

CONSTITUTION HEIGHTS METROPOLITAN DISTRICT
EL PASO COUNTY, COLORADO

FINANCIAL STATEMENTS
DECEMBER 31, 2022

TABLE OF CONTENTS

Independent auditor's report	i
<hr/>	
BASIC FINANCIAL STATEMENTS	
Government-wide financial statements	
Statement of net position	1
Statement of activities	2
<hr/>	
Fund financial statements	
Balance sheets - governmental funds	3
Statements of revenues, expenditures, and changes in fund balances - governmental funds	4
Reconciliation of the statements of revenues, expenditures, and changes in fund balances of governmental funds to the statement of activities	5
General fund - statement of revenues, expenditures, and changes in fund balance (budget and actual)	6
Notes to financial statements	7
<hr/>	
SUPPLEMENTARY INFORMATION	
Debt service fund - schedule of revenues, expenditures, and changes in fund balance (budget and actual)	16
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BiggsKofford
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Constitution Heights Metropolitan District
El Paso County, Colorado

We have audited the accompanying financial statements of the governmental activities and each major fund of Constitution Heights Metropolitan District ("District"), as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the 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, 2022, the respective changes in financial position, and the budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of the 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 within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore

is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in the United States of America will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with auditing standards generally accepted in the United States of America, we:

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

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

Other Matters

Required Supplementary Information

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which 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.

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 supplementary information, as identified in the table of contents, is presented for purposes of additional analysis and is 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. 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.

BiggsKofford, P.C.

Colorado Springs, Colorado

July 26, 2023

CONSTITUTION HEIGHTS METROPOLITAN DISTRICT

STATEMENT OF NET POSITION

DECEMBER 31, 2022

	Governmental Activities
<u>ASSETS</u>	
Cash and investments	\$ 17,877
Cash and investments - restricted	649,914
Receivable from County Treasurer	4,898
Property tax receivable	640,929
Total assets	1,313,618
<u>LIABILITIES</u>	
Accounts payable	3,556
Accrued interest payable	51,396
Due in more than one year	12,638,692
Total liabilities	12,693,644
<u>DEFERRED INFLOWS OF RESOURCES</u>	
Deferred property taxes	640,929
Total deferred inflows of resources	640,929
<u>NET POSITION</u>	
Restricted for:	
Debt service	666,406
Emergency reserve	1,500
Unrestricted	(12,688,861)
Total net position	\$ (12,020,955)

The accompanying notes and independent auditor's report
should be read with these financial statements.

CONSTITUTION HEIGHTS METROPOLITAN DISTRICT

STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2022

	Program Revenues					
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Expenses	Net (Expenses) Revenues and Changes in Net Position	Governmental Activities
<u>FUNCTIONS / PROGRAMS</u>						
Primary government						
Government activities:						
General government	\$ 56,491	\$ -	\$ -		\$ (56,491)	
Interest and related costs on long-term debt	643,588	-	-		(643,588)	
	\$ 700,079	\$ -	\$ -		(700,079)	
Total government activities						
<u>GENERAL REVENUES</u>						
Property taxes					576,498	
Specific ownership taxes					59,894	
Investment income					14,583	
					650,975	
Total general revenues						
Change in net position					(49,104)	
Net position, beginning of year					(11,971,851)	
Net position, end of year					\$ (12,020,955)	

The accompanying notes and independent auditor's report
should be read with these financial statements.

