

Highlands-Mead Metropolitan District

Financial Statements and Report of Independent Certified Public
Accountants

December 31, 2021

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

February 18, 2022

To the Board of Directors
Highlands-Mead Metropolitan District

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Highlands-Mead Metropolitan District (the "District"), as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District, as of December 31, 2021, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, 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 Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of

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internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required budgetary comparison schedules for the general fund and for the operations fund, as identified in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

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Supplementary Information

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

Beckstead & Co., LLC

Highlands-Mead Metropolitan District
Statement of Net Position
December 31, 2021

	Governmental Activities
Assets	
Current Assets	
Equity in pooled cash and investments	\$ 1,565,983
Due from County Treasurer	67
Accounts receivable	780
Property taxes receivable	65,024
Total Current Assets	1,631,854
Total Assets	<u><u>\$ 1,631,854</u></u>
Liabilities	
Current Liabilities	
Accounts payable	\$ 16,343
Revenue received in advance	3,340
Accrued interest payable	289,779
Current portion of bond payable	-
Total Current Liabilities	309,462
Noncurrent Liabilities	
Bond payable, less current portion	4,700,000
Developer payable	1,416,143
Total Noncurrent Liabilities	6,116,143
Total Liabilities	6,425,605
Deferred Inflows Of Resources	
Deferred property tax revenue	65,024
Net Position	
Net investment in capital assets	(5,178,807)
Restricted for emergencies	1,752
Restricted for operations	570
Restricted for debt service	708,182
Unrestricted	(390,472)
Total Net Position	<u><u>(4,858,775)</u></u>
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u><u>\$ 1,631,854</u></u>

The accompanying notes are an integral part of these financial statements.

Highlands-Mead Metropolitan District
Statement of Activities
For the year ended December 31, 2021

	<u>Expenses</u>	<u>Charges for Services</u>	<u>Net (Expense) Revenue</u>
Governmental Activities			
General government	\$ 59,327	\$ 8,221	\$ (51,106)
Interest on long-term debt	379,901	-	(379,901)
Other costs of long-term debt	<u>7,267</u>	<u>-</u>	<u>(7,267)</u>
Totals	<u>\$ 446,495</u>	<u>\$ 8,221</u>	<u>\$ (438,274)</u>
General Revenues			
Property taxes			15,920
Specific ownership taxes			800
Interest income			<u>1,204</u>
		Total General Revenues	<u>17,924</u>
		Change in Net Position	(420,350)
Net Position, beginning of year			<u>(4,438,425)</u>
Net Position, end of year			<u><u>\$ (4,858,775)</u></u>

The accompanying notes are an integral part of these financial statements.

Highlands-Mead Metropolitan District
Balance Sheets
Governmental Funds
December 31, 2021

	General	Operations	Capital Improvement	Debt Service	Total
Assets					
Equity in pooled cash and investments	\$ 5,938	\$ 3,130	\$ 848,786	\$ 708,129	\$ 1,565,983
Due from County Treasurer	14	-	-	53	67
Accounts receivable	-	780	-	-	780
Property taxes receivable	13,417	-	-	51,607	65,024
Total Assets	<u>\$ 19,369</u>	<u>\$ 3,910</u>	<u>\$ 848,786</u>	<u>\$ 759,789</u>	<u>\$ 1,631,854</u>
Liabilities					
Accounts payable	\$ 16,343	\$ -	\$ -	\$ -	\$ 16,343
Revenue received in advance	-	3,340	-	-	3,340
Total Liabilities	<u>16,343</u>	<u>3,340</u>	<u>-</u>	<u>-</u>	<u>19,683</u>
Deferred Inflows of Resources					
Deferred property tax revenue	13,417	-	-	51,607	65,024
Fund Balance					
Restricted for emergencies	1,752	-	-	-	1,752
Restricted for operations	-	570	-	-	570
Restricted for debt service	-	-	-	708,182	708,182
Restricted for capital improvements	-	-	848,786	-	848,786
Unassigned	(12,143)	-	-	-	(12,143)
Total Fund Balance	<u>(10,391)</u>	<u>570</u>	<u>848,786</u>	<u>708,182</u>	<u>1,547,147</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	<u>\$ 19,369</u>	<u>\$ 3,910</u>	<u>\$ 848,786</u>	<u>\$ 759,789</u>	<u>\$ 1,631,854</u>

The accompanying notes are an integral part of these financial statements.

