

INDEPENDENCE METROPOLITAN DISTRICT NO. 3

FINANCIAL STATEMENTS
DECEMBER 31, 2023

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Independence Metropolitan District No. 3
Elbert County, Colorado

Opinions

We have audited the accompanying financial statements of the governmental activities and each major fund of Independence Metropolitan District No. 3, as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise Independence Metropolitan District No. 3'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 Independence Metropolitan District No. 3 as of December 31, 2023, and the respective changes in financial position and the budgetary comparison schedule for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Independence Metropolitan District No. 3, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Independence Metropolitan District No. 3'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.

Auditors' 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 auditors' 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 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 Independence Metropolitan District No. 3'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 Independence Metropolitan District No. 3'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 omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinions on the basic financial statements are not affected by this missing information.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Independence Metropolitan District No. 3's basic financial statements. The supplementary information as listed in the table of contents is presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Adams Group, LLC

Greenwood Village, CO
July 29, 2024

INDEPENDENCE METROPOLITAN DISTRICT NO. 3
STATEMENT OF NET POSITION
DECEMBER 31, 2023

	<u>Governmental Activities</u>
<u>Assets</u>	
Cash and investments	\$ 2,182
Cash and investments - restricted	2,866,473
Property taxes receivable	3
Prepaid items	2,671
Capital assets, not being depreciated	12,887,041
Total assets	<u>15,758,370</u>
<u>Liabilities</u>	
Accounts payable	1,277
Accrued interest - Senior	134,349
Noncurrent liabilities:	
Due in one year	1,618,429
Due in more than one year	40,631,699
Total liabilities	<u>42,385,754</u>
<u>Deferred Inflows Of Resources</u>	
Unavailable revenue - property taxes	<u>3</u>
Total deferred inflows of resources	<u>3</u>
<u>Net Position</u>	
Unrestricted	<u>(26,627,387)</u>
Total net position	<u><u>\$ (26,627,387)</u></u>

The notes are an integral part of these financial statements.

INDEPENDENCE METROPOLITAN DISTRICT NO. 3
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2023

Functions/Programs	Expenses	Program Revenues			Net (Expense)
		Charges for	Operating	Capital Grants	Revenue and
		Services	Grants and	and	Changes in
			Contributions	Contributions	Net Position
					Governmental
					Activities
Governmental Activities					
General government	\$ 795,317	\$ -	\$ -	\$ -	\$ (795,317)
Interest and fiscal charges	2,969,683	-	-	-	(2,969,683)
Total Governmental Activities	<u>\$ 3,765,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(3,765,000)</u>
General Revenues:					
Property taxes					2
Intergovernmental					1,286,301
Impact fees					690,370
Investment earnings					<u>141,320</u>
Total General Revenues					<u>2,117,993</u>
Change in Net Position					(1,647,007)
Net Position - Beginning					<u>(24,980,380)</u>
Net Position - Ending					<u>\$ (26,627,387)</u>

The notes are an integral part of these financial statements.

INDEPENDENCE METROPOLITAN DISTRICT NO. 3
BALANCE SHEET – GOVERNMENTAL FUNDS
DECEMBER 31, 2023

	General Fund	Debt Service Fund	Total Governmental Funds
<u>Assets</u>			
Cash and investments	\$ 2,182	\$ -	\$ 2,182
Cash and investments - restricted	-	2,866,473	2,866,473
Property taxes receivable	1	2	3
Prepaid items	2,671	-	2,671
Total assets	<u>\$ 4,854</u>	<u>\$ 2,866,475</u>	<u>\$ 2,871,329</u>
<u>Liabilities, deferred inflows of resources and fund balance</u>			
Accounts payable	\$ 1,277	\$ -	\$ 1,277
Total liabilities	<u>1,277</u>	<u>-</u>	<u>1,277</u>
<u>Deferred Inflows Of Resources</u>			
Unavailable revenue - property taxes	<u>1</u>	<u>2</u>	<u>3</u>
Total deferred inflows of resources	<u>1</u>	<u>2</u>	<u>3</u>
<u>Fund Balance</u>			
Nonspendable:			
Prepaid items	2,671	-	2,671
Assigned:			
Subsequent year's appropriation	905	-	905
Restricted:			
Debt service	-	2,866,473	2,866,473
Unassigned	<u>-</u>	<u>-</u>	<u>-</u>
Total fund balances	<u>3,576</u>	<u>2,866,473</u>	<u>2,870,049</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 4,854</u>	<u>\$ 2,866,475</u>	<u>\$ 2,871,329</u>

The notes are an integral part of these financial statements.

