

HIGHLANDS METROPOLITAN DISTRICT NO. 1

Financial Statements

Year Ended December 31, 2023

with

Independent Auditor's Report

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HIRATSUKA & ASSOCIATES, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Highlands Metropolitan District No. 1
City and County of Broomfield, Colorado

Opinion

We have audited the accompanying financial statements of the governmental activities and each major fund of the Highlands Metropolitan District No. 1 (the District) as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

Required Supplementary Information

Management has not presented Management's Discussion and Analysis. Such missing information, although not a part of the basic financial statements, is required by GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by the missing information.

Supplementary Information

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

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

Hiratsuka & Associates, LLP

September 24, 2024
Wheat Ridge, Colorado

Highlands Metropolitan District No. 1

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

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
ASSETS						
Cash and investments	\$ 184,702	\$ -	\$ -	\$ 184,702	\$ -	\$ 184,702
Cash and investments - restricted	1,383	998,695	310,719	1,310,797	-	1,310,797
Receivable - County Treasurer	113	1,015	-	1,128	-	1,128
Property taxes receivable	414	4,837	-	5,251	-	5,251
Accounts receivable- District No. 2	-	10,985	-	10,985	-	10,985
Receivable - other	-	29,678	-	29,678	-	29,678
Prepaid Expenses	450	-	-	450	-	450
Capital assets not being depreciated	-	-	-	-	6,712,738	6,712,738
Total Assets	<u>\$ 187,062</u>	<u>\$ 1,045,210</u>	<u>\$ 310,719</u>	<u>\$ 1,542,991</u>	<u>6,712,738</u>	<u>8,255,729</u>
LIABILITIES						
Accounts Payable	\$ 10,855	\$ -	\$ -	\$ 10,855	-	10,855
Due to County Treasurer	5,238	3,159	-	8,397	-	8,397
Accrued interest	-	-	-	-	37,954	37,954
Long-term liabilities:						
Due within one year	-	-	-	-	325,000	325,000
Due in more than one year	-	-	-	-	10,014,385	10,014,385
Total Liabilities	<u>16,093</u>	<u>3,159</u>	<u>-</u>	<u>19,252</u>	<u>10,377,339</u>	<u>10,396,591</u>
DEFERRED INFLOWS OF RESOURCES						
Deferred property taxes	414	4,837	-	5,251	-	5,251
Total Deferred Inflows of Resources	<u>414</u>	<u>4,837</u>	<u>-</u>	<u>5,251</u>	<u>-</u>	<u>5,251</u>
FUND BALANCES/NET POSITION						
Fund Balances:						
Nonspendable:						
Prepays	450	-	-	450	(450)	-
Restricted:						
Emergencies	1,383	-	-	1,383	(1,383)	-
Debt service	-	1,037,214	-	1,037,214	(1,037,214)	-
Capital projects	-	-	310,719	310,719	(310,719)	-
Unassigned	<u>168,722</u>	<u>-</u>	<u>-</u>	<u>168,722</u>	<u>(168,722)</u>	<u>-</u>
Total Fund Balances	<u>170,555</u>	<u>1,037,214</u>	<u>310,719</u>	<u>1,518,488</u>	<u>(1,518,488)</u>	<u>-</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 187,062</u>	<u>\$ 1,045,210</u>	<u>\$ 310,719</u>	<u>\$ 1,542,991</u>		
Net Position:						
Restricted for:						
Emergencies					1,383	1,383
Debt service					999,260	999,260
Capital projects					310,719	310,719
Unrestricted					<u>(3,457,475)</u>	<u>(3,457,475)</u>
Total Net Position					<u>\$ (2,146,113)</u>	<u>\$ (2,146,113)</u>