Highlands-Mead Metropolitan District
Reconciliation of Total Governmental Fund Balances
to Net Position of Governmental Activities
December 31, 2021

Total Fund Balance	\$ 1,547,147
Amounts reported for the governmental activities in the Statement of Net Position are different because:	
Bonds payable and other long-term debt are not due and payable in the current period, and therefore are not reported in the governmental funds.	(6,116,143)
Accrued interest payable on outstanding bonds and other long-term debt do not require current financial resources, and therefore are not reported in the governmental funds.	<u>(289,779)</u>
Total Net Position	<u><u>\$ (4,858,775)</u></u>

The accompanying notes are an integral part of these financial statements.

Highlands-Mead Metropolitan District
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the year ended December 31, 2021

	General	Operations	Capital Improvement	Debt Service	Total
Revenues					
Property taxes	\$ 3,285	\$ -	\$ -	\$ 12,635	\$ 15,920
Specific ownership taxes	165	-	-	635	800
Operations fee	-	8,221	-	-	8,221
Interest income	2	-	782	420	1,204
Total Revenues	3,452	8,221	782	13,690	26,145
Expenditures					
Current Operating					
Accounting	9,049	9,048	-	-	18,097
Audit	5,800	-	-	-	5,800
Insurance - other	2,533	-	-	-	2,533
Legal	8,440	8,440	-	-	16,880
Maintenance	-	522	-	-	522
Management and consulting	2,609	2,909	-	-	5,518
Miscellaneous	3,153	1,630	-	-	4,783
Trash removal	-	4,228	-	-	4,228
Treasurers fees	49	-	-	190	239
Debt Service					
Principal	-	-	1,676,305	-	1,676,305
Interest	-	-	-	214,481	214,481
Other fees	-	-	170	7,077	7,247
Total Expenditures	31,633	26,777	1,676,475	221,748	1,956,633
Excess of Revenues Over (Under) Expenditures	(28,181)	(18,556)	(1,675,693)	(208,058)	(1,930,488)
Other Financing Sources (Uses)					
Operating transfers in (out)	(19,126)	19,126	-	-	-
Transfers to the Town of Mead	(747)	-	-	-	(747)
Developer advances	45,000	-	-	-	45,000
Total Other Financing Sources (Uses)	25,127	19,126	-	-	44,253
Net change in fund balances	(3,054)	570	(1,675,693)	(208,058)	(1,886,235)
Fund balances, beginning of year	(7,337)	-	2,524,479	916,240	3,433,382
Fund balances, end of year	<u>\$ (10,391)</u>	<u>\$ 570</u>	<u>\$ 848,786</u>	<u>\$ 708,182</u>	<u>\$ 1,547,147</u>

The accompanying notes are an integral part of these financial statements.

Highlands-Mead Metropolitan District
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the year ended December 31, 2021

Total net change in fund balances - governmental funds \$ (1,886,235)

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

Governmental funds report debt principal payments as other financing uses; however,
the government-wide financial statements report debt principal payments as
reductions of long-term debt. 1,676,305

Governmental funds report debt proceeds as other financing sources; however,
the government-wide financial statements report debt proceeds as
increases in long-term debt. (45,000)

Developer advances (45,000)

Accrued interest expense on long-term debt is reported in the Statement of Activities,
but does not require the use of current financial resources; therefore, the change in
accrued interest expense is not reported as an expenditure in the governmental funds. (165,420)

\$ (420,350)

The accompanying notes are an integral part of these financial statements.

Highlands-Mead Metropolitan District
Notes to Financial Statements
December 31, 2021

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Highlands-Mead Metropolitan District, herein referred to as the District, conform to generally accepted accounting principles (GAAP) as applicable to governmental units. The District applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Significant accounting policies of the District are described below.

A. Financial Reporting Entity

The District was organized pursuant to provisions set forth in the Colorado Special District Act. The governing body of the District consists of a five-member Board of Directors which is elected by the registered voters within the District. The purpose of the District is to construct, operate, and maintain public improvements for the use and benefit of the inhabitants of the District.

The Governmental Accounting Standards Board (GASB) has specified the criteria to be used in defining a governmental entity for financial reporting purposes. The reporting entity consists of (a) the primary government; i.e., the District, and (b) organizations for which the District is financially accountable. The District is considered financially accountable for legally separate organizations if it is able to appoint a voting majority of an organization's governing body and is either able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the District. Consideration is also given to other organizations that are fiscally dependent; i.e., unable to adopt a budget, levy taxes, or issue debt without approval by the District. Organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete are also included in the reporting entity.

