

THREE HILLS METROPOLITAN DISTRICT

Jefferson County, Colorado

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED DECEMBER 31, 2023

**THREE HILLS METROPOLITAN DISTRICT
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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Three Hills Metropolitan District
Jefferson County, Colorado

Opinion

We have audited the accompanying financial statements of the governmental activities and each major fund of the Three Hills Metropolitan District, Jefferson County, Colorado, as of and for the year ended December 31, 2023, which collectively comprise the Three Hills Metropolitan District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Three Hills Metropolitan District, as of December 31, 2023, and the respective changes in financial position and the respective budgetary comparisons for the General Fund for the year then ended in conformity 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 (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 Three Hills Metropolitan 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 Three Hills Metropolitan 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 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 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 Three Hills Metropolitan 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 Three Hills Metropolitan 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 that governmental accounting principles generally accepted in the United States of America require to be presented to supplement the basis financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basis 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 that collectively comprise Three Hills Metropolitan District's basic financial statements. The supplemental information listed in the table of contents are presented for the purpose of additional analysis and was not a required part of the financial statements.

The supplemental schedules of Debt Service Fund - Schedule of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual and Capital Projects Fund - Schedule of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual is the responsibility of management and was derived from and relate 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 Debt Service Fund - Schedule of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual and Capital Projects Fund - Schedule of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual are fairly stated in all material respects in relation to the financial statements as a whole.

The Schedule of Summary of Assessed Valuation, Mill Levy and Property Taxes Collected have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express any opinion or provide any assurance on them.

Watson Coon Ryan, LLC

Watson Coon Ryan, LLC
November 19, 2024
Centennial, Colorado

BASIC FINANCIAL STATEMENTS

**THREE HILLS METROPOLITAN DISTRICT
STATEMENT OF NET POSITION
DECEMBER 31, 2023**

	Governmental Activities
ASSETS	
Cash and Investments - Restricted	\$ 2,587,270
Receivable - County Treasurer	326
Prepaid Expenses	2,526
Property Tax Receivable	301,811
Capital Assets:	
Capital Assets, Not Being Depreciated	9,165,459
Total Assets	12,057,392
LIABILITIES	
Accounts Payable	15,604
Accrued Interest Payable	1,439,311
Noncurrent Liabilities:	
Due in More Than One Year	13,578,429
Total Liabilities	15,033,344
DEFERRED INFLOWS OF RESOURCES	
Property Tax Revenue	301,811
Total Deferred Inflows of Resources	301,811
NET POSITION	
Restricted for:	
Emergency Reserves	600
Debt Service	430,608
Unrestricted	(3,708,971)
Total Net Position	\$ (3,277,763)

See accompanying Notes to Basic Financial Statements.

**THREE HILLS METROPOLITAN DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2023**

FUNCTIONS/PROGRAMS	Program Revenues			Net Revenues (Expenses) and Change in Net Position	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Primary Government:					
Governmental Activities:					
General Government	\$ 81,384	\$ -	\$ -	\$ -	\$ (81,385)
Interest on Long-Term Debt and Related Costs	739,397	-	-	-	(739,397)
Total Governmental Activities	\$ 820,781	\$ -	\$ -	\$ -	(820,782)
GENERAL REVENUES					
Property Taxes					73,556
Specific Ownership Taxes					5,264
Interest Income					276,001
Total General Revenues and Transfers					354,821
CHANGES IN NET POSITION					(465,961)
Net Position - Beginning of Year					(2,811,802)
NET POSITION - END OF YEAR					\$ (3,277,763)

See accompanying Notes to Basic Financial Statements.

