\$ (29,476)
Total Revenues	497,574	468,098	(29,476)
EXPENDITURES			
Accounting and audit	40,000	51,580	(11,580)
Election expenses	10,000	-	10,000
Insurance	20,000	38,440	(18,440)
Legal	100,000	130,890	(30,890)
Miscellaneous expenses	2,000	579	1,421
Irrigation water and electric	40,000	66,365	(26,365)
Stormwater management	210,000	-	210,000
Landscape maintenance	20,000	25,430	(5,430)
Contingency	270,375	-	270,375
Emergency reserves	13,260	-	13,260
Total Expenditures	725,635	313,284	412,351
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(228,061)	154,814	382,875
OTHER FINANCING SOURCES (USES)			
Transfer (to) from other funds	-	(154,814)	(154,814)
Total Other Financing Sources (Uses)	-	(154,814)	(154,814)
NET CHANGE IN FUND BALANCE	(228,061)	-	228,061
FUND BALANCE:			
BEGINNING OF YEAR	201,903	61,673	(140,230)
END OF YEAR	\$ (26,158)	\$ 61,673	\$ 87,831

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

SOUTHSHORE METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements December 31, 2022

Note 1: Summary of Significant Accounting Policies

The accounting policies of the Southshore Metropolitan District No. 1 (the “District”), located in Arapahoe County, Colorado, (the “County”), 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 in February 2002, as a quasi-municipal corporation established under the State of Colorado Special District Act. The District was created in conjunction with Southshore Metropolitan District No. 2 (“District No. 2”) to provide for streets, sanitation and water facilities, parks and recreation and other public improvements. The District was established as the Operating District and District No. 2 as the Taxing District. The purpose of the Taxing District is to provide funding to the Operating District for construction, operation and maintenance of facilities and improvements. The Taxing District has also issued debt to finance public improvements. The District's primary revenues are property taxes collected by District No. 2. The District is governed by an elected Board of Directors.

As required by GAAP, these financial statements present the activities of the District, which is legally separate and financially independent of other state and local governments. The District follows the GASB pronouncements which provides 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.

SOUTHSHORE METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements December 31, 2022

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. Expenditures, other than interest on long-term obligations, are recorded when the liability is incurred, or the long-term obligation is paid.

SOUTHSHORE METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements December 31, 2022

The District reports the following major governmental funds:

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

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

Budgetary Accounting

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

Subsequent to year-end, the District amended the total appropriations in the Capital Projects Fund from \$766,036 to \$3,200,000 primarily due to the facilities acquisition.

Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position:

Fair Value of Financial Instruments

The District's financial instruments include cash and investments, accounts receivable and accounts payable. The District estimates that the fair value of all financial instruments at December 31, 2022, 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 investments 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 government 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.

SOUTHSHORE METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements December 31, 2022

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

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

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items), are reported in the applicable governmental activities columns in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the life of the asset are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable using the straight-line method. Depreciation on property that will remain assets of the District is reported on the Statement of Activities as a current charge. Improvements that will be conveyed to other governmental entities are classified as construction in progress and are not depreciated. Land and certain landscaping improvements are not depreciated. No depreciation expense was recognized during 2022.

SOUTHSHORE METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements December 31, 2022

Property Taxes

Property taxes may be levied by the District's Board of Directors. Any levy would be based on assessed valuations determined by the County Assessor generally as of January 1 of each year. Any levy would be normally set by December 15 by certification to the County Commissioners to put the tax lien on the individual properties as of January 1 of the following year. The County Treasurer collects the determined taxes during the ensuing calendar year. Any taxes would be 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 District No. 2 which then funds the operating expenses of the District.

Property taxes, net of estimated uncollectible taxes, are recorded initially as deferred inflows 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.

The District did not levy any taxes for collection in 2022.

Long-Term Obligations

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

Fund 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.

The nonspendable fund balance in the General Fund in the amount of \$64,959 represents prepaid expenditures.

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.

SOUTHSHORE METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements December 31, 2022

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 \$23,732 of the General Fund balance has been restricted in compliance with this requirement.

Committed Fund Balance

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

Assigned Fund Balance

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

Unassigned Fund Balance

Unassigned fund balance includes amounts that are available for any purpose. Positive amounts are reported only in the General Fund, all other 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 reports three categories of net position, as follows:

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

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

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

SOUTHSHORE METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements
December 31, 2022

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.

Note 2: Cash and Investments

As of December 31, 2022, cash and investments are classified in the accompanying financial statements as follows:

Statement of Net Position:	
Cash and investments - restricted	\$ <u>23,732</u>
Total	\$ <u>23,732</u>

Cash and investments as of December 31, 2022, consist of the following:

Deposits with financial institutions	\$ <u>23,732</u>
Total	\$ <u>23,732</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 follows state statutes for deposits. As of December 31, 2022, the bank balance and the carrying balance was \$23,732. None of the District’s deposits were exposed to custodial credit risk.