INDEPENDENCE METROPOLITAN DISTRICT NO. 3
RECONCILIATION OF THE BALANCE SHEET OF THE
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2023

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

Fund balance of Governmental funds	\$ 2,870,049
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	12,887,041
Some liabilities are not due in the current period and, therefore, are not reported in the fund balance sheet.	
Series 2019A/Series 2019B Bonds	(30,025,000)
Series 2021B Bonds	(8,405,000)
Developer advances	(29,500)
Accrued interest	<u>(3,924,977)</u>
Net Position of Governmental Activities	<u><u>\$ (26,627,387)</u></u>

The notes are an integral part of these financial statements.

INDEPENDENCE METROPOLITAN DISTRICT NO. 3
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES – GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2023

	General Fund	Debt Service Fund	Total Governmental Funds
<u>Revenues</u>			
Property taxes	\$ -	\$ 2	\$ 2
Impact fees	690,370	-	690,370
Intergovernmental	-	1,286,301	1,286,301
Investment income	-	141,320	141,320
Total revenues	<u>690,370</u>	<u>1,427,623</u>	<u>2,117,993</u>
<u>Expenditures</u>			
Current:			
Agent Fees	-	9,000	9,000
Audit	10,000	-	10,000
Bank charges	-	7,295	7,295
Dues and subscriptions	1,235	-	1,235
Insurance	2,821	-	2,821
Legal	21	-	21
Management & accounting	12,686	-	12,686
Intergovernmental	752,259	-	752,259
Debt service:			
Principal	28,500	-	28,500
Interest	642	1,612,188	1,612,830
Total expenditures	<u>808,164</u>	<u>1,628,483</u>	<u>2,436,647</u>
<u>Other Financing Sources (Uses)</u>			
Transfers in	-	9,000	9,000
Transfers out	(9,000)	-	(9,000)
Developer advances	35,000	-	35,000
Total other financing sources (uses)	<u>26,000</u>	<u>9,000</u>	<u>35,000</u>
Net change in fund balances	(91,794)	(191,860)	(283,654)
Fund balances, beginning of year	<u>95,370</u>	<u>3,058,333</u>	<u>3,153,703</u>
Fund balances, end of year	<u>\$ 3,576</u>	<u>\$ 2,866,473</u>	<u>\$ 2,870,049</u>

The notes are an integral part of these financial statements.

INDEPENDENCE METROPOLITAN DISTRICT NO. 3
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2023

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

Net change in fund balances - Total governmental funds	\$ (283,654)
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The issuance of long-term debt (e.g. bonds, developer advances) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position

Proceeds from developer advances	(35,000)
Payment of principal - developer advances	28,500

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 the Governmental funds.

Change in accrued interest payable	<u>(1,356,853)</u>
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Change in Net Position of Governmental Activities	<u><u>\$ (1,647,007)</u></u>
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The notes are an integral part of these financial statements.

INDEPENDENCE METROPOLITAN DISTRICT NO. 3
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND
YEAR ENDED DECEMBER 31, 2023

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
<u>Revenues</u>				
Property taxes	\$ 1	\$ -	\$ -	\$ -
Impact fees	590,575	690,370	690,370	-
Total revenues	590,576	690,370	690,370	-
<u>Expenditures</u>				
Current:				
Audit	10,000	10,000	10,000	-
Dues and subscriptions	1,500	1,235	1,235	-
Elections	2,500	-	-	-
Insurance	3,000	2,821	2,821	-
Intergovernmental	590,575	752,259	752,259	-
Legal	25,000	21	21	-
Treasurer's fees	1	-	-	-
Management and accounting	12,000	12,686	12,686	-
ROW acquisition	1	-	-	-
Emergency reserve	1,500	-	-	-
Contingency	3,000	-	-	-
Debt service				
Principal	-	28,500	28,500	-
Interest	-	642	642	-
Total expenditures	649,077	808,164	808,164	-
Excess of revenues over (under) expenditures	(58,501)	(117,794)	(117,794)	-
<u>Other Financing Sources (Uses)</u>				
Transfers out	-	(9,000)	(9,000)	-
Developer advances	40,000	35,000	35,000	-
Total other financing sources (uses)	40,000	26,000	26,000	-
Net change in fund balance	\$ (18,501)	\$ (91,794)	(91,794)	\$ -
Fund balance, beginning of year			95,370	
Fund balance, end of year			\$ 3,576	