CONSTITUTION HEIGHTS METROPOLITAN DISTRICT

BALANCE SHEETS - GOVERNMENTAL FUNDS

DECEMBER 31, 2022

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>			
Cash and investments	\$ 6,283	\$ 11,594	\$ 17,877
Cash and investments - restricted	-	649,914	649,914
Receivable from County Treasurer	-	4,898	4,898
Property tax receivable	-	640,929	640,929
Total assets	\$ 6,283	\$ 1,307,335	\$ 1,313,618
<u>LIABILITIES</u>			
Accounts payable	\$ 3,556	\$ -	\$ 3,556
Total liabilities	3,556	-	3,556
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Deferred property taxes	-	640,929	640,929
Total deferred inflows of resources	-	640,929	640,929
<u>FUND BALANCES</u>			
Restricted for:			
Debt service	-	666,406	666,406
Emergency reserve	1,500	-	1,500
Unassigned:			
Unrestricted	1,227	-	1,227
Total fund balances	2,727	666,406	669,133
Total liabilities, deferred inflows of resources, and fund balances	\$ 6,283	\$ 1,307,335	
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds:			
Bonds payable			(12,335,000)
Accrued interest on bonds payable			(51,396)
Developer advances			(153,500)
Accrued interest on developer advances			(150,192)
Net position of governmental activities			\$ (12,020,955)

The accompanying notes and independent auditor's report should be read with these financial statements.

CONSTITUTION HEIGHTS METROPOLITAN DISTRICT
STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2022

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
<u>REVENUES</u>			
Property taxes	\$ -	\$ 576,498	\$ 576,498
Specific ownership taxes	59,894	-	59,894
Investment income	-	14,583	14,583
Total revenues	59,894	591,081	650,975
<u>EXPENDITURES</u>			
Current:			
Accounting and audit	8,825	-	8,825
Bank charges	944	-	944
County Treasurer fees	-	8,647	8,647
Dues and subscriptions	655	-	655
Elections	1,446	-	1,446
Insurance	2,436	-	2,436
Legal services	6,237	-	6,237
Management fees	26,402	-	26,402
Supplies	209	-	209
Debt service:			
Bank charges	-	4,690	4,690
Bond interest payments	-	616,750	616,750
Total expenditures	47,154	630,087	677,241
Excess of revenues over expenditures	12,740	(39,006)	(26,266)
Net change in fund balances	12,740	(39,006)	(26,266)
Fund balances, beginning of year	(10,013)	705,412	695,399
Fund balances, end of year	\$ 2,727	\$ 666,406	\$ 669,133

The accompanying notes and independent auditor's report should be read with these financial statements.

CONSTITUTION HEIGHTS METROPOLITAN DISTRICT
RECONCILIATION OF THE STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2022

Net change in fund balances	\$ (26,266)
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Amounts reported for governmental activities in the statement of activities are different because:

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

Change in accrued interest on developer advances	(22,838)
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Change in net position	<u>\$ (49,104)</u>
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The accompanying notes and independent auditor's report
should be read with these financial statements.

CONSTITUTION HEIGHTS METROPOLITAN DISTRICT
GENERAL FUND - STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
(BUDGET AND ACTUAL)
YEAR ENDED DECEMBER 31, 2022

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
<u>REVENUES</u>				
Specific ownership taxes	\$ 46,082	\$ 59,894	\$ 59,894	\$ -
Investment income	-	210	-	(210)
Total revenues	<u>46,082</u>	<u>60,104</u>	<u>59,894</u>	<u>(210)</u>
<u>EXPENDITURES</u>				
Accounting and audit	-	-	8,825	(8,825)
Bank charges	200	944	944	-
Contingency	-	-	-	-
Dues and subscriptions	-	-	655	(655)
Elections	3,000	1,446	1,446	-
Insurance	3,000	2,436	2,436	-
Legal services	5,000	6,237	6,237	-
Management fees	26,400	43,179	26,402	16,777
Supplies	200	767	209	558
Total expenditures	<u>37,800</u>	<u>55,009</u>	<u>47,154</u>	<u>7,855</u>
Excess of revenues over expenditures	<u>8,282</u>	<u>5,095</u>	<u>12,740</u>	<u>7,645</u>
<u>OTHER FINANCING SOURCES AND USES</u>				
Transfer between funds	-	(4,000)	-	4,000
Total other financing sources and uses	<u>-</u>	<u>(4,000)</u>	<u>-</u>	<u>4,000</u>
Net change in fund balance	<u>\$ 8,282</u>	<u>\$ 1,095</u>	<u>12,740</u>	<u>\$ 11,645</u>
Fund balance, beginning of year			<u>(10,013)</u>	
Fund balance, end of year			<u>\$ 2,727</u>	

The accompanying notes and independent auditor's report
should be read with these financial statements.

