

HIGHLANDS METROPOLITAN DISTRICT NO. 3

Financial Statements

Year Ended December 31, 2023

with

Independent Auditor's Report

C O N T E N T S

	<u>Page</u>
<u>Independent Auditor's Report</u>	I
<u>Basic Financial Statements</u>	
Balance Sheet/Statement of Net Position - Governmental Funds	1
Statement of Revenues, Expenditures and Changes in Fund Balances/Statement of Activities - Governmental Funds	2
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund	3
Notes to Financial Statements	4
<u>Supplemental Information</u>	
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual – Debt Service Fund	19
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Capital Projects Fund	20



HIRATSUKA & ASSOCIATES, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Highlands Metropolitan District No. 3
City and County of Broomfield, Colorado

Opinion

We have audited the accompanying financial statements of the governmental activities and each major fund of the Highlands Metropolitan District No. 3 (the District) as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District, as of December 31, 2023, and the respective changes in financial position and the budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with generally accepted auditing standards, we:

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Management has not presented Management's Discussion and Analysis. Such missing information, although not a part of the basic financial statements, is required by GASB, 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 the missing information.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Supplemental Information as listed in the table of contents is presented for the purpose of additional analysis and was not a required part of the financial statements.

The Supplemental Information is the responsibility of management and was derived from and related 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 the 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 financial statements as a whole.

Hiratsuka & Associates, LLP

September 30, 2024
Wheat Ridge, Colorado

Highlands Metropolitan District No. 3

BALANCE SHEET/STATEMENT OF NET POSITION - GOVERNMENTAL FUNDS December 31, 2023

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
ASSETS						
Cash - restricted	\$ 2,038	76	5	2,119	-	2,119
Receivable - County Treasurer	51	171	-	222	-	222
Property taxes receivable	555	1,849	-	2,404	-	2,404
Prepaid Expenses	6,239	-	-	6,239	-	6,239
Accounts receivable - Developer	11,390	45,238	3	56,631	(56,631)	-
Capital assets not being depreciated	-	-	-	-	8,447,039	8,447,039
Total Assets	<u>\$ 20,273</u>	<u>\$ 47,334</u>	<u>\$ 8</u>	<u>\$ 67,615</u>	<u>8,390,408</u>	<u>8,458,023</u>
LIABILITIES						
Accounts Payable	\$ 12,777	\$ -	\$ -	\$ 12,777	-	12,777
Due to County Treasurer	6,941	23,576	-	30,517	-	30,517
Accrued interest	-	-	-	-	692,190	692,190
Long-term liabilities:						
Due in more than one year	-	-	-	-	9,371,478	9,371,478
Total Liabilities	<u>19,718</u>	<u>23,576</u>	<u>-</u>	<u>43,294</u>	<u>10,063,668</u>	<u>10,106,962</u>
DEFERRED INFLOWS OF RESOURCES						
Deferred property taxes	555	1,849	-	2,404	-	2,404
Total Deferred Inflows of Resources	<u>555</u>	<u>1,849</u>	<u>-</u>	<u>2,404</u>	<u>-</u>	<u>2,404</u>
FUND BALANCES/NET POSITION						
Fund Balances:						
Nonspendable:						
Prepays	6,239	-	-	6,239	(6,239)	-
Restricted:						
Emergencies	3,240	-	-	3,240	(3,240)	-
Debt service	-	21,909	-	21,909	(21,909)	-
Capital projects	-	-	8	8	(8)	-
Unassigned	(9,479)	-	-	(9,479)	9,479	-
Total Fund Balances	<u>-</u>	<u>21,909</u>	<u>8</u>	<u>21,917</u>	<u>(21,917)</u>	<u>-</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 20,273</u>	<u>\$ 47,334</u>	<u>\$ 8</u>	<u>\$ 67,615</u>		
Net Position:						
Restricted for:						
Emergencies					3,240	3,240
Capital projects					8	8
Unrestricted					(1,654,591)	(1,654,591)
Total Net Position					<u>\$ (1,651,343)</u>	<u>\$ (1,651,343)</u>

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

Highlands Metropolitan District No. 3

STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES/STATEMENT OF ACTIVITIES -
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2023