**THREE HILLS METROPOLITAN DISTRICT
BALANCE SHEET –
GOVERNMENTAL FUNDS
DECEMBER 31, 2023**

ASSETS	General	Debt Service	Capital Projects	Total Governmental Funds
Cash and Investments - Restricted	\$ 345	\$ 437	\$ 2,586,488	\$ 2,587,270
Receivable from County Treasurer	75	251	-	326
Prepaid Insurance	2,526	-	-	2,526
Property Tax Receivable	69,648	232,163	-	301,811
Total Assets	\$ 72,594	\$ 232,851	\$ 2,586,488	\$ 2,891,933
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
LIABILITIES				
Accounts Payable	\$ 11,604	\$ 4,000	\$ -	\$ 15,604
Total Liabilities	11,604	4,000	-	15,604
DEFERRED INFLOWS OF RESOURCES				
Property Tax Revenue	69,648	232,163	-	301,811
Total Deferred Inflows of Resources	69,648	232,163	-	301,811
FUND BALANCES				
Nonspendable:				
Prepaid Expense	2,526	-	-	2,526
Restricted for:				
Emergency Reserves	600	-	-	600
Capital Projects	-	-	2,586,488	2,586,488
Unassigned	(11,784)	(3,312)	-	(15,096)
Total Fund Balances	(8,658)	(3,312)	2,586,488	2,574,518
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 72,594	\$ 232,851	\$ 2,586,488	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.
Capital Assets, Not Being Depreciated

9,165,459

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.

Bond Payable
Accrued Interest on Bonds Payable
Developer Advance Payable
Accrued Interest on Developer Advance Payable

(12,205,000)
(1,439,311)
(794,189)
(579,240)

Net Position of Governmental Activities

\$ (3,277,763)

See accompanying Notes to Basic Financial Statements.

**THREE HILLS METROPOLITAN DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2023**

	General	Debt Service	Capital Projects	Total Governmental Funds
REVENUES				
Property Taxes	\$ 16,975	\$ 56,581	\$ -	\$ 73,556
Specific Ownership Taxes	1,215	4,049	-	5,264
Interest Income	-	84	275,917	276,001
Total Revenues	<u>18,190</u>	<u>60,714</u>	<u>275,917</u>	<u>354,821</u>
EXPENDITURES				
Current:				
Accounting	30,516	-	2,622	33,138
Auditing	5,800	-	-	5,800
County Treasurer's Fee	255	849	-	1,104
Dues And Membership	328	-	-	328
Election	3,105	-	-	3,105
Engineering	-	-	4,856	4,856
Insurance	3,021	-	-	3,021
Legal	29,981	-	-	29,981
Miscellaneous	900	-	-	900
Debt Service:				
Bond Interest	-	55,177	-	55,177
Paying Agent Fees	-	4,000	-	4,000
Capital Projects:				
Capital Outlay	-	-	6,167,011	6,167,011
Total Expenditures	<u>73,906</u>	<u>60,026</u>	<u>6,174,489</u>	<u>6,308,421</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(55,716)	688	(5,898,572)	(5,953,600)
OTHER FINANCING SOURCES (USES)				
Developer Advance	55,000	-	6,167,011	6,222,011
Repay Developer Advance	-	-	(6,167,011)	(6,167,011)
Total Other Financing Sources	<u>55,000</u>	<u>-</u>	<u>-</u>	<u>55,000</u>
NET CHANGE IN FUND BALANCES	(716)	688	(5,898,572)	(5,898,600)
Fund Balances - Beginning of Year	<u>(7,942)</u>	<u>(4,000)</u>	<u>8,485,060</u>	<u>8,473,118</u>
FUND BALANCES - END OF YEAR	<u>\$ (8,658)</u>	<u>\$ (3,312)</u>	<u>\$ 2,586,488</u>	<u>\$ 2,574,518</u>

See accompanying Notes to Basic Financial Statements.

**THREE HILLS METROPOLITAN DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF THE GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2023**

Net Change in Fund Balances - Total Governmental Funds \$ (5,898,600)

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

Governmental funds report capital outlays as expenditures. In the statement of activities capital outlay is not reported as an expenditure. However, the statement of activities will report as depreciation expense the allocation of the cost of any depreciable asset over the estimated useful life of the asset.

Capital Outlay - Current Year 6,167,011

The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of government funds. Neither transaction, however, has any effect on net position. Also, governmental funds record the effect of premiums, discounts, and similar items when debt is first issued as expenditures, whereas these amount are deferred and amortized in the statement of activities.