CONSTITUTION HEIGHTS METROPOLITAN DISTRICT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022

1. DEFINITION OF REPORTING ENTITY

Constitution Heights Metropolitan District ("District"), a quasi-municipal corporation and political subdivision of the state of Colorado, was formed in November 2004, and is governed pursuant to provisions of the Colorado Special District Act. The District's service area is located in El Paso County, Colorado ("County"). The District was organized to construct public improvements including road and bridge improvements, landscaping, sanitary and storm sewer, water systems, park and recreation, channel, and other drainage improvements needed for the area.

The District follows 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, and 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 operational and administrative functions are contracted.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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. Material 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 assets plus deferred outflows of resources and the liabilities plus deferred inflows of resources is reported as net position.

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 charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and grants and contributions that are restricted to meet the operational or capital requirements of a particular function or segment. Taxes and other items are properly excluded from program revenues and are reported as general revenues.

Measurement focus, basis of accounting, and financial statement position

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 when they are both measurable and available. Revenues are considered to be available when they are collectable within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The major sources of revenue susceptible to accrual are property taxes. All other revenue items are considered to be measurable and available only when cash is received by the District. Expenditures, other than interest on long-term obligations, are recorded when the liability is incurred or the long-term obligation is due.

See independent auditor's report.

CONSTITUTION HEIGHTS METROPOLITAN DISTRICT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022

The District reports the following major governmental funds:

The *general fund* accounts for all financial resources of the District except those required to be accounted for in another fund.

The *debt service fund* accounts for the servicing of general long-term debt and revenues generated and received by the District that are required to be used for repayment of debt.

Budgets

In accordance with state budget law, the District holds public hearings in the fall each year to approve the budget and appropriate funds for the ensuing year. The appropriation is at the total fund expenditures, fund balance remaining, 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 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.

Pooled cash and investments

The District follows the practice of pooling cash and investments of funds to maximize investment earnings. Except when required by trust or other agreements, cash is deposited to and disbursed from a single bank 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 balance.

Property taxes

Property taxes are levied by the District's board of directors. The levy is based on assessed valuations determined by the County Assessor generally as of January 1 of each year. The levy is normally set by December 15 and attaches as an enforceable lien as of January 1 of the following year. The County Treasurer collects the taxes during the ensuing calendar year. The taxes are payable by April or, at the taxpayer's election, in February and June in equal installments. Delinquent taxpayers are notified in August and sales of tax liens on delinquent properties are generally held in November or December. The County Treasurer remits the taxes collected to the District monthly.

Property taxes, net of estimated uncollectable amounts, are recorded initially as deferred revenues in the year they are levied and measurable. The deferred property tax revenues are recorded as revenues in the year they are available or collected.

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 represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenues) until that time. Accordingly, property taxes are deferred and recognized as an inflow of resources in the period that the amounts become available.

Net position and fund balances

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.

See independent auditor's report.

CONSTITUTION HEIGHTS METROPOLITAN DISTRICT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022

Fund balances

Fund balances for governmental funds are 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. 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:

The *nonspendable fund balance* is the portion of fund balance that cannot be spent because it is either not in spendable form (such as prepaid amounts or inventories) or is legally or contractually required to be maintained intact.

The *restricted fund balance* is 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.

The *committed fund balance* is 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 *assigned fund balance* is 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.

The *unassigned fund balance* is the residual portion of fund balance that does not meet any of the criteria described above.

For fund presentation purposes, if more than one classification of fund balance is available for use when an expenditure is incurred, it is the District's policy to use the most restrictive classification first.

3. CASH AND INVESTMENTS

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

Statement of net position:

Cash and investments	\$ 17,877
Cash and investments - restricted	<u>649,914</u>
	<u>\$ 667,791</u>

The carrying amounts of cash and investments, which equal estimated fair value, as of December 31, 2022, are as follows:

Deposits with financial institutions	\$ 17,877
Investments	<u>649,914</u>
	<u>\$ 667,791</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. The 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 102% of the aggregate uninsured deposits.

See independent auditor's report.

CONSTITUTION HEIGHTS METROPOLITAN DISTRICT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022

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.