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
EXPENDITURES						
Accounting and audit	\$ 15,087	\$ -	\$ -	\$ 15,087	\$ -	\$ 15,087
Election expense	3,204	-	-	3,204	-	3,204
Insurance	3,832	-	-	3,832	-	3,832
Legal	39,662	-	-	39,662	-	39,662
Management	11,434	-	-	11,434	-	11,434
Miscellaneous expenses	883	-	-	883	-	883
Paying agent fees	-	3,500	-	3,500	-	3,500
Treasurer's fees	3	9	-	12	-	12
Capital Expenditures	-	-	2,812,512	2,812,512	(2,812,512)	-
Developer advances interest	-	-	-	-	79,444	79,444
Bond Interest	-	19,892	-	19,892	402,839	422,731
Total Expenditures	<u>74,105</u>	<u>23,401</u>	<u>2,812,512</u>	<u>2,910,018</u>	<u>(2,330,229)</u>	<u>579,789</u>
GENERAL REVENUES						
Property taxes	184	614	-	798	-	798
Specific ownership taxes	668	2,225	-	2,893	-	2,893
Interest income	666	464	3	1,133	-	1,133
TIF revenue	12,602	42,007	-	54,609	-	54,609
Total General Revenues	<u>14,120</u>	<u>45,310</u>	<u>3</u>	<u>59,433</u>	<u>-</u>	<u>59,433</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES						
	(59,985)	21,909	(2,812,509)	(2,850,585)	2,330,229	(520,356)
OTHER FINANCING SOURCES (USES)						
Developer advances	59,985	-	2,812,513	2,872,498	(2,872,498)	-
Total Other Financing Sources (Uses)	<u>59,985</u>	<u>-</u>	<u>2,812,513</u>	<u>2,872,498</u>	<u>(2,872,498)</u>	<u>-</u>
NET CHANGES IN FUND BALANCES						
	-	21,909	4	21,913	(21,913)	
CHANGE IN NET POSITION						
					(520,356)	(520,356)
FUND BALANCES/NET POSITION:						
BEGINNING OF YEAR- Restated	-	-	4	4	(1,130,991)	(1,130,987)
END OF YEAR	<u>\$ -</u>	<u>\$ 21,909</u>	<u>\$ 8</u>	<u>\$ 21,917</u>	<u>\$ (1,673,260)</u>	<u>\$ (1,651,343)</u>

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

Highlands Metropolitan District No. 3

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

For the Year Ended December 31, 2023

	Original <u>Budget</u>	Final <u>Budget</u>	Actual	Variance Favorable (Unfavorable)
REVENUES				
Property taxes	\$ 184	\$ 184	\$ 184	\$ -
Specific ownership taxes	4	4	668	664
Interest Income	-	-	666	666
TIF revenue	<u>12,602</u>	<u>12,602</u>	<u>12,602</u>	<u>-</u>
Total Revenues	<u>12,790</u>	<u>12,790</u>	<u>14,120</u>	<u>1,330</u>
EXPENDITURES				
Accounting and audit	10,000	15,000	15,087	(87)
Election expense	5,000	5,000	3,204	1,796
Insurance	3,000	3,000	3,832	(832)
Legal	20,000	40,000	39,662	338
Management	-	12,000	11,434	566
Miscellaneous expenses	1,500	4,500	883	3,617
Treasurer's fees	3	3	3	-
Contingency	9,312	497	-	497
Emergency reserve	<u>1,185</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Expenditures	<u>50,000</u>	<u>80,000</u>	<u>74,105</u>	<u>5,895</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(37,210)	(67,210)	(59,985)	7,225
OTHER FINANCING SOURCES (USES)				
Developer advances	<u>37,210</u>	<u>67,210</u>	<u>59,985</u>	<u>(7,225)</u>
Total Other Financing Sources (Uses)	<u>37,210</u>	<u>67,210</u>	<u>59,985</u>	<u>(7,225)</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>

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

HIGHLANDS METROPOLITAN DISTRICT NO. 3

Notes to Financial Statements
December 31, 2023

Note 1: Summary of Significant Accounting Policies

The accounting policies of the Highlands Metropolitan District No. 3 (“District”), located in the City and County of Broomfield, Colorado (“Broomfield”), 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 January 9, 2017, as a quasi-municipal organization established under the State of Colorado Special District Act. The District operates pursuant to a service plan approved by Broomfield on July 26, 2016. The property in the District was originally included within the boundaries of Highlands Metropolitan District No. 1 which was organized in 2007. In October 2015 the property within the District's boundaries was excluded from Highlands Metropolitan District No. 1. The District was established to provide for the planning, design, acquisition, construction, installation, relocation, redevelopment and financing of water, sanitation/storm sewer, street, safety protection, parks and recreation, transportation, television relay and translation facilities, mosquito control and within and without the boundaries of the District. The District's primary revenues are TIF revenues and developer advances. After development the primary revenues are expected to be property taxes. The District is governed by an elected Board of Directors.