Based on the criteria discussed above, the District's financial statements do not include any component units, nor do they exclude any potential component units requiring inclusion in the District's reporting entity, nor is the District a component unit of any other government. The District's financial statements include the accounts of all District operations.

B. Basis of Presentation

GOVERNMENT-WIDE STATEMENTS

The statement of net position and the statement of activities display information about the primary government (the District). These statements include the financial activities of the overall government. The statement of net position presents the financial condition of the governmental activities of the District at year-end. The statement of changes in net position presents a comparison between direct expenses and program revenues for each program or function of the District's governmental activities.

In the statement of activities, direct expenses are those that are specifically associated with a service, program or department and, therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions.

Highlands-Mead Metropolitan District
Notes to Financial Statements
December 31, 2021

The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the District.

FUND FINANCIAL STATEMENTS

The District segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance by segregating transactions related to certain governmental functions or activities. Fund financial statements are designed to present financial information of the District at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column.

Governmental accounting systems are organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts that comprise its assets, liabilities, fund equity, revenues and expenditures. The District's funds are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations based upon the purposes for which they are to be spent and by the means by which spending activities are controlled. The various funds of the District are outlined in the following paragraphs:

Governmental Funds

Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures, other financing uses, and special items) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

General Fund - used to account for all financial resources, except those required to be accounted for in another fund. The General Fund balance is available to the District for any purpose provided it is expended or transferred according to general statutory laws.

Operations Fund – used to account for fees received from property owners in the District and the expenditure of those fees to fund operations costs as defined in the enabling legislation adopted by the District's board of directors.

Capital Improvement Fund - used to account for proceeds from General Obligation Bonds and developer advances that are used for major capital and equipment additions.

Debt Service Fund - used to account for accumulation of resources for, and payment of, long-term bond obligation principal, interest and related costs.

C. Measurement Focus and Basis of Accounting

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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 at the time

Highlands-Mead Metropolitan District
Notes to Financial Statements
December 31, 2021

liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the District receives value without directly giving equal value in return, consist of property taxes, other taxes and fines and penalties. All assets and all liabilities associated with the operation of the District are included on the statement of net position.

FUND FINANCIAL STATEMENTS

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District considers all revenues available if they are collected within 60 days after year-end. The following revenue sources are considered susceptible to accrual because they are both measurable and available to finance expenditures of the current period:

- Property Taxes
- Specific Ownership Taxes

Taxpayer-assessed local property and specific ownership taxes are considered "measurable" when in the hands of intermediary collecting governments and are recognized as revenue at that time. Expenditures are recorded when the related fund liability is incurred, except for un-matured principal and interest on general long-term debt, which is recognized when due. Proceeds of general long-term liabilities are reported as other financing sources.

D. Budgets and Budgetary Accounting

The District uses the following procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to October 15, the District staff submits to the Board a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them. A "Notice of Budget" is published when the budget is received.
2. Public hearings are held to obtain taxpayer comments.
3. Prior to December 15, the Board shall adopt, by resolution, the budget for the ensuing fiscal year and shall certify the tax levy to the Board of County Commissioners.
4. On or before December 31, the Board shall pass an annual appropriating resolution in which such sums of money shall be appropriated as the Board deems necessary to defray all expenses and liabilities of the District during the ensuing year.
5. The District's budgets are adopted on a basis consistent with generally accepted accounting principles for governmental entities. Annual appropriated budgets are adopted for all funds. The level of control in the budget at which expenditures exceed appropriations is at the fund level.

Highlands-Mead Metropolitan District
Notes to Financial Statements
December 31, 2021

6. After adoption of the budget ordinance, the District may make by ordinance the following changes: a) supplemental appropriations to the extent of revenues in excess of the estimated budget; b) emergency appropriations; c) reduction of appropriations for which originally estimated revenues are insufficient.
7. Expenditures may not legally exceed appropriations at the fund level. Board approval is required for changes in the total budget of any fund. Budget amounts included in the financial statements are based on final legally amended budgets.
8. Budget appropriations lapse at the end of each year.

The District legally adopted annual budgets for all of the District's funds for 2021. A supplemental appropriation for 2021 resulted in increasing expenditures for the operations fund by \$55,114 and reducing expenditures of the general fund by \$7,336.

E. Restricted Assets and Classification of Fund Balance

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, laws of other governments, or imposed by enabling legislation. It is the District's policy to use restricted assets first when an expense is incurred for which both restricted and unrestricted assets are available.