Investments:

Investment Valuation

The District categorizes its fair value measurements 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. Investments not measured at fair value and not categorized include governmental money market funds (PFM Funds Governmental Select series); money market funds (generally held by Bank Trust Departments in their role as paying agent or trustee); and CSAFE which record their investments at amortized cost.

SOUTHSHORE METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements
December 31, 2022

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.

Custodial and Concentration of Credit Risk

The District has no investments that 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.

As of December 31, 2022, the District had no investments.

Note 3: Capital Assets

An analysis of the changes in capital assets for the year ended December 31, 2022, follows:

<u>Governmental Type Activities:</u>	<u>Balance 1/1/2022</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12/31/2022</u>
<u>Capital assets not being depreciated:</u>				
Parks, landscaping	\$ 1,789,873	\$ 2,558,239	\$ -	\$ 4,348,112
Construction in progress	46,188,936	447,498	-	46,636,434
Total capital assets not being depreciated	<u>\$ 47,978,809</u>	<u>\$ 3,005,737</u>	<u>\$ -</u>	<u>\$ 50,984,546</u>

Upon completion and acceptance, all Fixed Assets except for parks and landscaping will be conveyed by the District to other local governments. The District will be responsible for landscape maintenance. In 2022, the Investor conveyed the recreation center to the District. The recreation center is valued at the appraised value by the County Assessor as the time of conveyance.

SOUTHSHORE METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements
December 31, 2022

Note 4: Long Term Debt

A description of the long-term obligations as of December 31, 2022, is as follows:

Advance and Reimbursement Agreement

In July 2012, the District entered into an Advance and Reimbursement Agreement (the “Agreement”), with Southshore Recovery Acquisition, LLC, (the “Investor”). The District anticipated that it would not have sufficient funds to make the payment of its operations and maintenance expenses; therefore, pursuant to this Agreement the Investor would advance funds to meet any shortfalls. The advances earned interest from the date of the advance at the rate of 8% compounded annually. On August 5, 2015, this Agreement was amended and restated to eliminate the interest provision on the repayment of the advances. Per the Service Plan, interest shall not be charged on any advances for operating and maintenance and capital project expenses.

The District has agreed to repay the Developer advances subject to the availability of funds and subject to annual appropriation. The obligation of the District to reimburse the Developer is not a multiple fiscal year obligation of the District. The term of this Agreement shall expire on November 30, 2032, and any number of Advances remaining unpaid after such date shall be deemed to be forever discharged and satisfied in full. As of December 31, 2021, balances outstanding were \$370,000 for operating advances and \$532,183 for capital advances. In 2022, the Investor waived all repayment obligations of the District.

The following is an analysis of changes in long-term debt for the period ending December 31, 2022:

	Balance 1/1/2022	Additions	Deletions	Balance 12/31/2022	Current Portion
Operating advances	\$ 370,000	\$ -	\$ 370,000	\$ -	\$ -
Capital advances	532,183	-	532,183	-	-
Total	<u>\$ 902,183</u>	<u>\$ -</u>	<u>\$ 902,183</u>	<u>\$ -</u>	<u>\$ -</u>

Debt Authorization

As of December 31, 2017, District No. 1, and District No. 2 (the “Districts”) had remaining combined debt authorization of \$0. The District’s Service Plan establishes a total combined general obligation debt limit under the Service Plan for both Districts of \$33,033,000. In May 2018, the authorized electors of District No. 2 voted to increase the debt authorization by \$27,500,000. Such debt can be issued only if the Service Plan is amended or District No. 2 follows certain statutory procedures prior to issuance, which District No. 2 undertook in September 2019.

SOUTHSHORE METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements December 31, 2022

Note 5: Related Parties

In 2022, one member of the Board of Directors was a consultant, directly or indirectly, of RainTree Investment Corporation (“RainTree”), which in 2022, had significant ownership and/or investment interests in the property within the Districts. Management believes that all potential conflicts, if any, had been disclosed to the Secretary of State and the Board of Directors. Two members of the Board of Directors are employees of JR Engineering LLC, which is contracted as project manager for the construction of the capital infrastructure. In 2022, the District paid JR Engineering LLC, \$111,135 for services rendered.

Note 6: Agreements

Amended and Restated Intergovernmental Agreement – On December 2, 2004, and amended on May 11, 2007, the District entered into an agreement with District No. 2, in which District No. 2 agrees to assign all revenue raised from all sources not pledged to District No. 2 debt to the District to offset the expenses of construction of public improvements and the costs of operation and maintenance of such public improvements. The District shall provide the operations and maintenance services and to maintain all necessary insurance in a manner deemed appropriate by the Districts and in compliance with applicable law. In 2022, the District received from District No. 2, \$468,098 for operations and maintenance and \$292,684 for capital improvements.