Developer Advance (6,222,011)
Repay Developer Advance 6,167,011

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

Accrued Interest on Bonds - Change in Liability (674,137)
Accrued Interest on Developer Advance - Change in Liability (5,235)

Changes in Net Position of Governmental Activities \$ (465,961)

**THREE HILLS METROPOLITAN DISTRICT
GENERAL FUND –
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL
YEAR ENDED DECEMBER 31, 2023**

	Original and Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Property Taxes	\$ 16,974	\$ 16,975	\$ 1
Specific Ownership Taxes	1,358	1,215	(143)
Total Revenues	<u>18,332</u>	<u>18,190</u>	<u>(142)</u>
EXPENDITURES			
Accounting	30,000	30,516	(516)
Auditing	5,500	5,800	(300)
Contingency	3,245	-	3,245
County Treasurer's Fee	255	255	-
Dues And Membership	500	328	172
Election	3,000	3,105	(105)
Insurance	2,500	3,021	(521)
Legal	35,000	29,981	5,019
Miscellaneous	-	900	(900)
Total Expenditures	<u>80,000</u>	<u>73,906</u>	<u>6,094</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(61,668)	(55,716)	5,952
OTHER FINANCING SOURCES (USES)			
Developer Advance	61,000	55,000	(6,000)
Total Other Financing Sources (Uses)	<u>61,000</u>	<u>55,000</u>	<u>(6,000)</u>
NET CHANGE IN FUND BALANCE	(668)	(716)	(48)
Fund Balance - Beginning of Year	<u>2,026</u>	<u>(7,942)</u>	<u>(9,968)</u>
FUND BALANCE - END OF YEAR	<u>\$ 1,358</u>	<u>\$ (8,658)</u>	<u>\$ (10,016)</u>

See accompanying Notes to Basic Financial Statements.

**THREE HILLS METROPOLITAN DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 1 DEFINITION OF REPORTING ENTITY

Three Hills Metropolitan District (the District), a quasi-municipal corporation and a political subdivision of the state of Colorado, was organized by order and decree of the District Court in and for Jefferson County, Colorado on December 9, 2004, and is governed pursuant to provisions of the Colorado Special District Act (Title 32, Article 1, Colorado Revised Statutes). The District operated under a Service Plan approved by Jefferson County on September 7, 2004, and now operates under an Amended and Restated Service Plan (the Service Plan) approved by Jefferson County on October 26, 2021. The District was organized as Vineyard Town Square Metropolitan District, and subsequently on November 18, 2021, pursuant to an order of the District Court for the County of Jefferson, the District's name was changed to Three Hills Metropolitan District.

At special elections of the eligible electors of the District held on November 2, 2004, May 6, 2014, and November 2, 2021, a majority of those qualified to vote voted in favor of certain ballot questions authorizing the issuance of indebtedness and imposition of taxes for the payment thereof, for the purpose of providing financing for the acquisition, construction, installation, and completion of certain public improvements.

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

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

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Government-Wide and Fund Financial Statements

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

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

**THREE HILLS METROPOLITAN DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government-Wide and Fund Financial Statements (Continued)

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized 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 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. The District has determined that Developer advances are not considered as revenue susceptible to accrual. Expenditures, other than interest on long-term obligations, are recorded when the liability is incurred or the long-term obligation due.

The District reports the following major governmental funds:

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

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

The Capital Projects Fund is used to account for financial resources to be used for the acquisition and construction of capital equipment and facilities.

**THREE HILLS METROPOLITAN DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budgets

In accordance with the State Budget Law, the District's Board of Directors holds public hearings in the fall each year to approve the budget and appropriate the funds for the ensuing year. The appropriation is at the total fund expenditures and other financing uses level and lapses at year-end. The District's Board of Directors can modify the budget by line item within the total appropriation without notification. The 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 all funds to maximize investment earnings. Except when required by trust or other agreements, all cash is deposited to and disbursed from a single bank account. Cash in excess of immediate operating requirements is pooled for deposit and investment flexibility. Investment earnings are allocated periodically to the participating funds based upon each fund's average equity balance in the total cash.

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 or if in equal installments, at the taxpayer's election, in February and June. Delinquent taxpayers are notified in August and, generally, sale of the tax liens on delinquent properties are 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 inflow of resources in the year they are levied and measurable. The unearned property tax revenues are recorded as revenue in the year they are available or collected.

Capital Assets

Capital assets, which include infrastructure assets, are reported in the applicable governmental activities column 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. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

Capital assets which are anticipated to be conveyed to other governmental entities are recorded as construction in progress and are not included in the calculation of the net investment in capital assets component of the District's net position.

