

**THE GARDENS ON HAVANA METROPOLITAN DISTRICT NO. 3**  
Arapahoe County, Colorado

**FINANCIAL STATEMENTS**  
December 31, 2017

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Office of the State Auditor

September 29, 2018

**TABLE OF CONTENTS**

	<b>PAGE</b>
<b>INDEPENDENT AUDITORS' REPORT</b> .....	<b>1</b>
<b>BASIC FINANCIAL STATEMENTS</b>	
Government-wide Financial Statements	
Statement of Net Position .....	1
Statement of Activities .....	2
Fund Financial Statements	
Balance Sheet - Governmental Funds .....	3
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds .....	4
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities .....	5
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - General Fund .....	6
Notes to Financial Statements .....	7
<b>SUPPLEMENTARY INFORMATION</b> .....	<b>19</b>
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Debt Service Fund .....	20
Schedule of Debt Service Requirements to Maturity .....	21
Schedule of Assessed Valuation, Mill Levy and Property Taxes Collected .....	22

Board of Directors  
The Gardens on Havana Metropolitan District No. 3  
Arapahoe County, Colorado

### Independent Auditors' Report

We have audited the accompanying financial statements of the governmental activities and each major fund of The Gardens on Havana Metropolitan District No. 3, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

#### ***Management's Responsibility for the Financial Statements***

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

#### ***Auditor's Responsibility***

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

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

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

#### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of The Gardens on Havana Metropolitan District No. 3 as of December 31, 2017, 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.

***Other-Matters***

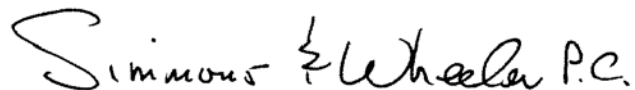
*Required Supplementary Information*

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

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise The Gardens on Havana Metropolitan District No. 3's basic financial statements. The supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.



Englewood, CO  
September 20, 2018

## **BASIC FINANCIAL STATEMENTS**

**THE GARDENS ON HAVANA METROPOLITAN DISTRICT NO. 3**  
**STATEMENT OF NET POSITION**  
Year ended December 31, 2017

	<b>Governmental Activities</b>
<b>ASSETS</b>	
Cash and investments	\$ 100
Cash and investments - Restricted	593,739
Property tax receivable	19,924
Accounts receivable - PIF	94,025
Receivable from county treasurer	572
Accounts receivable - Sales Tax	243,872
Total assets	952,232
<b>LIABILITIES</b>	
Bond interest payable	83,982
Noncurrent liabilities	
Due within one year	1,525,000
Due in more than one year	24,170,954
Total liabilities	25,779,936
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Property tax revenue	19,924
Total deferred inflows of resources	19,924
<b>NET POSITION</b>	
Restricted for:	
Debt service	848,226
Unrestricted	(25,695,854)
Total net position	\$ (24,847,628)

These financial statements should be read only in connection with  
the accompanying notes to financial statements.

**THE GARDENS ON HAVANA METROPOLITAN DISTRICT NO. 3**  
**STATEMENT OF ACTIVITIES**  
Year ended December 31, 2017

<u>Functions/Programs</u>	<u>Program Revenues</u>			<u>Net (Expense)</u>	
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Revenue and Changes in Net Position</u>
					<u>Governmental Activities</u>
Primary government:					
Government activities:					
General government	\$ -	\$ -	\$ -	\$ -	\$ -
Interest and related costs on long-term debt	28,199,347	3,317,290	-	-	(24,882,057)
	<u>\$ 28,199,347</u>	<u>\$ 3,317,290</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(24,882,057)</u>
General revenues:					
Property taxes					20,103
Specific ownership taxes					7,217
Miscellaneous income					20
Net investment income					6,217
Total general revenues					<u>33,557</u>
Change in net position					(24,848,500)
Net position - Beginning					872
Net position - Ending					<u>\$ (24,847,628)</u>

These financial statements should be read only in connection with the accompanying notes to financial statements.