Acquisition and Reimbursement Agreement – On August 5, 2015, the District entered into an agreement with Richmond American Homes of Colorado, Inc. (“Richmond”). This allows Richmond to acquire and construct public improvements necessary for the development of Filings 11 and 13. Richmond may construct the improvements directly related to their subdivision and transfer to the District or to the City of Aurora. The District will reimburse Richmond for the total costs upon certification and transfer of the infrastructure improvements. A reimbursement was made by the District in 2020 for \$65,498. There was no other reimbursement in 2022.

Metro District Improvements Escrow Agreement Filings 16 and 17 – On November 28, 2018, the District entered into an agreement with the Investor, Richmond, Toll Southwest, LLC, (“Toll”) and UMB Bank. The Investor has deposited \$6,061,693 from the sale of lots to Richmond and Toll into an escrow account. The funds are to be used for the costs and expenses of the public improvements related to Filings 16 and 17. If any funds are used for this purpose, the District has no reimbursement obligation. As of December 31, 2022, the amount of \$5,458,556 has been drawn from the escrow account.

Advance and Conveyance Agreement – Effective April 21, 2022, the District, District No. 2 and the Investor entered into the Advance and Conveyance Agreement, (the “Agreement”). The Investor agreed to contribute \$835,000 to the District to make final advances necessary to construct certain Public Improvements. The Investor agreed to waive all repayment obligations from the Districts on existing amounts owed and agreed to convey the original recreation center to the District, (see Note 3), along with other properties within the development.

SOUTHSHORE METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements December 31, 2022

In exchange, the Districts assigned any rights of reimbursement from the City of Aurora regarding the Development Water Transmission, & Storm Drainage Construction and Cost Reimbursement Agreement, dated February 12, 2007, to the Investor. The Districts and the Investor also agreed to release each other of all other claims, known or unknown.

Note 7: 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.

In 2002, 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 Article X, Section 20 of the Colorado Constitution.

Note 8: Risk Management

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

SOUTHSHORE METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements
December 31, 2022

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 9: Interfund and Operating Transfers

The transfer of \$154,814 from the General Fund to the Capital Projects Fund was transferred for the purpose of capital outlay expenditures.

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

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

- 1) Capital improvements used in government activities are not financial resources and, therefore are not reported in the funds; and
- 2) long-term liabilities such as bonds payable and accrued bond interest payable are not due and payable in the current period and, therefore, are not in the funds.

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

- 1) Governmental funds report capital outlays as expenditures, however, in the statement of activities, the costs of those assets are held as construction in process pending transfer to other governmental entities or depreciated over their useful lives;
- 2) governmental funds report interest expense on the modified accrual basis; however, interest expense is reported on the full accrual method on the Statement of Activities;
- 3) governmental funds report developer advances and/or bond proceeds as revenue; and,
- 4) governmental funds report long-term debt payments as expenditures, however, in the statement of activities, the payment of long-term debt is recorded as a decrease of long-term liabilities.

SOUTHSHORE METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements
December 31, 2022

Note 11: Subsequent Event

In 2023, the Board of Directors of District No. 1 adopted a Resolution to dissolve the District. The Board of Directors of the District determined that the District accomplished the original purposes for which it was organized and had completed the construction and financing of the facilities for the Southshore Metropolitan Districts community. In 2023, the District has no outstanding indebtedness (see Note 4) and exists solely for operational, maintenance and administrative functions. With the dissolution of the District, the Districts will terminate the Amended and Restated Intergovernmental Agreement (see Note 6), between the District and District No. 2, therefore, assigning any cash or other assets remaining as of the date of dissolution, to District No. 2.

SUPPLEMENTAL INFORMATION

SOUTHSHORE METROPOLITAN DISTRICT NO. 1

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - CAPITAL PROJECTS FUND

For the Year Ended December 31, 2022

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES				
Transfer from District No. 2	\$ 766,036	\$ 766,036	\$ 292,684	\$ (473,352)
Investor contribution	<u>-</u>	<u>2,433,964</u>	<u>2,558,239</u>	<u>124,275</u>
Total Revenues	<u>766,036</u>	<u>3,200,000</u>	<u>2,850,923</u>	<u>(349,077)</u>
EXPENDITURES				
Capital improvements	766,036	766,036	447,498	318,538
Facilities acquisition	<u>-</u>	<u>2,433,964</u>	<u>2,558,239</u>	<u>(124,275)</u>
Total Expenditures	<u>766,036</u>	<u>3,200,000</u>	<u>3,005,737</u>	<u>194,263</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	-	-	(154,814)	(154,814)
OTHER FINANCING SOURCES (USES)				
Transfer (to) from other funds	<u>-</u>	<u>-</u>	<u>154,814</u>	<u>154,814</u>
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>154,814</u>	<u>154,814</u>
NET CHANGE IN FUND BALANCE	-	-	-	-
FUND BALANCE:				
BEGINNING OF YEAR	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>