The notes are an integral part of these financial statements.

INDEPENDENCE METROPOLITAN DISTRICT NO. 3
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 1 – DEFINITION OF REPORTING ENTITY

Independence Metropolitan District No. 3 (District), a quasi-municipal corporation and political subdivision of the State of Colorado was established on November 7, 2017 and is governed pursuant to provisions of the Colorado Special District Act (Title 32, Article 1, Colorado Revised Statutes). The District's service area is located within Elbert County, Colorado.

The District was established principally to finance the acquisition, construction, and installation of improvements, for the use and benefit of property owners, residents, taxpayers, and system users within and around the boundaries of the District.

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

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 of 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the Statement of Net Position and the Statement of Activities) include all of the activities of the District. The effect of interfund activity has been removed from these statements and include all of the activities of the primary government. The statement of net position reports all financial and capital resources of the District. The difference between the assets and deferred outflows of resources and liabilities and deferred inflows of resources of the District is reported as net position.

INDEPENDENCE METROPOLITAN DISTRICT NO. 3
NOTES TO THE 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 expense 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 included among program revenues are reported instead as general revenues.

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Intergovernmental and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider has been met. Expenditures for property and equipment are shown as increases in assets and redemption of bonds, notes, and developer advances are recorded as a reduction in liabilities.

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 and capital fees. All other revenue items are considered to be measurable and available only when cash is received by the District. Expenditures, other than interest on long-term obligations are recorded when the liability is incurred or the long-term obligation paid. When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted first, then unrestricted resources as they are needed.

In the fund financial statements, the District reports the following major governmental funds:

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 other funds.

INDEPENDENCE METROPOLITAN DISTRICT NO. 3
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

Debt Service Fund accounts for the resources accumulated and payments made for principal, interest, and related expenses on the long-term general obligation debt of the governmental funds.

Budgets

In accordance with the State Budget Law, the District's Board of Directors hold 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 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.

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Fund Balance/Net Position

Capital Assets

Capital assets consist entirely of land and construction projects in progress. Therefore, no depreciation is calculated on these assets. 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 net investment in capital assets. Such assets are recorded at acquisition cost or estimated acquisition cost if purchased or constructed. The District has not adopted a formal capitalization policy.

Property Tax

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 in equal installments, at the taxpayer's election, in February and June. Delinquent taxpayers are notified in August and generally sales of the tax liens on delinquent properties are held in November or December. The County Treasurer remits the taxes collected monthly to the District.

Property taxes, net of estimated uncollectible taxes, are recorded initially as deferred inflows of resources in the year they are levied and measurable. The deferred inflows of resources related to property tax revenues are recorded as revenue in the year for which they are levied, in most instances in the year in which collection occurs.

INDEPENDENCE METROPOLITAN DISTRICT NO. 3
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Fund Balance/Net Position (Continued)

Impact Fees

In exchange for certain infrastructure improvements, Elbert County has entered into an agreement with the District to remit certain Elbert County Growth Impact Fees, use tax, and sales tax generated by the County in connection with the development of all the districts in the development.

The abatement will be used first to reimburse the developer for costs of constructing improvements on County Road 158, County Road 5, and Delbert Road. Any remaining funds will be released to the Overlay Metropolitan District.

Deferred Inflows and Deferred Outflows of Resources

In addition to assets, the statement of net position and balance sheets will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position and fund balance that applies to a future period(s) and is therefore not recognized as an outflow of resources (expenditure) until that time.

In addition to liabilities, the statement of net position and balance sheets will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position and fund balance that applies to a future period(s) and is therefore not recognized as an inflow of resources (revenue) until that time.