**THE GARDENS ON HAVANA METROPOLITAN DISTRICT NO. 3**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
Year ended December 31, 2017

	General	Debt Service	Total Governmental Funds
<b>ASSETS</b>			
Cash and investments	\$ 100	\$ -	\$ 100
Cash and investments - Restricted	-	593,739	593,739
Property tax receivable	-	19,924	19,924
Accounts receivable - PIF	-	94,025	94,025
Receivable from county treasurer	-	572	572
Accounts receivable - Sales Tax	-	243,872	243,872
<b>TOTAL ASSETS</b>	<b>\$ 100</b>	<b>\$ 952,132</b>	<b>\$ 952,232</b>
 <b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>			
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred property tax revenue	-	19,924	19,924
Total deferred inflows of resources	-	19,924	19,924
 <b>FUND BALANCE</b>			
Debt service	-	932,208	932,208
Unassigned:	100	-	100
Total fund balances	100	932,208	932,308
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$ 100</b>	<b>\$ 952,132</b>	

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

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

Bonds payable	(25,629,000)
Accrued and unpaid interest on Subordinate Bonds	(186,865)
Accrued interest payable on Bonds	(83,982)
Original issue discount	119,911
Net position of governmental activities	<b>\$ (24,847,628)</b>

These financial statements should be read only in connection with the accompanying notes to financial statements.

**THE GARDENS ON HAVANA METROPOLITAN DISTRICT NO. 3**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
Year ended December 31, 2017

	<u>General</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>			
Property tax increment	\$ -	\$ 1,649,715	\$ 1,649,715
Property taxes	-	20,103	20,103
Specific ownership taxes	-	7,217	7,217
PIF revenue	-	569,250	569,250
Interest income	-	6,217	6,217
Sales tax increment	-	704,240	704,240
Miscellaneous income	-	20	20
Total revenues	<u>-</u>	<u>2,956,762</u>	<u>2,956,762</u>
<b>EXPENDITURES</b>			
Debt service			
Miscellaneous expenses	-	792	792
Treasurer's fees	-	302	302
Bond issuance cost	-	913,306	913,306
Bond principal - Series 2017A	-	1,670,000	1,670,000
Bond interest - Series 2017A	-	694,407	694,407
Total expenditures	<u>-</u>	<u>3,278,807</u>	<u>3,278,807</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>-</u>	<u>(322,045)</u>	<u>(322,045)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Bond proceeds	-	27,299,000	27,299,000
Transfer from District No. 1	-	282,165	282,165
Transfer from District No. 2	-	111,920	111,920
Transfer to District No. 1	-	(26,312,250)	(26,312,250)
Bond issue discount	-	(127,354)	(127,354)
Transfer from (to) other funds	100	(100)	-
Total other financing sources (uses)	<u>100</u>	<u>1,253,381</u>	<u>1,253,481</u>
<b>NET CHANGE IN FUND BALANCES</b>	100	931,336	931,436
<b>FUND BALANCES - BEGINNING OF YEAR</b>	<u>-</u>	<u>872</u>	<u>872</u>
<b>FUND BALANCES - END OF YEAR</b>	<u>\$ 100</u>	<u>\$ 932,208</u>	<u>\$ 932,308</u>

These financial statements should be read only in connection with  
the accompanying notes to financial statements.

**THE GARDENS ON HAVANA METROPOLITAN DISTRICT NO. 3  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
Year ended December 31, 2017**

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

Net change in fund balances - Total governmental funds	\$ 931,436
<p>The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.</p>	
Bond proceeds	(27,299,000)
Bond principal payment	1,670,000
Original issue discount	127,354
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.</p>	
Accrued interest on subordinate bonds - Change in liability	(186,865)
Accrued interest on loan payable - Change in liability	(83,982)
Current year bond issue discount	(7,443)
	(24,848,500)
Changes in net position of governmental activities	\$ (24,848,500)

These financial statements should be read only in connection with the accompanying notes to financial statements.