In the governmental fund financial statements fund balance is reported in five classifications.

Nonspendable: Nonspendable is that portion of fund balance that are not in spendable form, for example prepaid expenses or inventories. The District had no nonspendable fund balance at year end.

Restricted: The Colorado Constitution as amended by TABOR (see separate statutory compliance note) requires local governments to establish emergency reserves to be used for declared emergencies only. Emergencies, as defined by TABOR, exclude economic conditions, revenue shortfalls, or salary or fringe benefit increases. The District has restricted fund balance for operations fees not yet spent to fund operations costs. Additionally, the District has restricted fund balance for debt service as required by its bond indenture. The District also has restricted fund balance for unspent bond proceeds held in the Capital Improvement Fund. It is the District's policy to use restricted fund balance first when an expense is incurred for which both restricted and unrestricted fund balance are available.

Committed: Committed is that portion of fund balance that has been committed by the highest level of formal action of the District's Board of Directors and does not lapse at year-end. The District does not have any committed fund balance at year end. It is the District's policy to use committed fund balance first when an expense is incurred for which both restricted and unrestricted fund balance are available.

Assigned: Assignments of fund balance are designated by District management. The District does not have any assigned fund balance at year end.

Unassigned: Fund balance that has not been reported in any other classification is reported as unassigned.

F. Property Taxes Receivable and Deferred Revenue

Property taxes are levied on December 15, and attach as an enforceable lien on property on January 1st of the following year, payable in either one installment (no later than April 30th) or two equal installments (not later than February 28th and June 15th) without interest or penalty. Taxes not paid within the prescribed time bear interest at the rate of one percent (1%) per month until paid. Unpaid amounts and the accrued interest thereon become delinquent on June 16th. Property taxes are levied and collected on behalf of the District by Weld County and are reported as revenue when received by the County Treasurers. Property taxes levied in the current year and payable in the following year are reported as a receivable at December 31; however, since the taxes are not available to pay current liabilities, the receivable is recorded as deferred revenue.

G. Capital Assets

All capital assets purchased or acquired with an original cost in excess of the capitalization thresholds set by the District are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their estimated fair value on the date of the donation. Repairs and maintenance are recorded as expenditures as incurred; while additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. All capital assets acquired have been dedicated to other local governments in accordance with the District's service plan.

I. Use of Estimates

Management uses estimates and assumptions in preparing these financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities and the reported revenues and expenses. Actual results could vary from the estimates that were used.

CASH AND INVESTMENTS

The District's policy in determining which items are treated as cash equivalents include cash, demand deposits, treasury bills, and other short-term, highly liquid investments that are readily convertible to cash and have original maturities of three months or less.

Investments are reported at fair value which is determined using selected bases. Short term investments are reported at cost which approximates fair value. Securities traded on a national or international exchange are valued at the last quoted market price. Cash deposits are reported at carrying amounts which reasonably estimates fair value.

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. The eligible depository is required to pledge to the Colorado Division of Banking a pool of collateral having a market value that at all times exceeds 102 percent of uninsured aggregate public deposits. The eligible collateral is determined by the PDPA, which includes obligations of the United States, the State of Colorado, Local Colorado governments, and obligations secured by first lien mortgages on real property located in the state. 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

Highlands-Mead Metropolitan District
Notes to Financial Statements
December 31, 2021

all the uninsured public deposits as a group. The State Regulatory Commission for banks and financial services is required by statute to monitor the naming of eligible depositories and reporting of the uninsured deposits and assets maintained in the collateral pools.

There is no custodial credit risk for public deposits collateralized under PDPA.

In order to facilitate the recording of cash transactions and maximize interest earnings, the District has pooled cash deposits for all funds. The District maintains accountability for each fund's equity in pooled cash. Interest earnings for combined funds are generally distributed based on monthly cash balances.

At December 31, 2021, all of the District's deposits were either held in deposit accounts insured by the Federal Deposit Insurance Corporation (FDIC) or in eligible depositories as required by PDPA in accordance with state statute, and had total balances (as reflected on the bank's records, before outstanding items) on deposit of \$22,186 which was covered by FDIC insurance.

The District has not adopted a formal investment policy; however, the District invests public funds in a manner which will provide the highest investment return with the maximum security, meet daily cash flow demands, and conform to all federal, state and local statutes governing the investment of public funds. This applies to the investment of all financial assets of all funds of the District over which it exercises financial control.