Fund Balances-Governmental Funds

The District's governmental fund balances may consist of five classifications based on the relative strength of the spending constraints:

Nonspendable fund balance – the amount of fund balance that is not in spendable form (such as inventory or prepaids) or is legally or contractually required to be maintained intact.

Restricted fund balance – the amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.

INDEPENDENCE METROPOLITAN DISTRICT NO. 3
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources
and Fund Balance/Net Position (Continued)

Fund Balances-Governmental Funds (Continued)

Committed fund balance – amounts constrained to specific purposes by the District itself, using its highest level of decision-making authority (i.e., Board of Directors). To be reported as committed, amounts cannot be used for any other purpose unless the District takes the same highest-level action to remove or change the constraint. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Board.

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

Unassigned fund balance – amounts that are available for any purpose.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and then unassigned funds.

NOTE 3 – CASH AND INVESTMENTS

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

Cash and investments	\$ 2,182
Cash and investments - restricted	2,866,473
Total cash and investments	<u><u>\$ 2,868,655</u></u>

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

Deposits with financial institutions	\$ 2,182
Investments	2,866,473
Total cash and investments	<u><u>\$ 2,868,655</u></u>

INDEPENDENCE METROPOLITAN DISTRICT NO. 3
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 3 – CASH AND INVESTMENTS (CONTINUED)

Deposits with Financial Institutions

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

As of December 31, 2023, the District's cash deposits had a bank balance of \$3,238 and a carrying balance of \$2,182.

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 disclosure requirements or subject to investment custodial risk 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.

INDEPENDENCE METROPOLITAN DISTRICT NO. 3
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 3 – CASH AND INVESTMENTS (CONTINUED)

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

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

<u>Investment</u>	<u>Weighted Average Maturity</u>	<u>Fair Value</u>
Colorado Local Government Liquid Asset Trust (COLOTRUST)	60 days or less	<u>\$ 2,866,473</u>

COLOTRUST

The District invested in the Colorado Local Government Liquid Trust (COLOTRUST) (the Trust), an investment vehicle established for local governmental entities in Colorado to pool surplus funds. The State Securities Commissioner administers and enforces all State statutes governing the Trust. The Trust currently offers three portfolios – COLOTRUST PRIME, COLOTRUST PLUS+, and COLOTRUST EDGE.

COLOTRUST PRIME and COLOTRUST PLUS+, which operate similarly to a money market fund and each share is equal in value to \$1.00, offer daily liquidity. Both portfolios may invest in U.S. Treasury securities and repurchase agreements collateralized by U.S. Treasury securities. COLOTRUST PLUS+ may also invest in certain obligations of U.S. government agencies, highest rated commercial paper, and any security allowed under CRS 24-75-601.

INDEPENDENCE METROPOLITAN DISTRICT NO. 3
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 3 – CASH AND INVESTMENTS (CONTINUED)

COLOTRUST EDGE, a variable Net Asset Value (NAV) Local Government Investment Pool, offers weekly liquidity and is managed to approximate a \$10.00 transactional share price. COLOTRUST EDGE may invest in securities authorized by Section 24-75-601.1, CRS, including U.S. Treasury securities, repurchase agreements collateralized by U.S. Treasury securities, certain obligations of U.S. government agencies, and highest rated commercial paper.

A designated custodial bank serves as custodian for the Trust's portfolios pursuant to a custodian agreement. The custodian acts as safekeeping agent for the Trust's investment portfolios and provides services as the depository in connection with direct investments and withdrawals. The custodian's internal records segregate investments owned by the Trust. COLOTRUST PRIME and COLOTRUST PLUS+ are rated AAAm by Standard & Poor's. COLOTRUST EDGE is rated AA Af/S1 by Fitch Ratings. COLOTRUST records its investments at fair value and the District records its investments in COLOTRUST at NAV as determined by fair value. There are no unfunded commitments, the redemption frequency is daily or weekly, and there is no redemption notice period.