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

Highlands Metropolitan District No. 1

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

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
EXPENDITURES						
Accounting and audit	\$ 15,650	\$ -	\$ -	\$ 15,650	\$ -	\$ 15,650
Election expense	3,023	-	-	3,023	-	3,023
Insurance	3,180	-	-	3,180	-	3,180
Legal	31,174	-	-	31,174	-	31,174
Miscellaneous expenses	1,243	-	-	1,243	-	1,243
Paying agent fees	-	4,000	-	4,000	-	4,000
Treasurer's fees	6	54	-	60	-	60
Capital Expenditures	-	-	159,561	159,561	-	159,561
Developer advances interest	-	-	-	-	8,401	8,401
Bond Principal	-	35,000	-	35,000	(35,000)	-
Bond Interest	-	456,850	-	456,850	(5,637)	451,213
Total Expenditures	<u>54,276</u>	<u>495,904</u>	<u>159,561</u>	<u>709,741</u>	<u>(32,236)</u>	<u>677,505</u>
GENERAL REVENUES						
Property taxes	400	4,327	-	4,727	-	4,727
Specific ownership taxes	1,471	13,238	-	14,709	-	14,709
Sales tax	-	178,736	-	178,736	-	178,736
Interest and other income	11,419	53,706	15,428	80,553	-	80,553
TIF revenue	27,413	246,719	-	274,132	-	274,132
Total General Revenues	<u>40,703</u>	<u>496,726</u>	<u>15,428</u>	<u>552,857</u>	<u>-</u>	<u>552,857</u>
NET CHANGES IN FUND BALANCES	(13,573)	822	(144,133)	(156,884)	156,884	
CHANGE IN NET POSITION					(124,648)	(124,648)
FUND BALANCES/NET POSITION:						
BEGINNING OF YEAR	<u>184,128</u>	<u>1,036,392</u>	<u>454,852</u>	<u>1,675,372</u>	<u>(3,696,837)</u>	<u>(2,021,465)</u>
END OF YEAR	<u>\$ 170,555</u>	<u>\$ 1,037,214</u>	<u>\$ 310,719</u>	<u>\$ 1,518,488</u>	<u>\$ (3,664,601)</u>	<u>\$ (2,146,113)</u>

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

Highlands Metropolitan District No. 1

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

For the Year Ended December 31, 2023

	Original & Final		Variance
	Budget	Actual	Favorable (Unfavorable)
REVENUES			
Property taxes	\$ 406	\$ 400	\$ (6)
Specific ownership taxes	32	1,471	1,439
Interest Income	32	11,419	11,387
TIF revenue	27,763	27,413	(350)
Total Revenues	28,233	40,703	12,470
EXPENDITURES			
Accounting and audit	12,000	15,650	(3,650)
Election expense	5,000	3,023	1,977
Insurance	3,500	3,180	320
Legal	25,000	31,174	(6,174)
Miscellaneous expenses	600	1,243	(643)
Treasurer's fees	6	6	-
Contingency	165,312	-	165,312
Emergency reserve	1,383	-	1,383
Total Expenditures	212,801	54,276	158,525
NET CHANGE IN FUND BALANCE	(184,568)	(13,573)	170,995
FUND BALANCE:			
BEGINNING OF YEAR	184,568	184,128	(440)
END OF YEAR	\$ -	\$ 170,555	\$ 170,555

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

HIGHLANDS METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements December 31, 2023

Note 1: Summary of Significant Accounting Policies

The accounting policies of the Highlands Metropolitan District No. 1 (“District”), located in the City and County of Broomfield, Colorado (“Broomfield”), conform to the accounting principles generally accepted in the United States of America (“GAAP”) as applicable to governmental units.

The Governmental Accounting Standards Board (“GASB”) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant policies consistently applied in the preparation of financial statements.

Definition of Reporting Entity

The District was organized in June 2008, as a quasi-municipal organization established under the State of Colorado Special District Act. The District was organized concurrently with Highlands Metropolitan District No. 2 (“District No. 2”), and was established to manage the construction and operations of commercial and residential facilities and improvements in addition to providing part of the funding for capital improvements and for operations. District No. 2 was responsible for providing a portion of the funding for residential facilities and other residential capital improvements and operational requirements. On July 26, 2016 Broomfield approved an Amended and Restated Service Plan for the District, pursuant to this revised service plan the District no longer coordinates with District No. 2 and is responsible for implementing its own financing plan and its own operations and maintenance. The District's primary revenues are property taxes, sales taxes and TIF revenue. The District is governed by an elected Board of Directors.

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

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

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

HIGHLANDS METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements December 31, 2023

Basis of Presentation

The accompanying financial statements are presented per GASB Statement No. 34 - Special Purpose Governments.