**THE GARDENS ON HAVANA METROPOLITAN DISTRICT NO. 3  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES - BUDGET AND ACTUAL  
GENERAL FUND  
Year ended December 31, 2017**

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
<b>REVENUES</b>			
Interest income	\$ -	\$ -	\$ -
Total revenues	<u>-</u>	<u>-</u>	<u>-</u>
<b>EXPENDITURES</b>			
Miscellaneous	-	-	-
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>-</u>	<u>-</u>	<u>-</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers from (to) other funds	-	100	100
Total other financing sources (uses)	<u>-</u>	<u>100</u>	<u>100</u>
<b>NET CHANGE IN FUND BALANCES</b>	-	100	100
<b>FUND BALANCES - BEGINNING OF YEAR</b>	<u>-</u>	<u>-</u>	<u>-</u>
<b>FUND BALANCES - END OF YEAR</b>	<u>\$ -</u>	<u>\$ 100</u>	<u>\$ 100</u>

These financial statements should be read only in connection with  
the accompanying notes to financial statements.

**THE GARDENS ON HAVANA METROPOLITAN DISTRICT NO. 3**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2017**

**NOTE 1 - DEFINITION OF REPORTING ENTITY**

The District, a quasi-municipal corporation and political subdivision of the State of Colorado, was organized by order and decree of the District Court on May 27, 2008, and is governed pursuant to provisions of the Colorado Special District Act (Title 32, Article 1, Colorado Revised Statutes). The District's service area is located in the City of Aurora in Arapahoe County, Colorado. The District was organized in conjunction with The Gardens on Havana Metropolitan District No. 1 ("District No. 1") and The Gardens on Havana Metropolitan District No. 2 ("District No. 2"). The Districts have entered into a District Operating Agreement (see Note 6). The Districts were established to finance the construction of certain public infrastructure improvements that benefit the property owners and citizens of the District. The District's primary revenues are property taxes it levies, transfers of property taxes from District No. 2, Aurora Urban Renewal Authority ("AURA") tax increments and public improvement fees. The District is governed by an elected Board of Directors.

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

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

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

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**Government-wide and Fund Financial Statements**

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

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

**THE GARDENS ON HAVANA METROPOLITAN DISTRICT NO. 3**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2017**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

The statement of activities demonstrates the degree to which the direct and indirect expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized in the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The major sources of revenue susceptible to accrual are intergovernmental revenue, sales taxes, and public improvement fees. All other revenue items are considered to be measurable and available only when cash is received by the District. The District determined that Developer advances are not considered as revenue susceptible to accrual. Expenditures, other than interest on long-term obligations are recorded when the liability is incurred or the long-term obligation is due.

The District reports the following major governmental funds:

The General Fund is the District's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Debt Service Fund accounts for the resources accumulated and payments made for principal and interest on long-term debt of the governmental funds.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

**THE GARDENS ON HAVANA METROPOLITAN DISTRICT NO. 3**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2017**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Budgets**

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

The District has amended its annual budget for the year ended December 31, 2017.

**Pooled Cash and Investments**

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

**Intergovernmental Revenue and Property Taxes**

Property taxes are levied by the District and No. 2's Board of Directors. The levy is based on assessed valuations determined by the County Assessor generally as of January 1 of each year. The levy is normally set by December 15 by certification to the Board of County Commissioners to put the tax lien on the individual properties as of January 1 of the following year. The County Treasurer collects the determined taxes during the ensuing calendar year. The taxes are payable by April, at the taxpayer's election, or in equal installments in February and June. Delinquent taxpayers are notified in August and generally sales of the tax liens on delinquent properties are held in November or December. The County Treasurer remits the taxes collected monthly to the Districts.

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

**Original Issue Bond Discount/Premium**

In the government-wide financial statements, bond premiums and discounts are deferred and amortized over the life of the bonds using the interest method. Unamortized amounts are netted against the outstanding balance of debt.

**THE GARDENS ON HAVANA METROPOLITAN DISTRICT NO. 3**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2017**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

**Deferred Inflows of Resources**

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

**Equity**

***Net Position***

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

***Fund Balance***

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

- *Nonspendable fund balance* – The portion of fund balance that cannot be spent because it is either not in spendable form (such as prepaid amounts or inventory) or legally or contractually required to be maintained intact.
- *Restricted fund balance* – The portion of fund balance that is constrained to being used for a specific purpose by external parties (such as bondholders), constitutional provisions, or enabling legislation.
- *Committed fund balance* – The portion of fund balance that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, the Board of Directors. The constraint may be removed or changed only through formal action of the Board of Directors.