NOTE 4 – CAPITAL ASSETS

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

<i>Governmental Activities</i>	Balance 12/31/22	Additions	Deletions	Balance 12/31/23
Capital assets, not being depreciated:				
Land	\$ 406,349	\$ -	\$ -	\$ 406,349
Construction in progress	12,480,692	-	-	12,480,692
Total Capital Assets	<u>\$ 12,887,041</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,887,041</u>

Improvements are intended to be for the use and benefit of all the taxpayers, residents, and owners of real property within the District boundaries. Upon completion, the District intends to convey all of the improvements to Elbert County or other appropriate governmental or quasi-governmental entities.

INDEPENDENCE METROPOLITAN DISTRICT NO. 3
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 5 – LONG-TERM OBLIGATIONS

The following is an analysis of changes in long-term obligations for the year ended December 31, 2023:

	Balance 12/31/22	Additions	Deletions	Balance 12/31/23	Due Within One Year
Governmental activities:					
General obligation bonds:					
Series 2019A	\$ 25,795,000	\$ -	\$ -	\$ 25,795,000	\$ -
Series 2019B	4,230,000	-	-	4,230,000	-
Series 2019B - Accrued Interest	1,642,386	528,515	-	2,170,901	-
Series 2021B	8,405,000	-	-	8,405,000	-
Series 2021B - Accrued Interest	790,806	827,623	-	1,618,429	1,618,429
Developer Advances	23,000	35,000	(28,500)	29,500	-
Developer Advances - Accrued Interest	583	1,357	(642)	1,298	-
	<u>\$ 40,886,775</u>	<u>\$ 1,392,495</u>	<u>\$ (29,142)</u>	<u>\$ 42,250,128</u>	<u>\$ 1,618,429</u>

Senior General Obligation Limited Tax Bonds, Series 2019A

On March 7, 2019, the District issued \$25,795,000 of Tax-Exempt Senior General Obligation Bonds Series 2019A (the 2019A Bonds). The 2019A Bonds were issued with an interest rate of 6.25% per annum. Interest is payable semi-annually on June 1 and December 1, commencing on June 1, 2019. Any unpaid interest compounds semi-annually thereafter. The 2019 Bonds mature on December 1, 2049.

Principal is payable each December 1 from the available pledged revenues, if any. The failure to pay principal of or interest on the 2019A Bonds when due shall not constitute an event of default.

The 2019A Bonds are secured and payable from the Senior Pledged Revenues, consisting generally of (i) all Senior Property Tax Revenues, (ii) all Senior Specific Ownership Tax Revenues, (iii) all Senior PILOT Revenues, and (iv) all Capital Fees. The District along with Independence Metropolitan District No. 1 and Independence Metropolitan District No. 2 have each covenanted to levy the Senior Required Mill Levy, consisting of ad valorem property taxes. The mill levy is capped at 55 mills. The failure to pay the principal of or interest on the 2019A Bonds when due does not constitute an event of default. Proceeds of the 2019A Bonds were used to: (i) finance public improvements related to the development, (ii) fund capitalized interest on the 2019A Bonds, (iii) fund the Senior Reserve Fund, and (iv) pay the costs of issuance of the 2019A and 2019B Bonds. The 2019A Bonds are also secured by capitalized interest in the amount of \$488,344, the Senior Reserve Fund in the amount of \$2,378,129, and the Senior Surplus Fund. None of these accounts are available to the holders of the Tax-Exempt Subordinated General Obligation Bonds Series 2019B.

INDEPENDENCE METROPOLITAN DISTRICT NO. 3
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 5 – LONG-TERM OBLIGATIONS (CONTINUED)

The 2019A Bonds cannot be prepaid prior to June 1, 2024. From June 1, 2024 to May 31, 2025 bonds can be prepaid at a redemption premium of 3%. From June 1, 2025 to May 31, 2026 bonds can be prepaid at a redemption premium of 2%. From June 1, 2026 to May 31, 2027 bonds can be prepaid at a redemption premium of 1%. After May 31, 2027 bonds can be redeemed without premium.