The government-wide financial statements (i.e. the governmental funds balance sheet/statement of net position and the governmental funds statement of revenues, expenditures, and changes in fund balances/statement of activities) report information on all of the governmental activities of the District. The statement of net position reports all financial and capital resources of the District. The difference between the (a) assets and deferred outflows of resources and the (b) liabilities and deferred inflows of resources of the District is reported as net position. The statement of activities demonstrates the degree to which expenditures/expenses of the governmental funds are supported by general revenues. For the most part, the effect of interfund activity has been removed from these statements.

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

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year in which they are collected.

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

HIGHLANDS METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements December 31, 2023

The District reports the following major governmental funds:

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

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

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

Budgetary Accounting

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

Assets, Liabilities and Net Position

Fair Value of Financial Instruments

The District's financial instruments include cash and investments, accounts receivable and accounts payable. The District estimates that the fair value of all financial instruments at December 31, 2023, does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying balance sheet. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

Deposits and Investments

The District's cash and short-term investments with maturities of three months or less from the date of acquisition are considered to be cash on hand. Investments for the government are reported at fair value.

HIGHLANDS METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements December 31, 2023

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

Estimates

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

Deferred Outflows/Inflows of Resources

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

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

Capital Assets

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

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the life of the asset are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable using the straight-line method. Depreciation on property that will remain assets of the District is reported on the Statement of Activities as a current charge. Improvements that will be conveyed to other governmental entities are classified as construction in progress and are not depreciated. Land and certain landscaping improvements are not depreciated. No depreciation expense was recognized during 2023.

HIGHLANDS METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements December 31, 2023

Original Issue Premium

Original issue premium from the Series 2021 Bonds is being amortized over the term of the bonds using the effective interest method. Accumulated amortization of original issue premium amounted to \$14,238, at December 31, 2023.

Property Taxes

Property taxes are levied by the District's Board of Directors. The levy is based on assessed valuations determined by the County Assessor generally as of January 1 of each year. The levy is normally set by December 15 by certification to the County Commissioners to put the tax lien on the individual properties as of January 1 of the following year. The County Treasurer collects the determined taxes during the ensuing calendar year. The taxes are payable by April 30 or if in equal installments, at the taxpayers' election, in February and June. Delinquent taxpayers are notified in July or August and the sales of the resultant tax liens on delinquent properties are generally held in November or December. The County Treasurer remits the taxes collected monthly to the District.

Property taxes, net of estimated uncollectible taxes, are recorded initially as deferred inflows in the year they are levied and measurable since they are not normally available nor are they budgeted as a resource until the subsequent year. The deferred property taxes are recorded as revenue in the subsequent year when they are available or collected.

Long-Term Obligations

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

Fund Equity

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. Because circumstances differ among governments, not every government or every governmental fund will present all of these components. The following classifications make the nature and extent of the constraints placed on a government's fund balance more transparent:

Nonspendable Fund Balance

Nonspendable fund balance includes amounts that cannot be spent because they are either not spendable in form (such as inventory or prepaids) or are legally or contractually required to be maintained intact.

Nonspendable fund balance represents prepaid insurance.

Restricted Fund Balance

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

HIGHLANDS METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements December 31, 2023

The restricted fund balance in the General Fund represents Emergency Reserves that have been provided as required by Article X, Section 20 of the Constitution of the State of Colorado. A total of \$1,383 of the General Fund balance has been restricted in compliance with this requirement.

The restricted fund balance in the Debt Service Fund in the amount of \$1,037,214 is restricted for the payment of the debt service costs associated with the Series 2021 Bonds (see Note 4).

The restricted fund balance in the Capital Projects Fund in the amount of \$310,719 is restricted for the payment of the costs for capital improvements within the District.

Committed Fund Balance

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

Assigned Fund Balance

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

Unassigned Fund Balance

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

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

Net Position

Net Position represents the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources. The District may report three categories of net position, as follows:

Net investment in capital assets – consists of net capital assets, reduced by outstanding balances of any related debt obligations and deferred inflows of resources attributable to the acquisition, construction, or improvement of those assets and increased by balances of deferred outflows or resources related to those assets. The District has no amounts to report in this category at December 31, 2023

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

HIGHLANDS METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements
December 31, 2023

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

When an expense is incurred for purposes for which both restricted and unrestricted net position are available, the District will use the most restrictive net position first.