As of December 31, 2022, the District's cash deposits had a bank balance of \$18,180 and a carrying balance of \$17,877.

Investments

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

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

Colorado revised statutes limit investment maturities to five years or less unless otherwise 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 US and certain US government agency securities
- Certain international agency securities
- General obligation and revenue bonds of US local government entities
- Bankers' acceptances of certain banks
- Commercial paper
- Written repurchase agreements collateralized by certain authorized securities
- Certificates of deposit in Colorado PDPA approved banks or savings banks
- Certain money market funds
- Guaranteed investment contracts
- Local government investment pools

As of December 31, 2022, the District had the following in investments:

<u>Investment</u>	<u>Maturity</u>	<u>Amount</u>
Colorado Surplus Asset Trust Fund (CSAFE)	Weighted average under 60 days	<u>\$ 649,914</u>

CSAFE

The District invested in the Colorado Surplus Asset Fund Trust ("CSAFE"), 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 CSAFE. CSAFE offers two portfolios: CSAFE CASH FUND and CSAFE CORE.

CSAFE CASH FUND, which operates similarly to a money market fund in which each share is equal in value to \$1, offers daily liquidity. CSAFE may invest in US Treasury securities, repurchase agreements collateralized by US Treasury securities, certain money market funds, highest rated commercial paper, and any security allowed under CRS 24-75-601.1.

CSAFE CORE, a variable net asset value ("NAV") local government investment pool, offers weekly liquidity and is managed to approximate a \$2 transactional share price. CSAFE CORE may invest in US Treasury securities and repurchase agreements collateralized by US Treasury securities, certain obligations of US government agencies, and highest rated commercial paper.

See independent auditor's report.

CONSTITUTION HEIGHTS METROPOLITAN DISTRICT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022

A designated custodial bank serves as custodian for CSAFE's portfolios pursuant to a custodian agreement. The custodian acts as safekeeping agent for CSAFE's investment portfolios 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 FitchRatings. CSAFE records its investment 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 or weekly, and there is no redemption notice period.

4. LONG-TERM OBLIGATIONS

The following is a summary of long-term debt of the District during the year ended December 31, 2022:

	Balance 01-01-22	Additions	Repayments / Amortization	Balance 12-31-22	Due Within One Year
<u>Governmental activities</u>					
Bonds payable:					
Series 2020 Bonds	\$ 12,335,000	\$ -	\$ -	\$ 12,335,000	\$ -
Total bonds	12,335,000	-	-	12,335,000	-
Other long-term obligations:					
Developer advances	153,500	-	-	153,500	-
Accrued interest on developer advances	127,354	22,838	-	150,192	-
Total other long-term obligations	280,854	22,838	-	303,692	-
Total long-term obligations	\$ 12,615,854	\$ 22,838	\$ -	\$ 12,638,692	\$ -

Series 2020 General Obligation Limited Tax Refunding Bonds

On June 9, 2020, the District issued Series 2020 General Obligation Limited Tax Refunding Bonds ("Series 2020 Bonds") for the purpose of: (i) paying the costs of refunding the previously issued bonds; (ii) funding reserves and capitalized interest; and (iii) paying other costs incurred in connection with the issuance of the Series 2020 Bonds and the refunding of the previously issued bonds. The Series 2020 Bonds were issued in the amount of \$12,335,000. The bonds bear interest at the rate of 5.00% per annum, calculated on the basis of a 360-day year of twelve 30-day months, payable to the extent of pledged revenues available on each June 1 and December 1, and mature on December 1, 2049.

The District is required to maintain bond payment and surplus cash accounts. The purpose of the surplus cash account is to provide adequate reserves to meet principal and interest requirements if the bond account does not have enough funding. The reserve account is required to be maintained as long as the bonds are outstanding.

Pledged revenues

The bonds are secured by and payable from the pledged revenue consisting of monies derived by the District from the following sources, net of any collection costs: (a) required mill levy; (b) capital fees; and (c) any other legally available monies which the District determines to be treated as pledged revenue. The bonds are also secured by amounts held by the trustee in the surplus fund. Required mill levy means an ad valorem mill levy imposed upon all taxable property of the District each year in an amount sufficient to pay the principal, premium if any, and interest on the bonds as the same become due and payable and to make up any deficiencies in the surplus fund. The mill levy is adjusted for changes in the ratio of actual value to assessed value of property within the District.