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

Obligations of the United States and certain U.S. governmental agency securities, including securities issued by FNMA (federal national mortgage association), GNMA (governmental national mortgage association), FHLMC (federal home loan mortgage corporation), the federal farm credit bank, the federal land bank, the export-import bank, and by the Tennessee Valley Authority, and certain international agency securities, including the World Bank

General obligation and revenue bonds of U.S. local government entities, the District of Columbia, and territorial possessions of the U.S. rated in the highest two rating categories by two or more nationally recognized rating agencies

Bankers' acceptances of certain banks

Certain securities lending agreements

Commercial paper

Written repurchase agreements collateralized by certain authorized securities

Certain money market funds

Guaranteed investment contracts

Highlands-Mead Metropolitan District
Notes to Financial Statements
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Local government investment pools

The investing local government's own securities including certificates of participation and lease obligations.

Local Government Investment Pool (COLOTRUST)

Included in cash and cash equivalents is \$1,543,227 held in the Colorado Local Government Liquid Asset Trust (the Trust), an investment vehicle established for local government entities in Colorado to pool surplus funds. The State Securities Commissioner administers and enforces all State statutes governing the Trust. The Trust operates similarly to a money market fund. The Trust offers shares in three portfolios, COLOTRUST Prime (Prime), COLOTRUST Plus+ (Plus+) and COLOTRUST Edge (Edge). All portfolios may invest in U.S. Treasury securities, repurchase agreements collateralized by U.S. Treasury securities, certain obligations of U.S. government agencies and instrumentalities, and repurchase agreements collateralized with certain U.S. government agencies or instrumentalities. Plus+ and Edge may also invest in the highest rated commercial paper. The Prime and Plus+ portfolios are restricted to a weighted average maturity (WAM) of 60 days or less while the Edge portfolio incorporates longer-dated securities with a WAM of 60 days or more. Both Prime and Plus+ portfolios are rated AAAm by Standard and Poor's and the EDGE portfolio is rated AAf/S1 by Fitch Ratings.

As of December 31, 2021, the District had \$0 invested in Prime, \$1,543,227 invested in Plus+, and \$0 invested in Edge.

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

The District's investments are not required to be categorized within the fair value hierarchy. These investments are measured at amortized cost or in certain circumstances the value is calculated using the net asset value (NAV) per share, or its equivalent of the investment. These investments include 2a7-like external investment pools and money market investments. The District held investments in COLOTRUST at year end for which the investment valuations were determined as follows.

COLOTRUST records its investments at fair value and the District records its investments in COLOTRUST at net asset value as determined by fair value. Each share of Prime and Plus is equal in value to \$1.00 and the redemption frequency is daily with no redemption notice period. Edge's net asset value is managed to approximate a \$10.00 transactional share price and the redemption frequency is five business days. The principal value of an Edge investment may fluctuate and could be greater or less than \$10.00 per share at time of purchase, prior to redemption, and at the time of redemption. There are no unfunded commitments.

Highlands-Mead Metropolitan District
Notes to Financial Statements
December 31, 2021

The following is a summary of cash and cash equivalents:

	<u>Fair Value</u>
Bank deposits	\$ 22,756
COLOTRUST	<u>1,543,227</u>
	<u><u>\$ 1,565,983</u></u>

Risk Disclosures

Additional investment and deposit disclosures for credit risk, interest rate risk, and foreign currency risk, as required by GASB Statement No. 40, Deposit and Investment Risk Disclosures, are included below.

To minimize custodial credit risk, or the risk that an insurer or other counterparty to an investment will not fulfill its obligations, state law limits District investments to those where the issuer is rated in one of the three highest rating categories by one or more nationally recognized organizations that rate such issuers. The District has deposits in COLOTRUST Plus+. COLOTRUST is rated AAAM by Standard & Poors.

The concentration of credit risk, or the risk of loss attributed to the magnitude of a government's investment in a single issuer, occurs when deposits are not diversified. District policy places no limit on the amount the District may invest in any one issuer; however, the District maintains general guidelines for investments to ensure proper diversification by security type and institution. All District investments are issued or explicitly guaranteed by securities of the U.S. government, or insured by PDPA, or are investments in mutual fund or external investment pools, and therefore are not subject to concentration of credit risk disclosure requirements.

Interest rate risk is the extent to which changes in interest rates will adversely affect the fair value of an investment. The District maintains an investment policy that limits investment maturities to three years as means of managing its exposure to fair value losses arising from increasing interest rates and to avoid undue concentration in any sector of the yield curve. Exceptions to this structure may be allowed where maturities can be structured to accommodate readily identifiable cash flows as approved by the Board.