Note 2: Cash and Investments

As of December 31, 2023, cash and investments are classified in the accompanying financial statements as follows:

Statement of Net Position:

Cash and investments	\$ 184,702
Cash and investments - Restricted	<u>1,310,797</u>
Total	<u>\$ 1,495,499</u>

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

Deposits with financial institutions	\$ 8,852
Colotrust	<u>1,486,647</u>
	<u>\$ 1,495,499</u>

Deposits

Custodial Credit Risk

The Colorado Public Deposit Protection Act (“PDPA”), requires that all units of local government deposit cash in eligible public depositories. State regulators determine eligibility. Amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is determined by the PDPA. PDPA allows the institution to create a single collateral pool for all public funds. The pool is to be maintained by another institution, or held in trust for all the uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the aggregate uninsured deposits. The State Commissioners for banks and financial services are required by statute to monitor the naming of eligible depositories and reporting of the uninsured deposits and assets maintained in the collateral pools.

The District follows state statutes for deposits. As of December 31, 2023, none of the District’s deposits were exposed to custodial credit risk.

HIGHLANDS METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements December 31, 2023

Investments

Certain investments are measured at fair value within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The District's investment are not required to be categorized within the fair value hierarchy. This investment's value for COLOTRUST is calculated using the net asset value method (NAV) per share.

The District has not adopted a formal investment policy; however the District follows state statutes regarding investments. Colorado statutes specify the types of investments meeting defined rating and risk criteria in which local governments may invest. These investments include obligations of the United States and certain U.S. Government agency entities, certain money market funds, guaranteed investment contracts, and local government investment pools.

Custodial and Concentration of Credit Risk

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

Interest Rate Risk

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

As of December 31, 2023, the District had the following investment:

COLOTRUST

The local government investment pool, Colorado Local Government Liquid Asset Trust ("COLOTRUST"), is rated AAAM by Standard & Poor's with a weighted average maturity of under 60 days. COLOTRUST is an investment trust/joint venture established for local government entities in Colorado to pool surplus funds. The State Securities Commissioner administers and enforces all State statutes governing the Trust. COLOTRUST records its investments at fair value and the District records its investment in COLOTRUST using the net asset value method. COLOTRUST operates similarly to a money market fund with each share maintaining a value of \$1.00. The COLOTRUST offers shares in three portfolios, one of which is COLOTRUST PLUS+. COLOTRUST PLUS+ may invest in U.S. Treasuries, government agencies, the highest-rated commercial paper, certain corporate securities, certain money market funds, and certain repurchase agreements, and limits its investments to those allowed by State statutes. Purchases and redemptions are available daily at a net asset value (NAV) of \$1.00. A designated custodial bank provides safekeeping and depository services to COLOTRUST in connection with the direct investment and withdrawal function of COLOTRUST. The custodian's internal records identify the investments owned by participating governments. There are no unfunded commitments and there is no redemption notice period. On December 31, 2023, the District had \$1,486,647 invested in COLOTRUST Plus+.

HIGHLANDS METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements
December 31, 2023

Note 3: Capital Assets

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

Governmental Type Activities:	Balance 1/1/2023	Additions	Deletions	Balance 12/31/2023
<u>Capital assets not being depreciated:</u>				
Construction in progress	\$ 6,712,738	\$ -	\$ -	\$ 6,712,738
Total capital assets not being depreciated	<u>6,712,738</u>	<u>-</u>	<u>-</u>	<u>6,712,738</u>
Government type assets, net	<u>\$ 6,712,738</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,712,738</u>

Upon completion and acceptance, all fixed assets are expected to be conveyed by the District to other local governments. The District will not be responsible for maintenance of the improvements conveyed to other entities. Capital expenditure made during the year were for a shared streetlight and was not capitalized by the District.