The 2019A Bonds are subject to mandatory sinking fund redemption. The District's long-term obligations on the bonds follows:

Year Ending December 31,	Principal	Interest	Total
2024	\$ -	\$ 1,612,188	\$ 1,612,188
2025	-	1,612,188	1,612,188
2026	-	1,612,188	1,612,188
2027	35,000	1,612,188	1,647,188
2028	270,000	1,610,000	1,880,000
2029-2033	2,450,000	7,690,627	10,140,627
2034-2038	3,930,000	6,751,564	10,681,564
2039-2043	5,900,000	5,293,126	11,193,126
2044-2048	8,665,000	3,124,376	11,789,376
2049	4,545,000	284,063	4,829,063
Total	<u>\$ 25,795,000</u>	<u>\$ 31,202,508</u>	<u>\$ 56,997,508</u>

Subordinated General Obligation Limited Tax Bonds, Series 2019B

On March 7, 2019, the District issued \$4,230,000 of Tax-Exempt Subordinated General Obligation Bonds Series 2019B (the 2019B Bonds). The 2019B Bonds were issued with an interest rate of 9.00% per annum. Interest is payable annually on December 15, commencing on December 15, 2019. Any unpaid interest compounds annually thereafter. The 2019B Bonds mature on December 15, 2049.

The 2019B Bonds are structured as cash flow bonds, meaning that the Indenture contains no scheduled payments of principal on the bonds other than at maturity. Principal is payable each December 15 from the available pledged revenues, if any, pursuant to a mandatory redemption.

Payment of principal and interest on the 2019B Bonds is subordinate to the annual payment of debt service on the 2019A Bonds and to the funding of the Senior Surplus Fund in the Maximum Surplus Amount of \$2,597,500. The failure to pay principal of or interest on the 2019B Bonds when due shall not constitute an event of default. Any amount of unpaid principal of or interest on the 2019B Bonds shall be deemed discharged on December 15, 2059.

INDEPENDENCE METROPOLITAN DISTRICT NO. 3
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 5 – LONG-TERM OBLIGATIONS (CONTINUED)

Subordinated General Obligation Limited Tax Bonds, Series 2019B (Continued)

The 2019B Bonds are secured and payable from the Subordinate Pledged Revenues, consisting generally of (i) all Subordinate Property Tax Revenues, (ii) all Subordinate Specific Ownership Tax Revenues, (iii) all Subordinate PILOT Revenues, and (iv) all Subordinate Capital Fees. Proceeds of the 2019B Bonds were used to: (i) finance additional public improvements related to the development, and (ii) pay certain other costs of issuance of the 2019B Bonds.

The 2019B Bonds cannot be prepaid prior to June 1, 2024. From June 1, 2024 to May 31, 2025 bonds can be prepaid at a redemption premium of 3%. From June 1, 2025 to May 31, 2026 bonds can be prepaid at a redemption premium of 2%. From June 1, 2026 to May 31, 2027 bonds can be prepaid at a redemption premium of 1%. After May 31, 2027 bonds can be redeemed without premium.

The 2019B Bonds are subject to mandatory sinking fund redemption. The District's estimated long-term obligations on the bonds follows:

<u>Year Ending</u> <u>December 31,</u>	<u>Estimated</u> <u>Principal</u>	<u>Estimated</u> <u>Interest</u>	<u>Total</u>
2024	\$ -	\$ 395,481	\$ 395,481
2025	-	711,488	711,488
2026	-	770,999	770,999
2027	-	510,381	510,381
2028	-	582,260	582,260
2029-2033	-	3,118,497	3,118,497
2034-2038	-	3,276,139	3,276,139
2039-2043	334,000	3,107,658	3,441,658
2044-2048	2,223,000	1,393,830	3,616,830
2049	1,673,000	150,570	1,823,570
Total	<u>\$ 4,230,000</u>	<u>\$ 14,017,303</u>	<u>\$ 18,247,303</u>

Subordinated General Obligation Limited Tax Bonds, Series 2021B

On November 1, 2021, the District issued \$8,405,000 of Tax-Exempt Subordinated General Obligation Bonds Series 2021B (the 2021B Bonds). The 2021B Bonds were issued with an interest rate of 9.00% per annum. Interest is payable annually on December 15, commencing on December 15, 2021. Any unpaid interest compounds annually thereafter. The 2021B Bonds mature on December 15, 2049.

The 2021B Bonds are structured as cash flow bonds, meaning that the Indenture contains no scheduled payments of principal on the bonds other than at maturity.