**THE GARDENS ON HAVANA METROPOLITAN DISTRICT NO. 3**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2017**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

- *Assigned fund balance* – The portion of fund balance that is constrained by the government’s intent to be used for specific purposes, but is neither restricted nor committed. Intent is expressed by the Board of Directors to be used for a specific purpose. Constraints imposed on the use of assigned amounts are more easily removed or modified than those imposed on amounts that are classified as committed.
- *Unassigned fund balance* – The residual portion of fund balance that does not meet any of the criteria described above.

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

**NOTE 3 - CASH AND INVESTMENTS**

Cash and investments as of December 31, 2017, are classified in the accompanying financial statements as follows:

Statement of net position:

Cash and investments	\$ 100
Cash and investments - Restricted	593,739
Total cash and investments	<u>\$ 593,839</u>

Cash and investments as of December 31, 2017, consist of the following:

Deposits with financial institutions	\$ 140,817
Investments	453,022
Total cash and investments	<u>\$ 593,839</u>

**Deposits with Financial Institutions**

The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulators. Amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is determined by the PDPA. PDPA allows the institution to create a single collateral pool for all public funds. The pool for all the uninsured public deposits as a group is to be maintained by another institution or held in trust. The market value of the collateral must be at least 102% of the aggregate uninsured deposits.

The State Commissioners for banks and financial services are required by statute to monitor the naming of eligible depositories and reporting of the uninsured deposits and assets maintained in the collateral pools.

At December 31, 2017, the District’s cash deposits had a bank balance and a carrying balance of \$140,817.

**THE GARDENS ON HAVANA METROPOLITAN DISTRICT NO. 3**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2017**

**NOTE 3 - CASH AND INVESTMENTS (CONTINUED)**

**Investments**

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

The District generally limits its concentration of investments to those noted with an asterisk (\*) below, which are believed to have minimal credit risk, minimal interest rate risk and no foreign currency risk. Additionally, the District is not subject to concentration risk or investment custodial risk disclosure requirements for investments that are in the possession of another party.

Colorado revised statutes limit investment maturities to five years or less unless formally approved by the Board of Directors. Such actions are generally associated with a debt service reserve or sinking fund requirements.

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

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

As of December 31, 2017, the District had the following investments:

<b>Investment</b>	<b>Maturity</b>	<b>Amount</b>
Colorado Surplus Asset Fund Trust (CSAFE)	Weighted average 60 days	<u>\$ 453,022</u>

**THE GARDENS ON HAVANA METROPOLITAN DISTRICT NO. 3**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2017**

**NOTE 3 - CASH AND INVESTMENTS (CONTINUED)**

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

**NOTE 4 - LONG-TERM OBLIGATIONS**

The following is an analysis of changes in long-term debt for the period ending December 31, 2017:

	Balance at December 31, 2016	Additions	Reductions	Balance at December 31, 2017	Due Within One Year
<b>Governmental Activities:</b>					
Series 2017A	\$ -	\$ 23,895,000	\$ (1,670,000)	\$ 22,225,000	\$ 1,525,000.00
Bond Discount	-	(127,354)	7,443	(119,911)	-
Series 2017B Subordinate Bond	-	3,404,000	-	3,404,000	-
Accrued interest -					
Series 2017B Subordinate bonds	-	186,865	-	186,865	-
	<u>\$ -</u>	<u>\$ 27,358,511</u>	<u>\$ (1,662,557)</u>	<u>\$ 25,695,954</u>	<u>\$ 1,525,000</u>

The detail of the District's long-term obligations is as follows:

On April 7, 2017, the District issued its Special Revenue Refunding Bonds, 2017A Bonds (the "2017A Bonds") and its Subordinate Special Revenue Bonds, 2017B Bonds (the "2017B Bonds") in the respective amounts of \$23,895,000 and \$3,404,000. Proceeds from the sale of the Bonds were used for the purposes of: (a) refunding District No. 1's outstanding Loans and Bonds; (b) funding repayment of advances from the Developer under the Improvement Acquisition Agreement; and (c) paying other costs in connection with the issuance of the 2017A Bonds and the 2017B Bonds. The 2017A Bonds bear interest at rates ranging from 3.625% to 5.25%, payable semi-annually on June 1 and December 1, beginning on June 1, 2017. Annual