Note 4: Long Term Debt

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

\$10,025,000 Limited Tax (Convertible to Unlimited Tax) General Obligation Bonds, Series 2021. On March 19, 2021, the District issued \$10,025,000 Limited Tax (Convertible to Unlimited Tax) General Obligation Bonds, Series 2021 (“Series 2021 Bonds”). The Series 2021 Bonds bear interest at rates ranging between 4.00% and 5.00%, payable semiannually on June 1 and December 1, commencing June 1, 2021, and mature on December 1, 2051. The Series 2021 Bonds were issued for the purpose of financing or reimbursing a portion of the costs of acquiring, constructing, and/or installing certain public infrastructure, funding a portion of the interest to accrue on the Series 2021 Bonds, funding the Reserve Fund, and paying the issuance costs. The Series 2021 Bonds are subject to a mandatory sinking fund redemption commencing on December 1, 2023, and 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, commencing on March 1, 2026, upon payment of par, accrued interest, and a redemption premium that ranges between 0% and 3%.

The Series 2021 Bonds are secured by Property Taxes derived from the Required Mill Levy, including such amounts payable to the District by BURA pursuant to the Cooperation Agreement (Note 5), all Pledged Sales Tax Increment Revenue, all Specific Ownership Taxes, any Capital Fees, a Reserve Fund, and any other legally available moneys as determined by the District in its absolute discretion.

HIGHLANDS METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements
December 31, 2023

The following is a summary of the annual long-term debt principal and interest requirements for the Series 2021 Bonds.

	Principal	Interest	Total
2024	\$ 325,000	\$ 455,450	\$ 780,450
2025	525,000	442,450	967,450
2026	605,000	421,450	1,026,450
2027	645,000	397,250	1,042,250
2028	690,000	371,450	1,061,450
2029-2033	1,850,000	1,494,700	3,344,700
2034-2038	785,000	1,264,500	2,049,500
2039-2043	1,110,000	1,037,750	2,147,750
2044-2048	1,540,000	719,750	2,259,750
2049-2051	1,915,000	230,500	2,145,500
	<u>\$ 9,990,000</u>	<u>\$ 6,835,250</u>	<u>\$ 16,825,250</u>

Infrastructure Acquisition and Reimbursement Agreement

On November 2, 2016, the District entered into an Infrastructure Acquisition and Reimbursement Agreement (“IARA”) with an effective date of November 5, 2015 with EVT 7th & Sheridan LLC (“Developer”) pursuant to which the Developer agreed to construct certain public improvements benefiting the District and the District agreed to reimburse the Developer for the costs of such improvements as verified by the District's engineer and accountant and subject to other requirements set forth in the IARA. The IARA provides that the amount due under the IARA do not constitute debt or indebtedness of the District and are subject to annual appropriations. Pursuant to the IARA, the repayment obligation under the IARA is subordinate to the repayment obligation under the RIARA. The District agreed to reimburse the Developer the cost of such improvements plus interest at 8% per annum.

Developer Funding and Reimbursement Agreement (O&M)

The District entered into an Funding and Reimbursement Agreement (“Developer O&M”) with the Developer dated November 2, 2016 with an effective date of November 5, 2015, pursuant to which the Developer agreed to advance up to \$500,000 to the District through December 31, 2020 for payment of the District’s operation, administrative and maintenance expenses. The District’s obligations under this agreement are subject to annual appropriation by the District and terminates at the earlier of the repayment in full or 40 years from the execution date, and it accrues interest at 7%.

HIGHLANDS METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements
December 31, 2023

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

	Balance 1/1/2023	Additions	Deletions	Balance 12/31/2023	Current Portion
General Obligation Bonds					
Series 2021 Bonds	\$ 10,025,000	\$ -	\$ 35,000	\$ 9,990,000	\$ 325,000
Other Direct Borrowings					
Developer Reimbursement - Operations	120,009	-	-	120,009	-
Interest on Developer Reimbursement Operations	32,129	8,401	-	40,530	-
Total	10,177,138	8,401	35,000	10,150,539	325,000
Original issue premium	194,366	-	5,520	188,846	-
	\$ 10,371,504	\$ 8,401	\$ 40,520	\$ 10,339,385	\$ 325,000

Debt Authorization

At an election the eligible voters of the District authorized the issuance of a total of \$39,850,000 of indebtedness for various categories of expenditures. The District is not planning on issuing debt in 2024. According to the District’s Service Plan, the District cannot issue debt in excess of \$28,000,000.