**THREE HILLS METROPOLITAN DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets (Continued)

The costs of normal maintenance and repairs that do not add to the value of the asset 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.

Deferred Inflows of Resources

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

Equity

Net Position

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

Fund Balance

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

Nonspendable Fund Balance – The portion of fund balance that cannot be spent because it is either not in spendable form (such as prepaid amounts or inventory) or legally or contractually required to be maintained intact.

Restricted Fund Balance – The portion of fund balance that is constrained to being used for a specific purpose by external parties (such as bondholders), constitutional provisions, or enabling legislation.

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

**THREE HILLS METROPOLITAN DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Equity (Continued)

Fund Balance (Continued)

Assigned Fund Balance – The portion of fund balance that is constrained by the government’s intent to be used for specific purposes but is neither restricted nor committed. Intent is expressed by the Board of Directors to be used for a specific purpose. Constraints imposed on the use of assigned amounts are more easily removed or modified than those imposed on amounts that are classified as committed.

Unassigned Fund Balance – The residual portion of fund balance that does not meet any of the criteria described above.

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

Deficits

The General Fund and Debt Service Fund reported a deficit in the fund financial statements as of December 31, . The deficit in the General Fund will be eliminated with the receipt of funds advanced by the Developer in 2024. The deficit in the Debt Service Fund will be eliminated with the receipt of property taxes in 2024.

NOTE 3 CASH AND INVESTMENTS

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

Statement of Net Position:

Cash and Investments - Restricted	\$ 2,587,270
Total Cash and Investments	\$ 2,587,270

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

Deposits with Financial Institutions	\$ 702
Investments	2,586,568
Total Cash and Investments	\$ 2,587,270

Cash Deposits

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

**THREE HILLS METROPOLITAN DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 3 CASH AND INVESTMENTS (CONTINUED)

Cash Deposits (Continued)

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

At December 31, , the District's cash deposits had a bank balance and carrying balance of \$702.

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

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

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

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

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

<u>Investment</u>	<u>Maturity</u>	<u>Amount</u>
Morgan Stanley Institutional Liquidity Funds	Weighted-Average 6 Days	<u>\$ 2,586,568</u>

**THREE HILLS METROPOLITAN DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 3 CASH AND INVESTMENTS (CONTINUED)

Fair Value Measurement

The District categorizes its fair value measurements within the fair value hierarchy established by the 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 the 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 has the following recurring fair value measurements as of December 31, :

Level 1 Inputs:

Morgan Stanley Institutional Liquidity Funds

At December 31, , all of District's funds held in trust accounts at United Missouri Bank were invested in the Morgan Stanley Institutional Liquidity Funds Treasury Portfolio that are valued using quoted market prices in active markets for identical assets. This portfolio is managed by Morgan Stanley and each share is equal in value to \$1.00. The fund is AAAM rated and invests in a process that seeks to select maturities based on the shape of the money market yield curve and on expectations as to future shifts in the level and shape of the curve, taking into consideration such factors as current short-term interest rates, Federal Reserve policy regarding interest rates, and U.S. economic activity. The average maturity of the underlying securities is 90 days or less.

NOTE 4 CAPITAL ASSETS

An analysis of the changes in the District's Capital Assets for the period ended December 31, 2023 follows:

	Balance at December 31, 2022	Increases	Decreases	Balance at December 31, 2023
Governmental Activities:				
Capital Assets, Not Being Depreciated:				
Construction in Progress	\$ 2,998,448	\$ 6,167,011	\$ -	\$ 9,165,459
Total Capital Assets, Not Being Depreciated	<u>\$ 2,998,448</u>	<u>\$ 6,167,011</u>	<u>\$ -</u>	<u>\$ 9,165,459</u>

**THREE HILLS METROPOLITAN DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 5 LONG-TERM OBLIGATIONS

The following is an analysis of changes in the District's long-term obligations for the year ended December 31, :