The District was not subject to foreign currency risk as of December 31, 2021.

FAIR VALUES OF FINANCIAL INSTRUMENTS

The District has a number of financial instruments, including cash and equivalents, receivables, and accounts payable, none of which are held for trading purposes. The District estimates that the fair values of its financial instruments at December 31, 2021 does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying balance sheet.

Highlands-Mead Metropolitan District
Notes to Financial Statements
December 31, 2021

CAPITAL ASSETS

A summary of changes in capital assets follows:

	<u>12/31/2020</u>	<u>Additions</u>	<u>Deletions</u>	<u>12/31/2021</u>
Non-depreciated:				
Water credits	\$ -	\$ -	\$ -	\$ -
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

During prior years, water credits were acquired and were dedicated to other entities in accordance with the District's Service Plan. No additional water credits were acquired during the current year. Depreciation, if applicable, is calculated using the straight-line method. There was no depreciation expense reported for 2021.

LONG-TERM OBLIGATIONS

A summary of changes in long-term obligations follows:

	<u>12/31/2020</u>	<u>Additions</u>	<u>Deletions</u>	<u>12/31/2021</u>	<u>Due Within One Year</u>
Series 2020A G.O. Bonds	\$4,185,000	\$ -	\$ -	\$ 4,185,000	\$ -
Series 2020B G.O. Bonds	515,000	-	-	515,000	-
Developer advances - capital	3,003,898	-	(1,676,305)	1,327,593	-
Developer advances - operating	43,550	45,000	-	88,550	-
	<u>\$7,747,448</u>	<u>\$ 45,000</u>	<u>\$ (1,676,305)</u>	<u>\$ 6,116,143</u>	<u>\$ -</u>

Limited Tax General Obligation Bonds Series 2020A and 2020B

General Obligation Bonds in the face amount of \$4,185,000 (Series 2020A) and \$515,000 (Series 2020B) were issued with a date of August 11, 2020. The interest rate is 5.125% for the Series 2020A bonds, payable semiannually on June 1, and December 1. Principal payments begin on December 1, 2025 and continue each December 1 until redeemed. The interest rate is 7.75% for the Series 2020B bonds, payable annually on December 15, to the extent subordinate pledged revenue is available. No interest and principal maturities are reflected in this section for the Series 2020B bonds since these payments are subject to available revenue. Final maturity dates are December 2050 for the Series 2020A Bonds and December 2050 for the Series 2020 B Bonds.

If any principal or accrued interest balances remain on either the Series 2020A or Series 2020B Bonds at December 15, 2050, the District will continue to levy taxes until the balances are fully paid. However, any balances remaining after December 15, 2059 will discharge and the District will no longer be obligated for the remaining balances.

Developer Advances

The developer of the area within the District has advanced funds to the District for capital outlay and for operating needs. Reimbursement of these advances are made as funds are available and as allowed by the bond indenture. These advances bear interest at 6.5%.

Highlands-Mead Metropolitan District
Notes to Financial Statements
December 31, 2021

The annual requirements to amortize the Limited Tax General Obligation Bonds Series 2020A are as follows:

Year	Bonds		Total
	Principal	Interest	
2022	\$ -	\$ 214,481	\$ 214,481
2023	-	214,481	214,481
2024	-	214,481	214,481
2025	20,000	214,481	234,481
2026	55,000	213,456	268,456
2027-2031	345,000	1,020,901	1,365,901
2032-2036	520,000	915,325	1,435,325
2037-2041	750,000	759,781	1,509,781
2042-2046	1,050,000	538,638	1,588,638
2047-2050	1,445,000	215,506	1,660,506
	<u>\$ 4,185,000</u>	<u>\$ 4,521,531</u>	<u>\$ 8,706,531</u>

The District has voted authorized debt limit of \$520,000,000 (limited to \$20,000,000 by the service plan and intergovernmental agreement) of which \$4,700,000 has been issued.

CONTINGENCIES

During the normal course of business, the District may incur claims and other assertions against it from various agencies and individuals. Management of the District and their legal representatives represent that no claims have been asserted against the District and they are not aware of any un-asserted possible claims or litigation as of December 31, 2021.