Note 5: Other Agreements

Cooperation Agreement

On November 12, 2019, the District entered into a Cooperation Agreement with Broomfield Urban Renewal Authority (“BURA”) pursuant to which BURA agreed to remit to the District all of the property tax increment revenues resulting from the imposition of ad valorem property taxes less a fee of 1.5% , (including both its mill levy for operating and maintenance expenses and its mill levy for debt service) and has agreed to remit a portion of the municipal sales tax collected with the boundaries of the District. The Cooperation Agreement terminates on April 27, 2029. The District is in the North Park West Urban Renewal Project – Broomfield Urban Renewal Authority (“NPWURP”). On April 27, 2004, BURA authorized the Urban Renewal Plan for the NPWURP which terminates on April 27, 2029. After April 27, 2029, the District will receive the full amount of property taxes resulting from its mill levies imposed on the total assessed value of the District directly from the County Treasurer.

Note 6: Related Party

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

HIGHLANDS METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements December 31, 2023

Note 7: Tax, Spending and Debt Limitations

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

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

TABOR requires local governments to establish Emergency Reserves. These reserves must be at least 3% of Fiscal Year Spending (excluding bonded debt service). Local governments are not allowed to use the emergency reserves to compensate for economic conditions, revenue shortfalls, or salary or benefit increases.

The District’s management believes it is in compliance with the provisions of TABOR. However, TABOR is complex and subject to interpretation. Many of the provisions, including the interpretation of how to calculate Fiscal Year Spending limits will require judicial interpretation.

In 2008 a majority of the District’s electors authorized the District to collect and spend or retain in a reserve all currently levied taxes and fees of the District without regard to any limitations under Article X, Section 20 of the Colorado Constitution.

Note 8: Risk Management

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

The District pays annual premiums to the Pool for auto, public officials’ liability, and property and general liability coverage. In the event aggregated losses incurred by the Pool exceed its amounts recoverable from reinsurance contracts and its accumulated reserves, the District may be called upon to make additional contributions to the Pool on the basis proportionate to other members. Any excess funds which the Pool determines are not needed for purposes of the Pool may be returned to the members pursuant to a distribution formula.

HIGHLANDS METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements
December 31, 2023

Note 9: Reconciliation of Government-Wide Financial Statements and Fund Financial Statements

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

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

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

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

SUPPLEMENTAL INFORMATION

Highlands Metropolitan District No. 1

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

For the Year Ended December 31, 2023

	Original & Final		Variance
	Budget	Actual	Favorable (Unfavorable)
REVENUES			
Property taxes	\$ 3,651	\$ 4,327	\$ 676
Specific ownership taxes	256	13,238	12,982
Sales tax	153,185	178,736	25,551
Interest and other income	-	53,706	53,706
TIF revenue	249,871	246,719	(3,152)
Total Revenues	406,963	496,726	89,763
EXPENDITURES			
Paying agent fees	5,000	4,000	1,000
Bond Principal	35,000	35,000	-
Bond interest	456,850	456,850	-
Treasurer's fees	55	54	1
Total Expenditures	496,905	495,904	1,001
NET CHANGE IN FUND BALANCE	(89,942)	822	90,764
FUND BALANCE:			
BEGINNING OF YEAR	795,522	1,036,392	240,870
END OF YEAR	\$ 705,580	\$ 1,037,214	\$ 331,634

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

Highlands Metropolitan District No. 1

SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL -
CAPITAL PROJECTS FUND
For the Year Ended December 31, 2023

	Original & Final <u>Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
REVENUES			
Interest and other income	\$ -	\$ 15,428	\$ 15,428
Total Revenues	-	15,428	15,428
EXPENDITURES			
Capital Expenditures	1,114,830	159,561	955,269
Total Expenditures	1,114,830	159,561	955,269
NET CHANGE IN FUND BALANCE	(1,114,830)	(144,133)	970,697
FUND BALANCE:			
BEGINNING OF YEAR	1,114,830	454,852	(659,978)
END OF YEAR	\$ -	\$ 310,719	\$ 310,719

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