	Balance at December 31, 2022	Additions	Reductions	Balance at December 31, 2023	Due Within One Year
<u>Government Activities</u>					
Bonds Payable:					
Limited Tax General					
Obligation Bonds:					
Series 2021(3)	\$ 12,205,000	\$ -	\$ -	\$ 12,205,000	\$ -
Total Bonds Payable	12,205,000	-	-	12,205,000	-
Other Debts:					
Developer Advances:					
Operational	231,233	55,000	-	286,233	-
Capital	507,956	6,167,011	6,167,011	507,956	-
Accrued Interest on:					
Developer Advances:					
Operational	87,903	5,235	-	93,138	-
Capital	486,102	-	-	486,102	-
Total Other Debts	1,313,194	6,227,246	6,167,011	1,373,429	-
Total	\$ 13,518,194	\$ 6,227,246	\$ 6,167,011	\$ 13,578,429	\$ -

The details of the District's general obligation bonds outstanding during are as follows:

Limited Tax General Obligation Bonds, Series 2021(3) (the Bonds)

Bond Proceeds

The District issued the Bonds on December 22, 2021, in the par amount of \$12,205,000. Proceeds from the sale of the Bonds were used to (a) finance or reimburse a portion of the costs of acquiring, constructing, and/or installing certain public infrastructure to serve the Development; and (b) pay the costs of issuing the Bonds.

Details of the Bonds

The Bonds bear interest at the rate of 5.625% per annum and are payable annually on each December 1, beginning on December 1, 2022, but only from and to the extent of available Pledge Revenue. The Bonds mature on December 1, 2051 and are subject to mandatory redemption to the extent of Pledged Revenue.

The Bonds are structured as "cash flow" bonds meaning that there are no scheduled payments of principal or interest prior to the final maturity date. To the extent the principal of any the Bonds is not paid when due, such principal shall remain outstanding until paid, subject to discharge on December 2, 2061. To the extent interest on the Bonds is not paid when due, such unpaid interest shall compound annually on each interest payment date, at the rate then borne by the Bonds. The Bonds and interest thereon shall be deemed to be paid, satisfied, and discharged on December 2, 2061. The Bonds are not subject to acceleration. The Bonds do not have any unused lines of credit. No assets have been pledged as collateral on the Bonds.

**THREE HILLS METROPOLITAN DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 5 LONG-TERM OBLIGATIONS (CONTINUED)

Events of Default of the Bonds

Events of default occur if the District fails to impose the Required Mill Levy, or to apply the Pledged Revenues as required by the Indenture and does not comply with other customary terms and conditions consistent with normal municipal financing as described in the Indenture.

Pledged Revenue

The Bonds are secured by and payable from moneys derived by the District from the following sources: (a) the ad valorem property taxes derived from the imposition of the Required Mill Levy, net of any fees and collection costs of the County Treasurer and any tax refunds or abatements authorized by or on behalf of the County; (b) the portion of the Specific Ownership Tax which is collected as a result of imposition of the Required Mill Levy; and (c) any other legally available moneys which the District determines, in its absolute discretion, to transfer to the Trustee for application as Pledged Revenue.

The District is required to impose an ad valorem mill levy, the Required Mill Levy, on all taxable property of the District each year in the amount of 50 mills (subject to adjustment for changes in the method of calculating assessed valuation or any constitutionally mandated tax credit, cut, or abatement on or after September 7, 2004) or such lesser mill levy which is sufficient to pay all of the principal of, premium if any, and interest on the Bonds in full.

Optional Redemption

The Bonds are subject to redemption prior to maturity, at the option of the District, on December 1, 2026, and on any date thereafter, upon payment of par, accrued interest, and a redemption premium equal to a percentage of the principal amount so redeemed as follows:

<u>Date of Redemption</u>	<u>Redemption Premium</u>
December 1, 2026, to November 30, 2027	3.00%
December 1, 2027, to November 30, 2028	2.00
December 1, 2028, to November 30, 2029	1.00
December 1, 2029, and thereafter	0.00

Bonds Debt Service

The annual debt service requirements of the Bonds are not currently determinable since they are payable only from available Pledged Revenue.