As required by GAAP, these financial statements present the activities of the District, which is legally separate and financially independent of other state and local governments. The District follows the GASB pronouncements which provide guidance for determining which governmental activities, organizations and functions should be included within the financial reporting entity. GASB sets forth the financial accountability of a governmental organization's elected governing body as the basic criterion for including a possible component governmental organization in a primary government's legal entity. Financial accountability includes, but is not limited to, appointment of a voting majority of the organization's governing body, ability to impose its will on the organization, a potential for the organization to provide specific financial benefits or burdens and fiscal dependency. The pronouncements also require including a possible component unit if it would be misleading to exclude it.

The District is not financially accountable for any other organization. The District has no component units as defined by the GASB.

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

HIGHLANDS METROPOLITAN DISTRICT NO. 3

Notes to Financial Statements December 31, 2023

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 in which they are collected.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The material sources of revenue subject to accrual are property taxes and interest. Expenditures, other than interest on long-term obligations, are recorded when the liability is incurred or the long-term obligation is paid.

HIGHLANDS METROPOLITAN DISTRICT NO. 3

Notes to Financial Statements December 31, 2023

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.

Debt Service Fund – The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

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. The District amended its total appropriations in the General Fund as a result of unexpected expenses, in the Capital Projects fund as a result of additional improvements acquired and in the Debt Service Fund due to anticipated increase in interest expense.

Assets, Liabilities and Net Position

Fair Value of Financial Instruments

The District's financial instruments include cash and investments, accounts receivable and accounts payable. The District estimates that the fair value of all financial instruments at December 31, 2023, 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 short-term investments with maturities of three months or less from the date of acquisition are considered to be cash on hand. Investments for the government are reported at fair value.

HIGHLANDS METROPOLITAN DISTRICT NO. 3

Notes to Financial Statements December 31, 2023

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.

Estimates

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

Deferred Outflows/Inflows of Resources

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

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has one item that qualifies for reporting in this category. Deferred property taxes are deferred and recognized as an inflow of resources in the period that the amounts become available.

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 fixed 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 2023.

HIGHLANDS METROPOLITAN DISTRICT NO. 3

Notes to Financial Statements December 31, 2023

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 County Commissioners to put the tax lien on the individual properties as of January 1 of the following year. The County Treasurer collects the determined taxes during the ensuing calendar year. The taxes are payable by April 30 or if in equal installments, at the taxpayers' election, in February and June. Delinquent taxpayers are notified in July or August and the sales of the resultant tax liens on delinquent properties are generally held in November or December. The County Treasurer remits the taxes collected monthly to the District.

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

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.

Nonspendable fund balance at December 31, 2023 represents prepaid expenses.

Restricted Fund Balance

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

The restricted fund balance in the General Fund represents Emergency Reserves that have been provided as required by Article X, Section 20 of the Constitution of the State of Colorado. A total of \$3,240 of the General Fund balance has been restricted in compliance with this requirement.

HIGHLANDS METROPOLITAN DISTRICT NO. 3

Notes to Financial Statements December 31, 2023

The restricted fund balance in the Debt Service Fund in the amount of \$21,909 is restricted for the payment of principal and interest on the Series 2022 Bonds.

The restricted fund balance in the Capital Projects Fund in the amount of \$8 is restricted for the payment of the costs for capital improvements within the District.

Committed Fund Balance

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

Assigned Fund Balance

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

Unassigned Fund Balance

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

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

Net Position

Net Position represents the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources. The District 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.

HIGHLANDS METROPOLITAN DISTRICT NO. 3

Notes to Financial Statements
December 31, 2023

Restated Beginning Net Position

Beginning net position in the District was restated by \$8,266 due to an incorrect calculation of developer advance interest in prior years.

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, 2023, cash and investments are classified in the accompanying financial statements as follows:

Statement of Net Position:

Cash - Restricted	<u>2,119</u>
Total	<u>\$ 2,119</u>

Cash and investments as of December 31, 2023, consist of the following:

Deposits	\$ (518)
Investments - Colotrust	2,556
Investments – Federated Hermes	<u>81</u>
	<u>\$ 2,119</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, 2023, none of the District’s deposits were exposed to custodial credit risk.