See independent auditor's report.

CONSTITUTION HEIGHTS METROPOLITAN DISTRICT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022

Optional redemption

The Series 2020 Bonds are subject to redemption prior to maturity, at the option of the District, as a whole or in integral multiples of \$1,000, in any order of maturity and in whole or partial maturities, on June 1, 2025, and on any date thereafter, upon payment of par, accrued interest, and a redemption premium of a percentage of the principal amount so redeemed, as follows:

<u>Date of Redemption</u>	<u>Redemption Premium</u>
June 1, 2025 to May 31, 2026	3.00%
June 1, 2026 to May 31, 2027	2.00%
June 1, 2027 to May 31, 2028	1.00%
June 1, 2028 and thereafter	0.00%

The District's long-term obligations on the 2020 Series Bonds mature as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ -	\$ 616,750	\$ 616,750
2024	55,000	616,750	671,750
2025	115,000	614,000	729,000
2026	170,000	608,250	778,250
2027	190,000	599,750	789,750
2028 - 2032	1,250,000	2,836,250	4,086,250
2033 - 2037	1,800,000	2,471,750	4,271,750
2038 - 2042	2,550,000	1,950,250	4,500,250
2043 - 2047	3,495,000	1,223,500	4,718,500
2048 - 2052	2,710,000	228,750	2,938,750
Total	<u>\$ 12,335,000</u>	<u>\$ 11,766,000</u>	<u>\$ 24,101,000</u>

Events of default

The occurrence of any one or more of the following events or the existence of any one or more of the following conditions constitutes an event of default under the indenture:

- i. The District defaults in the performance and fails or refuses to impose the required mill levy or to apply the pledged revenue as required by the indenture.
- ii. The District defaults in the performance or observance of any of the covenants, agreements, or conditions on the part of the District in the indenture or the bond resolution, and such default continues for 30 days after written notice specifying such default and requiring the same to be remedied is given to the District by the owners of 25% in aggregate principal amount of the bonds then outstanding.
- iii. The District files a petition under the federal bankruptcy laws or other applicable bankruptcy laws seeking to adjust the obligation represented by the bonds.

It is acknowledged that, due to the limited nature of the pledged revenue, the failure to pay the principal of or interest on the bonds when due does not, in itself, constitute an event of default under the indenture.

See independent auditor's report.

CONSTITUTION HEIGHTS METROPOLITAN DISTRICT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022

Upon the occurrence and continuance of an event of default, the trustee has the following rights and remedies which may be pursued:

i. Receivership: Upon the filing of a bill in equity or other commencement of judicial proceedings to enforce the rights of the trustee and of the owners, the trustee is entitled as a matter of right to the appointment of one or more receivers of the trust estate and of the revenues, income, product and profits thereof pending such proceedings, subject, however, to constitutional limitations inherent in the sovereignty of the District; but notwithstanding the appointment of any receiver or other custodian, the trustee is entitled to the possession and control of any cash, securities, or other instruments at the time held by, or payable or deliverable under the provisions of the indenture to, the trustee.

ii. Suit for judgment: The trustee may proceed to protect and enforce its rights and the rights of the owners by such suit, action, or special proceedings as the trustee, being advised by counsel, deems appropriate.

iii. Mandamus or other suit: The owner may proceed by mandamus or any other suit, action, or proceeding at law or in equity, to enforce its rights.

Notwithstanding the foregoing or anything else herein to the contrary, acceleration will not be an available remedy for an event of default.

Developer advances

Operating funding agreements

On November 15, 2005, the District entered into a reimbursement agreement with two developers, Sand Creek Investments South, LLC, and Marksheffel Business Center Investments ("Developers"), under which the District will reimburse the developers for the costs of district formation, operations, maintenance expenses, and improvements that benefit the District and development within the District. The District agreed to repay such advances plus interest at 8.00% per annum. Principal and interest repayments are expected to be made from the District's bond proceeds. The developer advances do not constitute a lien or encumbrance upon any bond proceeds now or hereafter held by the District, except to the extent the District appropriates such bond proceeds for the specific purpose of reimbursement repayments. As of December 31, 2022, developer advances totaled \$153,500 and accrued interest related to the developer advances totaled \$150,192.