**THE GARDENS ON HAVANA METROPOLITAN DISTRICT NO. 3**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2017**

**NOTE 4 - LONG-TERM OBLIGATIONS (CONTINUED)**

mandatory sinking fund principal payments are due on December 1, beginning on December 1, 2017. The 2017A Bonds mature on December 1, 2047. The 2017B Bonds bear interest at 7.75% payable annually on December 15, beginning on December 15, 2017, but only to the extent of available Subordinate Pledged Revenue. The 2017B Bonds are structured as cash flow bonds, meaning that there are no scheduled payments of principal or interest. Unpaid interest on the 2017B Bonds compounds annually on each December 15. The 2017A Bonds are secured by and payable solely from the Senior Pledged revenues consisting of Pledged Property Tax Revenues, Pledged Sales and Use Tax Revenues, Sales PIF Pledged Revenues and Pledge Agreement Revenues, comprised of revenues resulting from imposition by District No. 3 and District No. 2 of ad valorem property taxes. The 2017A Bonds are further secured by amounts accumulated in the Surplus Fund. Senior Pledged revenue that is not needed to pay debt service on the 2017A Bonds will be deposited to and held in the Surplus Fund, up to the applicable maximum surplus amount. The 2017B Bonds are secured by and payable solely from Subordinate Pledged Revenues consisting of excess Senior Pledged revenues, meaning any Senior Pledged Revenue available after being applied first to the payment of the 2017A Bonds, and second to the credit of the Surplus Fund up to the amount necessary for deposit in the Surplus Fund; and any amounts released from the Surplus Fund.

The 2017A Bonds mature as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 1,525,000	\$ 1,007,781	\$ 2,532,781
2019	1,595,000	952,500	2,547,500
2020	1,695,000	894,681	2,589,681
2021	1,765,000	833,238	2,598,238
2022	1,900,000	769,256	2,669,256
2023-2027	5,495,000	2,737,438	8,232,438
2028-2032	3,655,000	1,772,313	5,427,313
2033-2037	1,055,000	1,098,632	2,153,632
2038-2042	1,485,000	783,826	2,268,826
2043-2047	2,055,000	337,314	2,392,314
	<u>\$ 22,225,000</u>	<u>\$ 11,186,979</u>	<u>\$ 33,411,979</u>

**Debt Authorization**

On May 6, 2008, a majority of the qualified electors of the District authorized the issuance of indebtedness in an amount not to exceed \$450,000,000. As of December 31, 2017, the District had remaining voted debt authorization of approximately \$719,213,495. The District has not budgeted to issue any new debt during 2018. Per the District's Service Plan, the District, together with District No. 1 and 2, cannot issue debt in excess of \$75,000,000.

**THE GARDENS ON HAVANA METROPOLITAN DISTRICT NO. 3**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2017**

**NOTE 5 - 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. Also, the Developer has various agreements with the District.

**Improvement Acquisition Agreement**

The District, Weingarten Miller MDH Buckingham, LLC, District No. 1 and District No. 2 entered into an Improvement Acquisition Agreement (“Improvement Acquisition Agreement”) dated February 26, 2009, amended January 13, 2012. In 2012, Weingarten Miller MDH Buckingham, LLC changed its name to Miller MDH Buckingham, LLC. Under the agreement, District No. 1 agreed to reimburse Miller MDH Buckingham, LLC for all District Eligible Costs incurred by Miller MDH Buckingham, LLC for the public infrastructure. On October 14, 2014, Miller MDH Buckingham, LLC assigned their interest in the Improvement Acquisition Agreement to Wilson Garden Havana, LLC. The reimbursable district eligible costs shall bear simple interest at a rate of 8% per annum from the time said obligation is paid or funded. The District acknowledges that the repayment of district eligible costs under this agreement constitute “capital costs” for which they are obligated to pay to District No. 1 the proceeds of any debt issued, subject to the terms of the Master IGA. Per the Agreement, any mill levy certified by the District and/or District No. 2 for the purposes of repaying advances shall not exceed 50 mills. No amounts are currently due under this Agreement.