INDEPENDENCE METROPOLITAN DISTRICT NO. 3
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 5 – LONG-TERM OBLIGATIONS (CONTINUED)

Subordinated General Obligation Limited Tax Bonds, Series 2021B (Continued)

Principal is payable each December 15 from the available pledged revenues, if any, pursuant to a mandatory redemption. Payment of principal and interest on the 2021B Bonds is subordinate to the annual payment of debt service on the 2019A and 2019B Bonds and to the funding of the Senior Surplus Fund in the Maximum Surplus Amount of \$2,597,500. The failure to pay principal of or interest on the 2021B Bonds when due shall not constitute an event of default.

The 2021B Bonds are secured and payable from the Subordinate Pledged Revenues, consisting generally of (i) all Subordinate Property Tax Revenues, (ii) all Subordinate Specific Ownership Tax Revenues, (iii) all Subordinate PILOT Revenues, (iv) all Subordinate Capital Fees, and (v) any other legally available moneys which the District determines, in its absolute discretion, to credit to the Subordinate Bond Fund. Proceeds of the 2021B Bonds were used to finance additional public improvements related to the development.

The 2021B Bonds cannot be prepaid prior to June 1, 2024. From June 15, 2024 to June 14, 2025 bonds can be prepaid at a redemption premium of 3%. From June 15, 2025 to June 14, 2026 bonds can be prepaid at a redemption premium of 2%. From June 15, 2026 to June 14, 2027 bonds can be prepaid at a redemption premium of 1%. After June 15, 2027 bonds can be redeemed without premium.

The 2021B Bonds are subject to mandatory sinking fund redemption. The District's estimated long-term obligations on the bonds follows:

<u>Year Ending</u> <u>December 31,</u>	<u>Estimated</u> <u>Principal</u>	<u>Estimated</u> <u>Interest</u>	<u>Total</u>
2024	\$ -	\$ 1,618,429	\$ 1,618,429
2025	-	756,450	756,450
2026	-	756,450	756,450
2027	-	756,450	756,450
2028	-	756,450	756,450
2029-2033	-	3,782,250	3,782,250
2034-2038	-	3,782,250	3,782,250
2039-2043	-	3,782,250	3,782,250
2044-2048	-	3,782,250	3,782,250
2049	8,405,000	756,450	9,161,450
Total	<u>\$ 8,405,000</u>	<u>\$ 20,529,679</u>	<u>\$ 28,934,679</u>

INDEPENDENCE METROPOLITAN DISTRICT NO. 3
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 5 – LONG-TERM OBLIGATIONS (CONTINUED)

Senior Pledge Agreement

Pursuant to the Senior Pledge Agreement, the District, along with Independence Metropolitan District No. 1 and Independence Metropolitan District No. 2, will service the 2019A, 2019B, and 2021B Bonds with revenues derived from the required Senior and Subordinate Mill Levies. The amount of debt to be serviced by each District is currently uncertain as it will be determined based on the future assessed property taxes within each District.

Developer Advances

The District entered into an Advance and Reimbursement Agreement to repay advances made by the Developer for advances made to the District. The District agreed to repay the Developer for such advances plus accrued interest at the rate of the higher of 7% or the U.S. Prime Rate plus 2%. As of December 31, 2023, the interest rate was 10.50%.

Authorized Debt

On November 7, 2017, a majority of qualified electors of the District authorized the issuance of indebtedness in an amount not to exceed \$72,760,000 to fund the development.

As of December 31, 2023, the District had authorized and issued indebtedness from the election in the following amounts:

	<u>Authorized</u>	<u>Remaining</u>
Voter debt authorization limit	<u>\$ 295,520,000</u>	<u>\$ 257,060,500</u>

NOTE 6 – NET POSITION

The District has a deficit in unrestricted net position. This deficit amount is a result of the District being responsible for the repayment of bonds issued for public improvement which are, in part, being constructed by other governmental entities.

The District has no restricted net position or net investment in capital assets as of December 31, 2023.

INDEPENDENCE METROPOLITAN DISTRICT NO. 3
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 7 – RISK MANAGEMENT

Except as provided in the Colorado Governmental Immunity Act, the District may be exposed to various risks of loss related to torts, thefts of, damage to, or destruction of assets; errors or omissions; injuries to employees, or acts of God.