RISK MANAGEMENT

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

The District has elected to participate in the Colorado Special Districts Property and Liability Pool (the Pool) which is sponsored by the Special District Association of Colorado. The Pool provides property and general liability, automobile physical damage and liability, public official's liability and machinery coverage to its members. There have been no significant reductions in coverage from the prior year and settled claims have not exceeded coverage in the last three years. The District pays annual premiums to the Pool for liability, property, and public officials' liability 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. During the year ended December 31, 2021, the Pool made no distributions to the District.

Highlands-Mead Metropolitan District
Notes to Financial Statements
December 31, 2021

A summary of audited statutory basis financial information for the Pool as of and for the year ended December 31, 2020 is as follows:

Assets	\$ 59,612,386
Liabilities	<u>\$ 37,710,994</u>
Surplus	<u>21,901,392</u>
	<u><u>\$ 59,612,386</u></u>
Revenues	\$ 23,853,329
Expenses	<u>23,825,575</u>
Net Income (Loss)	<u><u>\$ 27,754</u></u>

INTERGOVERNMENTAL AGREEMENTS AND COMMITMENTS

Town of Mead

The District entered into an intergovernmental agreement with the Town of Mead (Town) dated December 9, 2019. This agreement requires that the District dedicate District-constructed public improvements to the Town or other appropriate jurisdictions, except for any not accepted by said jurisdictions. The agreement requires that public improvements be constructed in accordance with the standards of the Town and of other appropriate jurisdictions. The service plan and the agreement limits the District's total debt to \$20,000,000.

The agreement also requires that at any time the District imposes a mill levy, the District will impose an additional Town O&M Mill Levy in the amount of 3.000 mills, as adjusted by the Gallagher Amendment Adjustment, for purposes of defraying the Town's ongoing operations and maintenance expenses associated with Town capital improvements and infrastructure, the streets within the boundaries of the District and other public improvements which may be dedicated to the Town by the District.

STATUTORY COMPLIANCE

TABOR Amendment - Revenue and Spending Limitation Amendment

In November 1992, Colorado voters amended Article X of the Colorado Constitution by adding Section 20, commonly known as the Taxpayer's Bill of Rights (TABOR). TABOR contains revenue, spending, tax, and debt limitations, which apply to the State of Colorado and local governments. TABOR requires, with certain exceptions, advance voter approval for any new tax, tax rate increase, mill levy above that for the prior year, extensions of any expiring tax, or tax policy change directly causing a net tax revenue gain to any local government.

Future spending and revenue limits are determined based on the prior year's fiscal year spending adjusted for inflation in the prior calendar year plus annual local growth. Fiscal year spending is generally defined as expenditures and reserve increases with certain exceptions. Revenue, if any, in excess of the fiscal year spending limit must be refunded in the next fiscal year unless voters approve retention of such revenue.

Highlands-Mead Metropolitan District
Notes to Financial Statements
December 31, 2021

TABOR requires, with certain exceptions, voter approval prior to imposing new taxes, increasing a tax rate, increasing a mill levy above that for the prior year, extending an expiring tax, or implementing a tax policy change directly causing a net tax revenue gain to any local government.

Except for financing bonded debt at a lower interest rate or adding new employees to existing pension plans, TABOR requires advance voter approval for the creation of any multiple-fiscal year debt or other financial obligation unless adequate present cash reserves are pledged irrevocably and held for payments in all future fiscal years.

TABOR also requires local governments to establish emergency reserves to be used for declared emergencies only. Emergencies, as defined by TABOR, exclude economic conditions, revenue shortfalls, or salary or fringe benefit increases. These reserves are required to be 3% or more of spending (excluding bonded debt service). The required reserve at December 31, 2021 is \$1,752.

During formation of the District, its voters approved the removal of the application of certain requirements of TABOR to the District. The District's management believes it is in compliance with the financial provisions of TABOR. However, TABOR is complex and subject to interpretation. Many of its provisions, including the interpretation of how to calculate fiscal year spending limits, will require judicial interpretation.