**NOTE 6 - AGREEMENTS**

**District Facilities Joint Financing, Construction and Service Agreement**

On February 26, 2009, the District, District No. 1 and District No. 2 entered into a District Facilities Joint Financing, Construction and Service Agreement (“Master IGA”). Under the Agreement District No. 1 will be the Operating District and the District and District No. 3 will be the Financing Districts. The Financing Districts agree to transfer all District Taxes to the Operating District to fund the operating expenses of the Districts. The Financing Districts may issue general obligations bonds, or other debt, and/or the Operating District may issue bonds or comparable forms of debt to fund capital costs which are expressly intended to be repaid via payments from the Financing Districts and which may be refunded or repaid from the proceeds of general obligation indebtedness issued by the Financing Districts. Under the agreement, the Financing Districts are to transfer all district taxes to the operating district for deposit to the Facilities Account. The Operating District shall account for the funds withdrawn from the Facilities Account and any funds on deposit in the Facilities Account following the payment of all actual capital costs shall be returned to the Financing Districts within 180 days of such final payment. The annual budget will set forth the estimated annual capital costs for the budget year. This agreement was terminated in 2017 and a new agreement was entered into.

**THE GARDENS ON HAVANA METROPOLITAN DISTRICT NO. 3**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2017**

**NOTE 6 - AGREEMENTS (CONTINUED)**

**District Operating Agreement**

On April 7, 2017 the Districts entered into a District Intergovernmental Agreement (the "District Operating Agreement") which supercedes the previous Master IGA, pursuant to which, among other matters, District No. 1 is designated the "operating district" to operate and maintain any Public Improvements within the boundaries of the Districts not owned and operated by the City and provides certain Administrative Services for the Districts. For the purposes of funding the costs associated with providing such services, the District agrees to transfer to District No. 1 the Operation and Maintenance Annual Amount made available in accordance with the 2017A Bonds. The District Operating Agreement provides that the Districts also may, but are not obligated to, impose an operations and maintenance mill levy to provide additional operation and maintenance services not included in the Operating District Responsibilities as defined in the District Operating Agreement. District No. 1 and District No. 2 agree not to impose a debt service mill levy in excess of that required under the Pledge Agreement so long as the Bonds or any refunding thereof are outstanding. The Districts further agree that all remaining Service Plan debt authorization of the Districts shall be allocated to the District. Any District is permitted to terminate the Operating District Agreement as it relates to the provision of Operating District Responsibilities by District No. 1 for such District upon 90 days' written notice to District No. 1.

**Capital Pledge Agreement**

On February 15, 2012, as amended October 7, 2014, the District, District No. 1 and District No. 2 entered into a Capital Pledge Agreement. Under the Capital Pledge Agreement, the District and District No. 3 were liable for the repayment of the Series 2012 and 2014 Loans and Series 2014B Subordinate Bonds based upon the amount of revenues generated from the imposition of a capital mill levy. District No. 2 shall impose an ad valorem mill levy upon all taxable property of District No. 2 each year sufficient (when combined with other revenues of the Districts) to pay annual bond costs in an amount of not less than 25 mills but not more than 50 mills, subject to adjustment. The District shall impose an ad valorem mill levy upon all taxable property of the District each year sufficient to pay annual bonds costs in an amount not less than 35 mills, but not more than 50 mills, subject to adjustment. The Capital Pledge Agreement will terminate when all Revenue Bonds permitted by District No. 1 have been defeased. During 2017, the Agreement was amended and restated, with the District being designated as the issuer of debt, and having further agreed to enter into an agreement to facilitate the issuance of bonds to refund District No. 1's existing Series 2012 and 2014 Loans and Series 2014B Subordinate bonds and facilitate the issuance of certain additional obligations. District No. 2 shall continue to impose an ad valorem mill levy upon all taxable property of District No. 2 to pay annual bond costs in an amount of 25 mills. The District shall impose an ad valorem mill levy upon all taxable property of the District to pay annual bond cost in amount of 35 mills (as adjusted). The obligation of District No. 2 and the District to impose the above mill levies expires in tax collection year 2032.