**THREE HILLS METROPOLITAN DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 5 LONG-TERM OBLIGATIONS (CONTINUED)

Authorized Debt

At December 31, , the District had authorized but unissued indebtedness in the following amounts allocated for the following purposes:

	Authorized November 2, 2004 Election	Authorized May 6, 2014 Election	Authorized November 2, 2021 Election	Authorization Used Series 2021(3)	Remaining at December 31, 2023
Public Improvements	\$ 8,000,000	\$ 48,000,000	\$ 400,000,000	\$ 12,205,000	\$ 443,795,000
Operations and Maintenance	500,000	1,000,000	40,000,000	-	41,500,000
Special Assessments	-	-	40,000,000	-	40,000,000
Intergovernmental Agreements	-	8,000,000	40,000,000	-	48,000,000
Private Agreements	-	-	40,000,000	-	40,000,000
Refunding	8,000,000	8,000,000	400,000,000	-	416,000,000
Total	<u>\$ 16,500,000</u>	<u>\$ 65,000,000</u>	<u>\$ 960,000,000</u>	<u>\$ 12,205,000</u>	<u>\$ 1,029,295,000</u>

Pursuant to the Service Plan, the District is permitted to issue bond indebtedness of up to \$40,000,000.

In the future, the District may issue a portion or all of the remaining authorized but unissued general obligation debt for purposes of providing public improvements to support development as it occurs within the District's service area; however, as of the date of this audit, the amount and timing of any debt issuances is not determinable.

NOTE 6 NET POSITION

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

The restricted net position includes assets that are restricted for use either externally imposed by creditors, grantors, contributors, or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The District had a restricted net position as of December 31, , as follows:

	<u>Governmental Activities</u>
Restricted Net Position:	
Emergency Reserves	\$ 600
Capital Projects	430,608
Total Restricted Net Position	<u>\$ 431,208</u>

The District has a deficit in unrestricted net position. This deficit is primarily due to costs of bonds issuance and operating expenses paid by advances from Developer.

**THREE HILLS METROPOLITAN DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 7 RELATED PARTIES

The property within the District is being developed by Three Hills Investment, LLC. (the Developer). During , all of the members of the Board of Directors were officers or employees of, or otherwise associated with the Developer, and may have conflicts of interest in matters involving the District.

Infrastructure Acquisition and Project Fund Disbursement Agreement

The District and the Developer entered into an Infrastructure Acquisition and Project Fund Disbursement Agreement on September 20, 2021. Pursuant to the Agreement, the District and the Developer acknowledge that the District is authorized to construct, acquire and install public improvements and other facilities and services that benefit the Property, subject to the limitations set forth in the Service Plan and the Special District Act. Under the terms of this Agreement the Developer assumes assignment of any advances made by any prior developer.

Pursuant to the Agreement, the obligations of the District in this Agreement are subject to annual appropriation and shall not be deemed to be multiple fiscal year obligations for the purposes of Article X, Section 20 of the Colorado Constitution, and may not exceed amounts permitted by the District's electoral authorization and Service Plan. The District's obligations under this Agreement shall terminate at the earlier of the repayment in full of the Certified District Eligible Costs or twenty (20) years from the execution date. The District agrees to reimburse the Developer for certified construction costs related to public improvements. Prior to reimbursement, the Developer is required to provide certain materials to the District for review. Following receipt of such materials, the District's accountant and engineer shall review the materials to substantiate the costs and issue a cost certification to the District. No payment is due until the District has adopted an Acceptance Resolution.

As of December 31, , outstanding advances under this Agreement totaled \$507,956 and accrued interest totaled \$486,102.

Funding and Reimbursement Agreement (Operations and Maintenance)

The District and the Developer entered into a Funding and Reimbursement Agreement on September 20, 2021, and the First Amendment on October 19, 2022, for the purpose of funding operations and maintenance costs. Under the terms of this Agreement the Developer assumes assignment of any advances made by any prior developer. The Developer agreed to loan to the District one or more sums of money, not to exceed an aggregate of \$200,000 through December 31, 2023. Thereafter, the Developer may agree to renew its obligations by providing written notice thereof to the District.

**THREE HILLS METROPOLITAN DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 7 RELATED PARTIES (CONTINUED)

Funding and Reimbursement Agreement (Operations and Maintenance) (Continued)

Pursuant to the Agreement, the obligations of the District in this Agreement are subject to annual appropriation and shall not be deemed to be multiple fiscal year obligations for the purposes of Article X, Section 20 of the Colorado Constitution, and may not exceed amounts permitted by the District's electoral authorization and Service Plan. The District's obligations under this Agreement shall terminate at the earlier of the repayment in full of the Certified District Eligible Costs or thirty (30) years from the execution date. With respect to each loan advance made under this agreement prior to the issuance of any Reimbursement Obligation reflecting such advance, the interest rate shall be 2% per annum, from the date any such advance is made, simple interest, to the earlier of the date the Reimbursement Obligation is issued to evidence such advance, or the date of repayment of such amount.