Investments

Certain investments are measured at fair value within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

HIGHLANDS METROPOLITAN DISTRICT NO. 3

Notes to Financial Statements December 31, 2023

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

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

Interest Rate Risk

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

As of December 31, 2023, the District had the following investments.

COLOTRUST

The local government investment pool, Colorado Local Government Liquid Asset Trust ("COLOTRUST"), is rated AAAM by Standard & Poor's with a weighted average maturity of under 60 days. COLOTRUST is an investment trust/joint venture established for local government entities in Colorado to pool surplus funds. The State Securities Commissioner administers and enforces all State statutes governing the COLOTRUST. COLOTRUST records its investments at fair value and the District records its investment in COLOTRUST using the net asset value method. COLOTRUST operates similarly to a money market fund with each share maintaining a value of \$1.00. COLOTRUST offers shares in three portfolios, one of which is COLOTRUST PLUS+. COLOTRUST PLUS+ may invest in U.S. Treasuries, government agencies, the highest-rated commercial paper, certain corporate securities, certain money market funds, and certain repurchase agreements, and limits its investments to those allowed by State statutes. Purchases and redemptions are available daily at a net asset value (NAV) of \$1.00. A designated custodial bank provides safekeeping and depository services to COLOTRUST in connection with the direct investment and withdrawal function of COLOTRUST. The custodian's internal records identify the investments owned by participating governments. There are no unfunded commitments and there is no redemption notice period. On December 31, 2023, the District had \$2,556 invested in COLOTRUST Plus+.

Federated Hermes Treasury Obligation Fund

The District's funds that were included in the trust accounts at UMB Bank were invested in the Federated Hermes Treasury Obligation Fund ("Portfolio"). This Portfolio is a money market fund and each share is equal in value to \$1.00. All investments within the Portfolio are recorded at fair value and the District records its investment in the Portfolio at NAV. The Portfolio is AAAM rated and invests exclusively in U.S. Treasury securities and repurchase agreements collateralized by U.S. Treasury securities. The maturity of the underlying securities is 9 days or less. As of December 31, 2023, the District has \$81 invested in the Portfolio.

HIGHLANDS METROPOLITAN DISTRICT NO. 3

Notes to Financial Statements
December 31, 2023

Note 3: Capital Assets

An analysis of the changes in capital assets for the year ended December 31, 2023 follows:

<u>Governmental Type Activities:</u>	<u>Balance 1/1/2023</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12/31/2023</u>
<u>Capital assets not being depreciated:</u>				
Construction in progress	\$ 5,634,527	\$ 2,812,512	\$ -	\$ 8,447,039
Total capital assets not being depreciated	<u>5,634,527</u>	<u>2,812,512</u>	<u>-</u>	<u>8,447,039</u>
Government type assets, net	<u>\$ 5,634,527</u>	<u>\$ 2,812,512</u>	<u>\$ -</u>	<u>\$ 8,447,039</u>

Upon completion and acceptance, all fixed assets are expected to be conveyed by the District to other local governments. The District will not be responsible for maintenance of the improvements conveyed to other entities.

Note 4: Long Term Debt

A description of the long-term obligations as of December 31, 2023, is as follows:

\$5,975,000 Limited Tax General Obligation Bonds, Series 2022

On April 14, 2022, the District issued 5,975,000 Limited Tax General Obligation Bonds, Series 2022 (“Series 2022 Bonds”) for the purpose of financing or reimbursing a portion of the costs of acquiring, constructing, and/or installing certain public infrastructure to serve the Development and paying for the costs of issuance of the Series 2022 Bonds. The Series 2022 Bonds bear interest at 6.75% payable annually on December 1 commencing on December 1, 2022, and mature on December 1, 2051. Interest compounds at this same rate on unpaid interest each December 1. The Series 2022 Bonds are subject to early redemption at the option of the District commencing June 1, 2027, with a redemption premium until June 1, 2030 ranging from 3% to 1%. The Series 2022 Bonds may be redeemed after June 1, 2030 with no redemption premium.