**THE GARDENS ON HAVANA METROPOLITAN DISTRICT NO. 3**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2017**

**NOTE 6 - AGREEMENTS (CONTINUED)**

**Public Finance and Redevelopment Agreement**

On March 25, 2009, the Aurora Urban Renewal Authority (“AURA”), Weingarten Miller MDH Buckingham, LLC, and District No. 1 entered into a Public Finance and Redevelopment Agreement. In 2012, Weingarten Miller MDH Buckingham, LLC changed its name to Miller MDH Buckingham, LLC. On October 14, 2014, Miller MDH Buckingham, LLC assigned their rights under the agreement to Wilson Gardens Havana, LLC. Under the agreement, AURA will pledge to District No. 1 incremental property tax revenues, 22% of the incremental sales tax revenues in excess of \$748,927, and 100% of incremental use tax revenues for the payment of actual costs of or relating to the public improvements and administration and management of District No. 1. The Pledged Revenue will be paid on June 30th and December 31st in each year. Under the agreement, the Miller MDH Buckingham, LLC or Wilson Gardens Havana, LLC will impose a Public Improvement Fee (“PIF”) in the amount of one half of a percent of the purchase price of each transaction involving the sale of goods or services. The PIF shall be pledged against the payment of any bond requirements and eligible costs. Under the agreement, the Districts shall impose a debt service mill levy of not less than 20 mills and no more than 50 mills during the term of the agreement. The Agreement will terminate upon the earlier of (a) payment in full of the funding obligation of \$12,000,000, plus interest of 8% on the unpaid funding obligation or (b) December 31st of the calendar year in which the 15 year anniversary of the issuance of the initial building permit for the residential portion of the Project will occur, which is December 31, 2024, provided however, that no pledged revenues generated with District No. 1 shall be available to make pledged revenue payments under this agreement after December 31, 2024. This Agreement was assigned to the District during 2017 and concurrently with the issuance of the 2017A and 2017B Bonds. The District now assumes the role of District No. 1 as the revenues generated under this Agreement are pledged to the 2017 Bonds.

**NOTE 7 - NET POSITION**

The District has net position consisting of two components - restricted and unrestricted.

The restricted component of net position consists of assets that are restricted for use either externally imposed by creditors, grantors, contributors, or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The District has restricted net position as of December 31, 2017, for emergencies and for the debt service totaling \$848,226.

The District has a deficit in unrestricted net position.

This deficit amount is the result of the District being responsible for repayment of bonds issued for public improvements which were conveyed to other governmental entities and which costs were removed from the District's financial records.

**THE GARDENS ON HAVANA METROPOLITAN DISTRICT NO. 3**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2017**

**NOTE 8 - RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts; thefts of, damage to, or destruction of assets; errors or omissions; injuries to employees; or acts of God.

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

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

**NOTE 9 - TAX, SPENDING AND DEBT LIMITATIONS**

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

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

On May 6, 2008, 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.

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.

This information is an integral part of the accompanying financial statements.

**SUPPLEMENTARY INFORMATION**

**THE GARDENS ON HAVANA METROPOLITAN DISTRICT NO. 3**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN**  
**FUND BALANCES - BUDGET AND ACTUAL**  
**DEBT SERVICE FUND**  
**Year ended December 31, 2017**