REQUIRED SUPPLEMENTARY INFORMATION

Highlands-Mead Metropolitan District
 Budgetary Comparison Schedule
 General Fund
 For the year ended December 31, 2021

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Property taxes	\$ 3,285	\$ 3,285	\$ 3,285	\$ -
Specific ownership taxes	152	152	165	13
Interest income	-	-	2	2
Total Revenues	3,437	3,437	3,452	15
Expenditures				
Accounting	25,000	12,500	9,049	3,451
Audit	6,000	6,000	5,800	200
Insurance	3,000	3,000	2,533	467
Legal	35,000	17,500	8,440	9,060
Maintenance	10,000	-	-	-
Management	5,000	2,500	2,609	(109)
Miscellaneous	2,000	2,000	3,153	(1,153)
Trash removal	2,000	-	-	-
Treasurers fees	49	49	49	-
Utilities	5,000	-	-	-
Contingency	25,000	17,000	-	17,000
Total Expenditures	118,049	60,549	31,633	28,916
Excess of Revenues Over (Under) Expenditures	(114,612)	(57,112)	(28,181)	28,931
Other Financing Sources (Uses)				
Transfers in (out)	-	(50,164)	(19,126)	31,038
Transfers to the Town of Mead	(747)	(747)	(747)	-
Developer advances	124,000	124,000	45,000	(79,000)
Total Other Financing Sources (Uses)	123,253	73,089	25,127	(47,962)
Net change in fund balances	8,641	15,977	(3,054)	(19,031)
Fund balances, beginning of year	2,669	(7,337)	(7,337)	-
Fund balances, end of year	<u>\$ 11,310</u>	<u>\$ 8,640</u>	<u>\$ (10,391)</u>	<u>\$ (19,031)</u>

Highlands-Mead Metropolitan District
 Budgetary Comparison Schedule
 Operations Fund
 For the year ended December 31, 2021

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Operations fee revenue	\$ -	\$ 4,950	\$ 8,221	\$ 3,271
Total Revenues	-	4,950	8,221	3,271
Expenditures				
Accounting	-	12,500	9,048	3,452
Legal	-	18,490	8,440	10,050
Maintenance	-	10,000	522	9,478
Management	-	2,500	2,909	(409)
Miscellaneous	-	1,344	1,630	(286)
Trash removal	-	5,280	4,228	1,052
Contingency	-	5,000	-	5,000
Total Expenditures	-	55,114	26,777	28,337
Excess of Revenues Over (Under) Expenditures	-	(50,164)	(18,556)	31,608
Other Financing Sources (Uses)				
Transfers in	-	50,164	19,126	(31,038)
Total Other Financing Sources (Uses)	-	50,164	19,126	(31,038)
Net change in fund balances	-	-	570	570
Fund balances, beginning of year	-	-	-	-
Fund balances, end of year	\$ -	\$ -	\$ 570	\$ 570

ADDITIONAL SUPPLEMENTAL INFORMATION

Highlands-Mead Metropolitan District
 Budgetary Comparison Schedule
 Capital Improvement Fund
 For the year ended December 31, 2021

	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Interest income	\$ 1,000	\$ 782	\$ (218)
Total Revenues	1,000	782	(218)
Expenditures			
Capital Outlay	18,202,120	-	18,202,120
Debt Service			
Principal	-	1,676,305	(1,676,305)
Interest	-	-	-
Other	360	170	190
Contingency	2,000,000	-	2,000,000
Total Expenditures	20,202,480	1,676,475	18,526,005
Excess of Revenues Over (Under) Expenditures	(20,201,480)	(1,675,693)	18,525,787
Other Financing Sources (Uses)			
Transfers in	-	-	-
Developer advances	17,676,380	-	(17,676,380)
Total Other Financing Sources (Uses)	17,676,380	-	(17,676,380)
Net Change in Fund Balances	(2,525,100)	(1,675,693)	849,407
Fund balances, beginning of year	2,525,100	2,524,479	(621)
Fund balances, end of year	\$ -	\$ 848,786	\$ 848,786

Highlands-Mead Metropolitan District
 Budgetary Comparison Schedule
 Debt Service Fund
 For the year ended December 31, 2021

	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Property taxes	\$ 12,634	\$ 12,635	\$ 1
Specific ownership taxes	759	635	(124)
Interest income	1,000	420	(580)
Total Revenues	<u>14,393</u>	<u>13,690</u>	<u>(703)</u>
Expenditures			
Debt Service			
Principal	-	-	-
Interest	214,481	214,481	-
Other charges	3,250	7,077	(3,827)
Treasurers fees	190	190	-
Contingency	10,000	-	10,000
Total Expenditures	<u>227,921</u>	<u>221,748</u>	<u>6,173</u>
Excess of Revenues Over (Under) Expenditures	(213,528)	(208,058)	5,470
Other Financing Sources (Uses)			
Transfers in (out)	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	(213,528)	(208,058)	5,470
Fund balances, beginning of year	911,425	916,240	4,815
Fund balances, end of year	<u>\$ 697,897</u>	<u>\$ 708,182</u>	<u>\$ 10,285</u>