As of December 31, , outstanding advances under this Agreement totaled \$286,233 and accrued interest totaled \$93,138.

NOTE 8 RISK MANAGEMENT

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

The District is a member of the Colorado Special Districts Property and Liability Pool (the 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.

**THREE HILLS METROPOLITAN DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 9 TAX, SPENDING, AND DEBT LIMITATION

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

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

On November 2, 2021, the District's voters approved for an annual increase in taxes of \$10,000,000 for general operations and maintenance without limitation of rate. This election question allowed the District to collect and spend the additional revenue without regard to any spending, revenue raising, or other limitations contained within TABOR.

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.

SUPPLEMENTARY INFORMATION

**THREE HILLS METROPOLITAN DISTRICT
DEBT SERVICE FUND –
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL
YEAR ENDED DECEMBER 31, 2023**

	Original and Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Property Taxes	\$ 56,579	\$ 56,581	\$ 2
Specific Ownership Taxes	4,526	4,049	(477)
Interest Income	-	84	84
Total Revenues	<u>61,105</u>	<u>60,714</u>	<u>(391)</u>
EXPENDITURES			
County Treasurer's Fee	849	849	-
Paying Agent Fees	4,000	4,000	-
Bond Interest	56,000	55,177	823
Contingency	151	-	151
Total Expenditures	<u>61,000</u>	<u>60,026</u>	<u>974</u>
NET CHANGE IN FUND BALANCE	105	688	583
Fund Balance - Beginning of Year	<u>-</u>	<u>(4,000)</u>	<u>(4,000)</u>
FUND BALANCE - END OF YEAR	<u><u>\$ 105</u></u>	<u><u>\$ (3,312)</u></u>	<u><u>\$ (3,417)</u></u>

**THREE HILLS METROPOLITAN DISTRICT
CAPITAL PROJECTS FUND –
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL
YEAR ENDED DECEMBER 31, 2023**

	Original and Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Interest Income	\$ 175,000	\$ 275,917	\$ 100,917
Total Revenues	<u>175,000</u>	<u>275,917</u>	<u>100,917</u>
EXPENDITURES			
Accounting	5,000	2,622	2,378
Engineering	10,000	4,856	5,144
Capital Outlay	12,000,000	6,167,011	5,832,989
Total Expenditures	<u>12,015,000</u>	<u>6,174,489</u>	<u>5,840,511</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(11,840,000)	(5,898,572)	5,941,428
OTHER FINANCING SOURCES (USES)			
Developer Advance	12,000,000	6,167,011	(5,832,989)
Repay Developer Advance	(8,954,057)	(6,167,011)	2,787,046
Total Other Financing Sources (Uses)	<u>3,045,943</u>	<u>-</u>	<u>(3,045,943)</u>
NET CHANGE IN FUND BALANCE	(8,794,057)	(5,898,572)	2,895,485
Fund Balance - Beginning of Year	<u>8,794,057</u>	<u>8,485,060</u>	<u>(308,997)</u>
FUND BALANCE - END OF YEAR	<u>\$ -</u>	<u>\$ 2,586,488</u>	<u>\$ 2,586,488</u>

OTHER INFORMATION

**THREE HILLS METROPOLITAN DISTRICT
SCHEDULE OF ASSESSED VALUATION, MILL LEVY, AND PROPERTY TAXES COLLECTED
DECEMBER 31, 2023**

Year Ended December 31,	Prior Year Assessed Valuation for Current Year Property Tax Levy	Mills Levied for		Total Property Taxes		Percent Collected to Levied
		General Operations	Debt Service	Levied	Collected	
2019	\$ 23,047	39.000	-	\$ 899	\$ 898	99.89 %
2020	32,955	-	-	-	-	N/A
2021	36,670	-	-	-	-	N/A
2022	34,653	65.664	-	2,275	2,275	100.00
2023	1,131,581	15.000	50.000	73,553	73,556	100.00
Estimated for Year Ending December 31, 2024	\$ 4,467,171	15.591	51.971	\$ 301,811		