The 2022 Bonds are limited tax “cash flow” general obligations of the District secured by and payable solely from the Pledged Revenues consisting of moneys derived by the Required Mill Levy, the portion of Specific Ownership Tax related to the Required Mill Levy, as well as any other legally available moneys determined by the District. Events of Default as defined in the 2022 Bond Indenture are 1) the failure to impose or apply the Required Mill levy as per the Indenture, 2) the default by the District in the performance or observance of any other of the covenants, agreements, or conditions of the Indenture and fails to remedy this after notice is given, and 3) the filing of a petition under the federal bankruptcy laws or other applicable laws seeking to adjust the obligations represented by the Bonds.

HIGHLANDS METROPOLITAN DISTRICT NO. 3

Notes to Financial Statements December 31, 2023

Failure to pay the principal of or interest on the Series 2022 Bonds when due shall not, of itself, constitute an Event of Default under the Indenture. Remedies available in the Event of Default include 1) receivership, 2) suit for judgment, and 3) other suits. Acceleration of the Series 2022 Bonds is not an available remedy for an Event of Default. Any amount of principal of or interest remaining on the Series 2022 Bonds after the application of all Pledged Revenues available on December 1, 2066 will be deemed discharged and paid in full. Because of the uncertainty of timing of payments under the Series 2022 Bonds no related schedule of expected principal and interest payments is presented.

Infrastructure Acquisition and Reimbursement Agreement

On January 25, 2015, the District entered into an Infrastructure Acquisition and Reimbursement Agreement (“IARA”) with an effective date of August 19, 2008 with Vista Highlands, LLC (“Vista”) pursuant to which the District may reimburse Vista for District Eligible Costs as define in the IARA to acquire any Public Improvements constructed by Vista for the benefit of the District and to be owned by the District and to pay the District Eligible Costs thereof, and to reimburse Vista for the District Eligible Costs including a construction management fee not to exceed 5% incurred by Vista for Public Improvements that are dedicated to other governmental entities , subject to verification and certification by the District's engineer and accountant and subject to other requirements set forth in the IARA.

The IARA provides that the amount due under the IARA do not constitute debt or indebtedness of the District and are subject to annual appropriations. The District agreed to reimburse Vista the cost of such improvements plus interest at 8% per annum. The are not amounts outstanding under the IARA at December 31, 2023.

Public Improvements Acquisition and Reimbursement Agreement

The District and Vista Highlands Development Corporation, Inc., a Colorado corporation (“Developer”) have entered into the Public Improvements Acquisition and Reimbursement Agreement on April 14, 2021, with an effective date of January 1, 2020 (the “Developer Capital Funding Agreement”), in order to establish the terms and conditions for the acquisition of certain Public Improvements constructed or caused to be constructed by the Developer that are to be owned by the District or other governmental entity, and the reimbursement of certain costs related to the financing, construction and installation of such Public Improvements that may be lawfully funded by the District under the Special District Act and the Service Plan (“District Eligible Costs”). The Developer Capital Funding Agreement specifies the circumstances under which the District will become obligated to reimburse the Developer for Public Improvements to be acquired by the District.

HIGHLANDS METROPOLITAN DISTRICT NO. 3

Notes to Financial Statements December 31, 2023

Upon the completion of the requirements set forth in the Developer Capital Funding Agreement for acceptance of District Eligible Costs, the District is to repay such District Eligible Costs (a “Developer Repayment Obligation”) from the proceeds of loans or bonds issued by the District and/or other legally available funds of the District not otherwise required for reasonable operating costs of the District. Upon issuance of any Capital Developer Reimbursement Obligation, the amount due and owing represented by said obligation is to accrue interest at 8% as provided for in such Capital Developer Reimbursement Obligation. The District's obligations under this Agreement shall terminate at the earlier of the repayment in full of the Certified District Eligible Costs or 30 years from the execution date hereof, at which date any outstanding principal and interest shall be forgiven in its entirety. The District had \$3,064,142 of principal and \$72,956 of interest outstanding under this agreement at December 31, 2023.

Funding and Reimbursement Agreement (O&M)

The District entered into an Funding and Reimbursement Agreement (“Operations and Maintenance”) with the Developer dated April 14, 2021 with an effective date of January 1, 2020, pursuant to which the Developer agreed to advance up to \$100,000 per annum up to the aggregate of \$200,000 to the District through December 31, 2023 for payment of the District’s operation, administrative and maintenance expenses. The District's obligation terminates 20 years from the date of execution of the agreement and bears interest at the rate of 3% per annum. Repayment is subordinate to the Vista Reimbursement Agreement. The District had \$169,773 of principal and \$11,075 of interest outstanding under this agreement at December 31, 2023.