	<u>Budget</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Property tax increment	\$ -	\$ 390,496	\$ 1,649,715	\$ 1,259,219
Property taxes	20,501	20,501	20,103	(398)
Specific ownership taxes	1,640	1,640	7,217	5,577
PIF revenue	-	431,869	569,250	137,381
Interest income	-	2,453	6,217	3,764
Sales tax increment	-	513,379	704,240	190,861
Miscellaneous income	-	3,211,799	20	(3,211,779)
Total revenues	<u>22,141</u>	<u>4,572,137</u>	<u>2,956,762</u>	<u>(1,615,375)</u>
<b>EXPENDITURES</b>				
Miscellaneous expenses	-	3,335,179	792	3,334,387
Treasurer's fees	308	308	302	6
Bond issuance cost	-	860,502	913,306	(52,804)
Bond principal - Series 2017A	-	1,670,000	1,670,000	-
Bond interest - Series 2017A	-	694,407	694,407	-
Total expenditures	<u>308</u>	<u>6,560,396</u>	<u>3,278,807</u>	<u>3,281,589</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>21,833</u>	<u>(1,988,259)</u>	<u>(322,045)</u>	<u>1,666,214</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Bond proceeds	-	27,299,000	27,299,000	-
Transfer from District No. 1	-	1,777,991	282,165	(1,495,826)
Transfer from District No. 2	-	111,920	111,920	-
Transfer to District No. 1	(21,833)	(26,312,250)	(26,312,250)	-
Bond issue discount	-	(127,354)	(127,354)	-
Transfers from (to) other funds	-	-	(100)	(100)
Total other financing sources (uses)	<u>(21,833)</u>	<u>2,749,307</u>	<u>1,253,381</u>	<u>(1,495,926)</u>
<b>NET CHANGE IN FUND BALANCES</b>	-	761,048	931,336	170,288
<b>FUND BALANCES - BEGINNING OF YEAR</b>	<u>508</u>	<u>872</u>	<u>872</u>	<u>-</u>
<b>FUND BALANCES - END OF YEAR</b>	<u>\$ 508</u>	<u>\$ 761,920</u>	<u>\$ 932,208</u>	<u>\$ 170,288</u>

**THE GARDENS ON HAVANA METROPOLITAN DISTRICT NO. 3  
SCHEDULE OF DEBT SERVICE REQUIREMENTS TO MATURITY**

Year ended December 31, 2017

**\$23,895,000 Senior Bonds, Series 2017A**

**Dated April 7, 2017**

**Interest Rate 3.625% - 5.250%**

**Interest Payable June 1 and December 1**

<b>Year Ended December 31,</b>	<b>Principal Payable December 1</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2018	\$ 1,525,000	\$ 1,007,781	\$ 2,532,781
2019	1,595,000	952,500	2,547,500
2020	1,695,000	894,681	2,589,681
2021	1,765,000	833,238	2,598,238
2022	1,900,000	769,256	2,669,256
2023	1,995,000	681,381	2,676,381
2024	1,540,000	589,113	2,129,113
2025	610,000	517,888	1,127,888
2026	655,000	489,675	1,144,675
2027	695,000	459,381	1,154,381
2028	745,000	427,238	1,172,238
2029	655,000	389,056	1,044,056
2030	705,000	355,488	1,060,488
2031	745,000	319,356	1,064,356
2032	805,000	281,175	1,086,175
2033	185,000	239,919	424,919
2034	195,000	230,438	425,438
2035	210,000	220,444	430,444
2036	225,000	209,681	434,681
2037	240,000	198,150	438,150
2038	260,000	185,850	445,850
2039	275,000	172,200	447,200
2040	295,000	157,763	452,763
2041	315,000	142,275	457,275
2042	340,000	125,738	465,738
2043	360,000	107,888	467,888
2044	385,000	88,988	473,988
2045	410,000	68,775	478,775
2046	435,000	47,250	482,250
2047	465,000	24,413	489,413
	<u>\$ 22,225,000</u>	<u>\$ 11,186,979</u>	<u>\$ 33,411,979</u>

**THE GARDENS ON HAVANA METROPOLITAN DISTRICT NO. 3  
SCHEDULE OF ASSESSED VALUATION,  
MILL LEVY AND PROPERTY TAXES COLLECTED  
December 31, 2017**

<u>Year Ended December 31,</u>	<u>Prior Year Assessed Valuation for Current Year Tax Levy</u>	<u>Mills Levied</u>		<u>Total Property Taxes</u>		<u>Percent Collected to Levied</u>
		<u>General</u>	<u>Debt Service</u>	<u>Levied</u>	<u>Collected</u>	
2013	\$ 694,440	0.000	35.000	\$ 24,305	\$ 24,305	100.00%
2014	521,470	0.000	35.000	18,251	17,874	97.93%
2015	459,046	0.000	35.000	16,067	16,820	104.69%
2016	564,667	0.000	35.000	19,763	19,156	96.93%
2017	585,750	0.000	35.000	20,501	20,103	98.06%
Estimated for the year ending December 31, 2018	\$ 514,917	0.000	38.694	\$ 19,924		

**NOTE:**

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