The District is a member of the Colorado Special Districts Property and Liability Pool (Pool). The Pool is an organization created by intergovernmental agreement to provide property, liability, public officials' liability, boiler and machinery and workers compensation coverage to its members. Settled claims have not exceeded this coverage in any of the past three fiscal years. The District pays annual premiums to the Pool for liability, property, public officials' liability and workers compensation coverage. In the event aggregated losses incurred by the Pool exceed amounts recoverable from reinsurance contracts and funds accumulated by the Pool, the Pool may require additional contributions from the Pool members. Any excess funds which the Pool determines are not needed for purposes of the Pool may be returned to the members pursuant to a distribution formula.

NOTE 8 – CONTINGENCY

There is no assurance that the property in the service area of the District will be developed as currently contemplated or at all. A number of factors may affect the development, including the overall economy of the region, Elbert County, and the southeast Denver metropolitan area in particular. The collection of property and other taxes is dependent on the development occurring in the District, and the timing of debt service payments is, in part, dependent on the collection of property and other taxes.

NOTE 9 – TAX, SPENDING AND DEBT LIMITATIONS

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

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.

INDEPENDENCE METROPOLITAN DISTRICT NO. 3
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 9 – TAX, SPENDING AND DEBT LIMITATIONS (CONTINUED)

On November 7, 2017, the District's voters passed an election question authorized the retention of all revenues received from any source during the 2017 budget year and each budget year thereafter that are in excess of the revenue and fiscal year spending limits that would otherwise apply under Article X, Section 20 of the Colorado Constitution or any other law.

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.

NOTE 10 – RELATED PARTIES

The District is one of six districts in the development and board members serve on all districts. The developer of the infrastructure which constitutes the District is Craft Bandera Acquisition Company, LLC and Craft Companies, LLC. The members of the Board of Directors are employed, owners of, or consultants of the developer.

As of December 31, 2023, the District owed the Developer \$29,500 and accrued interest of \$1,298.

During the year ended December 31, 2023, the District received \$1,286,301 from Independence Districts No. 1 and No. 2, which are controlled by members of the District's Board of Directors. Such payments are included in intergovernmental revenues in the accompanying statement of revenues, expenditures, and changes in fund balances.

During the year ended December 31, 2023, the District transferred \$752,259 to Independence District No. 1, No. 2, the Water & Sanitation District, and Overlay District, which are controlled by members of the District's Board of Directors. Such payments are included in intergovernmental expenditures in the accompanying statement of revenues, expenditures, and changes in fund balances.

SUPPLEMENTARY INFORMATION

INDEPENDENCE METROPOLITAN DISTRICT NO. 3
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE – BUDGET AND ACTUAL – DEBT SERVICE FUND
YEAR ENDED DECEMBER 31, 2023

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
<u>Revenues</u>				
Property taxes	\$ 2	\$ 2	\$ 2	\$ -
Intergovernmental	1,175,000	1,286,301	1,286,301	-
Investment income	15,000	141,320	141,320	-
Total revenues	<u>1,190,002</u>	<u>1,427,623</u>	<u>1,427,623</u>	<u>-</u>
<u>Expenditures</u>				
Treasurer fees	1	-	-	-
Paying agent fees	6,000	9,000	9,000	-
Bank charges	1,000	7,295	7,295	-
Debt service:				
Interest	<u>1,612,188</u>	<u>1,612,188</u>	<u>1,612,188</u>	<u>-</u>
Total expenditures	<u>1,619,189</u>	<u>1,628,483</u>	<u>1,628,483</u>	<u>-</u>
Excess of revenues over (under) expenditures	<u>(429,187)</u>	<u>(200,860)</u>	<u>(200,860)</u>	<u>-</u>
<u>Other Financing Sources (Uses)</u>				
Transfers in	<u>-</u>	<u>9,000</u>	<u>9,000</u>	<u>-</u>
Net change in fund balance	<u>\$ (429,187)</u>	<u>\$ (191,860)</u>	<u>(191,860)</u>	<u>\$ -</u>
Fund balance, beginning of year			<u>3,058,333</u>	
Fund balance, end of year			<u>\$ 2,866,473</u>	

See Independent Auditors' Report