Vista Reimbursement Agreement

The District entered into a Funding and Reimbursement Agreement (“Operations and Maintenance”) with Vista dated January 25, 2017 pursuant to which Vista agreed to advance up to \$500,000 to the District through December 31, 2019 with the option to extend for additional years for payment of the District’s operation, administrative and maintenance expenses. The District’s obligations under this agreement are subject to annual appropriation by the District and terminates at the earlier of the repayment in full or 40 years from the execution date at which time any remaining liability is forgiven, and it accrues interest at 7% per annum. All obligations of Vista to advance funds to the District terminated on December 31, 2019. The District had \$56,903 of principal and \$21,629 and interest outstanding under this agreement at December 31, 2023.

HIGHLANDS METROPOLITAN DISTRICT NO. 3

Notes to Financial Statements
December 31, 2023

The following is an analysis of changes in long-term debt for the period ending December 31, 2023:

	Restated Balance 1/1/2023	Additions	Deletions	Balance 12/31/2023	Current Portion
<u>General Obligation Bonds</u>					
Series 2022 Bonds	\$ 5,975,000	\$ -	\$ -	5,975,000	\$ -
<u>Other Direct Borrowings</u>					
Developer Reimbursement - Capital	260,036	2,804,106	-	3,064,142	-
Interest on Developer Reimbursement - Capital	2,371	70,585	-	72,956	-
Developer Reimbursement - Operations	205,046	21,630	-	226,676	-
Interest on Developer Reimbursement - Operations	23,845	8,859	-	32,704	-
Total	<u>\$ 6,466,298</u>	<u>\$ 2,905,180</u>	<u>\$ -</u>	<u>\$ 9,371,478</u>	<u>\$ -</u>

Debt Authorization

At an election the eligible voters of the District authorized the issuance of a total of \$320,000,000 of indebtedness for various categories of expenditures. The District is not planning on issuing debt in 2024. According to the District’s Service Plan, the District cannot issue debt in excess of \$32,000,000.

Note 5: Other Agreements

Reimbursement Agreement

On November 12, 2019, the District entered into a Reimbursement Agreement with Broomfield Urban Renewal Authority (“BURA”) pursuant to which BURA agreed to remit to the District all of the property tax increment revenues resulting from the imposition of ad valorem property taxes less a fee of 1.5% , (including both its mill levy for operating and maintenance expenses and its mill levy for debt service) and has agreed to remit a portion of the municipal sales tax collected with the boundaries of the District. The Cooperation Agreement terminates on April 27, 2029. The District is in the North Park West Urban Renewal Project – Broomfield Urban Renewal Authority (“NPWURP”). These amounts are recorded as TIF revenues on the attached financial statements.

On April 27, 2004, BURA authorized the Urban Renewal Plan for the NPWURP which terminates on April 27, 2029. After April 27, 2029, the District will receive the full amount of property taxes resulting from its mill levies imposed on the total assessed value of the District directly from the County Treasurer.

HIGHLANDS METROPOLITAN DISTRICT NO. 3

Notes to Financial Statements December 31, 2023

Property Exclusion Agreement

On December 9, 2021, the District entered into a Property Exclusion Agreement (“Exclusion Agreement”) with Vista, and FRH Realty LLC, a Delaware limited liability company (the “Buyer”). The parties agreed that promptly following the execution of the Exclusion Agreement, Vista, as the current owner of the Property, will execute and deliver to the District an exclusion petition to exclude the property to be owned by the Buyer from the boundaries of the District. The District agreed to promptly commence the process to exclude the Property from its boundaries and, not later than thirty (30) days after receipt of the exclusion petition, to: (i) hold a public hearing to consider the exclusion of the Property and upon satisfaction of the conditions set forth under Sections 32-1-50 I et seq., C.R.S., adopt a resolution approving the exclusion of the Property, and (ii) subsequently move the Broomfield County District Court for the entry of an order excluding the Property from the District in accordance with Section 32-1-501(4)(b), C.R.S. (the "Exclusion Order"). The District resolution approving the exclusion and the Exclusion Order shall provide that the District does not have any outstanding indebtedness for which the Property would remain obligated pursuant to Section 32-1-503(1), C.R.S. Following issuance of the Exclusion Order, the District shall obtain a certified copy of the Exclusion Order and, no later than the date of Closing, cause the Exclusion Order to be recorded in the real property records of the City and County of Broomfield.