5. NET POSITION

The District has net position consisting of restricted and unrestricted.

Restricted net position includes balances with external restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments; or imposed by law through constitutional provisions or enabling legislation. The District had a restricted net position as of December 31, 2022 as follows:

Restricted net position:

Debt service (Note 4)	\$ 666,406
Emergency reserve (Note 9)	<u>1,500</u>
	<u>\$ 667,906</u>

The District's unrestricted net position as of December 31, 2022, totaled a deficit of \$12,688,861.

6. INTERGOVERNMENTAL AGREEMENTS

On November 30, 2006, the District entered into an intergovernmental agreement ("IGA") with Central Marksheffel Metropolitan District to finance and construct certain road improvements to a portion of Marksheffel Road.

See independent auditor's report.

CONSTITUTION HEIGHTS METROPOLITAN DISTRICT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022

On September 22, 2009, the District entered into an IGA with the County which provided for the construction of the middle portion of Marksheffel Road by the County with Pikes Peak Regional Transportation Authority ("PPRTA") funds. Upon entering this IGA, the County contemporaneously entered into the November 4, 2008, IGA. Under the terms of the 2009 IGA, the District agreed to deed certain property to the County and to contribute up to \$2,788,841 for the cost of design, engineering, and construction of Akers Drive (one of the deeded properties) and Marksheffel Road, including \$588,841 for the cost of improvements to Akers Drive and \$2,200,000 for Marksheffel Road improvements. After contributing \$185,000 for the value of work completed to date on Marksheffel Road, the County will be reimbursed for the balance of the Marksheffel Road improvement costs by collecting a building permit fee, recorded against certain properties within the District and against properties within the impact area of the improvements.

7. RELATED PARTIES

The members of the board of directors are officers, employees, or associated with the developers and may have conflicts of interest in dealing with the District.

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, 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.

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 within the state of Colorado.

Spending and revenue limits are determined based on the prior 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. Revenues in excess of the fiscal year spending limit must be refunded unless the voters approve retention of such revenues. The District's voters approved a ballot issue allowing the District to retain all revenues.

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.

District management believes the District 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 likely require judicial interpretation.

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See independent auditor's report.

SUPPLEMENTARY INFORMATION

CONSTITUTION HEIGHTS METROPOLITAN DISTRICT
DEBT SERVICE FUND - SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE (BUDGET AND ACTUAL)
YEAR ENDED DECEMBER 31, 2022

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
<u>REVENUES</u>				
Property taxes	\$ 576,030	\$ 576,498	\$ 576,498	\$ -
Investment income	-	14,373	14,583	210
Total revenues	<u>576,030</u>	<u>590,871</u>	<u>591,081</u>	<u>210</u>
<u>EXPENDITURES</u>				
Accounting and audit		8,825	-	8,825
County Treasurer fees	8,640	8,647	8,647	-
Bank charges	4,100	4,176	4,690	(514)
Bond interest payments	616,750	617,264	616,750	514
Miscellaneous	5,000	-	-	-
Total expenditures	<u>634,490</u>	<u>638,912</u>	<u>630,087</u>	<u>-</u>
Excess of revenues over expenditures	<u>(58,460)</u>	<u>(48,041)</u>	<u>(39,006)</u>	<u>210</u>
<u>OTHER FINANCING SOURCES AND USES</u>				
Transfer between funds	-	4,000	-	(4,000)
Total other financing sources and uses	<u>-</u>	<u>4,000</u>	<u>-</u>	<u>(4,000)</u>
Net change in fund balance	<u>\$ (58,460)</u>	<u>\$ (44,041)</u>	<u>(39,006)</u>	<u>\$ (3,790)</u>
Fund balance, beginning of year			<u>705,412</u>	
Fund balance, end of year			<u>\$ 666,406</u>	

See independent auditor's report.