The Buyer agreed to pay to Vista \$3,368,010, as Buyer's total contribution to the costs of constructing the public infrastructure improvements that serve the Property and other properties within the boundaries of the District; and to the District, the amount of \$1,720,022, as Buyer's total contribution to the present and future costs of operating and maintaining the District and the Infrastructure.

During 2023 the First and Second Amendment (“Amendment”) to the Exclusion Agreement were approved. As a result of the First Amendments the Buyer’s obligation to pay both Vista and the District was determined to be the earlier of: (i) issuance of a grading permit to Buyer by the City and County of Broomfield for the over-excavation work related to Buyer’s Project and (ii) the date which is twenty-four (24) months following the Closing under the Purchase Agreement, all subject to the terms and conditions further set forth in the Twentieth Amendment. Pursuant to the Second Amendment, the District agreed to be obligated to (a) maintain, repair and replace (including, without limitation, repaving, sweeping and plowing) the streets and the access and drainage easement areas within the District and to provide all other operations and maintenance services on and to the Maintenance Areas that are generally provided to other property owners within the at no cost or liability to Buyer other than the payment by Buyer of the O&M Payment pursuant to the terms of the Property Exclusion Agreement.

HIGHLANDS METROPOLITAN DISTRICT NO. 3

Notes to Financial Statements December 31, 2023

Note 6: Related Party

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

Note 7: 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 2016 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.

HIGHLANDS METROPOLITAN DISTRICT NO. 3

Notes to Financial Statements
December 31, 2023

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: 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 may 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 notes payable and accrued 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 may 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 capitalized and 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; and,
- 3) governmental funds report long-term debt payments as expenditures, however, in the statement of activities, the payment of long-term debt is recorded as a decrease of long-term liabilities.

SUPPLEMENTAL INFORMATION

Highlands Metropolitan District No. 3

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

For the Year Ended December 31, 2023

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
REVENUES				
Property taxes	\$ 614	\$ 614	\$ 614	\$ -
Specific ownership taxes	4	4	2,225	2,221
Interest income	-	-	464	464
TIF revenue	<u>42,007</u>	<u>45,382</u>	<u>42,007</u>	<u>(3,375)</u>
Total Revenues	<u>42,625</u>	<u>46,000</u>	<u>45,310</u>	<u>(690)</u>
EXPENDITURES				
Paying agent fees	3,500	3,500	3,500	-
Bond interest	39,116	42,491	19,892	22,599
Treasurer's fees	<u>9</u>	<u>9</u>	<u>9</u>	<u>-</u>
Total Expenditures	<u>42,625</u>	<u>46,000</u>	<u>23,401</u>	<u>22,599</u>
NET CHANGE IN FUND BALANCE	-	-	21,909	21,909
FUND BALANCE:				
BEGINNING OF YEAR	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 21,909</u>	<u>\$ 21,909</u>

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

Highlands Metropolitan District No. 3

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

For the Year Ended December 31, 2023

	Original <u>Budget</u>	Final <u>Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
REVENUES				
Interest income	\$ -	\$ -	\$ 3	\$ 3
Total Revenues	<u>-</u>	<u>-</u>	<u>3</u>	<u>3</u>
EXPENDITURES				
Capital Expenditures	<u>773,967</u>	<u>3,000,000</u>	<u>2,812,512</u>	<u>187,488</u>
Total Expenditures	<u>773,967</u>	<u>3,000,000</u>	<u>2,812,512</u>	<u>187,488</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(773,967)	(3,000,000)	(2,812,509)	187,491
OTHER FINANCING SOURCES (USES)				
Developer advances	<u>-</u>	<u>3,000,000</u>	<u>2,812,513</u>	<u>(187,487)</u>
Total Other Financing Sources (Uses)	<u>-</u>	<u>3,000,000</u>	<u>2,812,513</u>	<u>(187,487)</u>
NET CHANGE IN FUND BALANCE	(773,967)	-	4	4
FUND BALANCE:				
BEGINNING OF YEAR	<u>773,967</u>	<u>4</u>	<u>4</u>	<u>-</u>
END OF YEAR	<u>\$ -</u>	<u>\$ 4</u>	<u>\$ 8</u>	<u>\$ 4</u>

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