

ELBERT AND HIGHWAY 86 METROPOLITAN DISTRICT

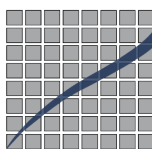
ELBERT COUNTY, COLORADO

FINANCIAL STATEMENTS

DECEMBER 31, 2022

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BiggsKofford

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

Board of Directors

Elbert and Highway 86 Metropolitan District

Elbert County, Colorado

We have audited the accompanying financial statements of the governmental activities and each major fund of Elbert and Highway 86 Metropolitan District ("District"), as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of December 31, 2022, the respective changes in financial position, and the budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

Other Matters

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly

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

BiggsKofford, P.C.

Colorado Springs, Colorado

July 21, 2023

ELBERT AND HIGHWAY 86 METROPOLITAN DISTRICT

STATEMENT OF NET POSITION

DECEMBER 31, 2022

| | Governmental Activities |
|---|------------------------------------|
| <u>ASSETS</u> | |
| Cash and investments | \$ 663,105 |
| Cash and investments - restricted | 380,918 |
| Receivable from County Treasurer | 6,631 |
| Property taxes receivable | 493,016 |
| Capital assets: | |
| Capital assets, net | 129,063 |
| Construction in progress | 5,247 |
| Total assets | 1,677,980 |
| <u>LIABILITIES</u> | |
| Accounts payable | 6,934 |
| Accrued interest payable | 22,338 |
| Noncurrent liabilities: | |
| Due within one year | 100,000 |
| Due in more than one year | 5,106,949 |
| Total liabilities | 5,236,221 |
| <u>DEFERRED INFLOWS OF RESOURCES</u> | |
| Deferred property taxes | 493,016 |
| Total deferred inflows of resources | 493,016 |
| <u>NET POSITION</u> | |
| Net investment in capital assets | (74,374) |
| Restricted for: | |
| Debt service | 595,599 |
| Emergency reserve | 2,400 |
| Unrestricted | (4,574,882) |
| Total net position | \$ (4,051,257) |

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

ELBERT AND HIGHWAY 86 METROPOLITAN DISTRICT

STATEMENT OF ACTIVITIES YEAR ENDED DECEMBER 31, 2022

| FUNCTIONS / PROGRAMS | Expenses | Program Revenues | | | Net (Expenses) Revenues and Changes in Net Position |
|---|-----------------|---------------------------------|---|---|--|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities |
| Primary government | | | | | |
| Government activities: | | | | | |
| General government | \$ 98,101 | \$ - | \$ 1,011 | \$ - | \$ (97,090) |
| Interest and related cost on long-term debt | 257,230 | - | - | - | (257,230) |
| Total government activities | \$ 355,331 | \$ - | \$ 1,011 | \$ - | (354,320) |
| GENERAL REVENUES | | | | | |
| Property taxes | | | | | 511,529 |
| Specific ownership taxes | | | | | 82,233 |
| Investment income | | | | | 20,238 |
| Total general revenues | | | | | 614,000 |
| Change in net position | | | | | 259,680 |
| Net position, beginning of year | | | | | (4,310,937) |
| Net position, end of year | | | | | \$ (4,051,257) |

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

ELBERT AND HIGHWAY 86 METROPOLITAN DISTRICT

BALANCE SHEETS - GOVERNMENTAL FUNDS

DECEMBER 31, 2022

| | <u>General Fund</u> | <u>Debt Service Fund</u> | <u>Total Governmental Funds</u> | | | | | | | | | | | | | | | | | | | | |
|---|---------------------|--------------------------|---------------------------------|---------------------|--|--|---------|--------------------------|--|--|-------|----------------------------------|--|--|----------|---------------|--|--|-------------|--------------|--|--|-----------|
| <u>ASSETS</u> | | | | | | | | | | | | | | | | | | | | | | | |
| Cash and investments | \$ 453,804 | \$ 209,301 | \$ 663,105 | | | | | | | | | | | | | | | | | | | | |
| Cash and investments - restricted | - | 380,918 | 380,918 | | | | | | | | | | | | | | | | | | | | |
| Receivable from County Treasurer | 1,251 | 5,380 | 6,631 | | | | | | | | | | | | | | | | | | | | |
| Property taxes receivable | 93,022 | 399,994 | 493,016 | | | | | | | | | | | | | | | | | | | | |
| Total assets | \$ 548,077 | \$ 995,593 | \$ 1,543,670 | | | | | | | | | | | | | | | | | | | | |
| <u>LIABILITIES</u> | | | | | | | | | | | | | | | | | | | | | | | |
| Accounts payable | \$ 6,934 | \$ - | \$ 6,934 | | | | | | | | | | | | | | | | | | | | |
| Total liabilities | 6,934 | - | 6,934 | | | | | | | | | | | | | | | | | | | | |
| <u>DEFERRED INFLOWS OF RESOURCES</u> | | | | | | | | | | | | | | | | | | | | | | | |
| Deferred property taxes | 93,022 | 399,994 | 493,016 | | | | | | | | | | | | | | | | | | | | |
| Total deferred inflows of resources | 93,022 | 399,994 | 493,016 | | | | | | | | | | | | | | | | | | | | |
| <u>FUND BALANCES</u> | | | | | | | | | | | | | | | | | | | | | | | |
| Restricted for: | | | | | | | | | | | | | | | | | | | | | | | |
| Debt service | - | 595,599 | 595,599 | | | | | | | | | | | | | | | | | | | | |
| Emergency reserve | 2,400 | - | 2,400 | | | | | | | | | | | | | | | | | | | | |
| Unassigned: | | | | | | | | | | | | | | | | | | | | | | | |
| Unrestricted | 445,721 | - | 445,721 | | | | | | | | | | | | | | | | | | | | |
| Total net position | 448,121 | 595,599 | 1,043,720 | | | | | | | | | | | | | | | | | | | | |
| Total liabilities, deferred inflows of resources, and fund balances | \$ 548,077 | \$ 995,593 | | | | | | | | | | | | | | | | | | | | | |
| <p>Amounts reported in 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:</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 45%;">Capital assets, net</td> <td style="width: 15%;"></td> <td style="width: 15%;"></td> <td style="width: 25%; text-align: right;">129,063</td> </tr> <tr> <td>Construction in progress</td> <td></td> <td></td> <td style="text-align: right;">5,247</td> </tr> </table> <p>Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds:</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 45%;">Accrued interest on bond payable</td> <td style="width: 15%;"></td> <td style="width: 15%;"></td> <td style="width: 25%; text-align: right;">(22,338)</td> </tr> <tr> <td>Bonds payable</td> <td></td> <td></td> <td style="text-align: right;">(4,920,000)</td> </tr> <tr> <td>Bond premium</td> <td></td> <td></td> <td style="text-align: right;">(286,949)</td> </tr> </table> | | | | Capital assets, net | | | 129,063 | Construction in progress | | | 5,247 | Accrued interest on bond payable | | | (22,338) | Bonds payable | | | (4,920,000) | Bond premium | | | (286,949) |
| Capital assets, net | | | 129,063 | | | | | | | | | | | | | | | | | | | | |
| Construction in progress | | | 5,247 | | | | | | | | | | | | | | | | | | | | |
| Accrued interest on bond payable | | | (22,338) | | | | | | | | | | | | | | | | | | | | |
| Bonds payable | | | (4,920,000) | | | | | | | | | | | | | | | | | | | | |
| Bond premium | | | (286,949) | | | | | | | | | | | | | | | | | | | | |
| Net position of governmental activities | | | \$ (4,051,257) | | | | | | | | | | | | | | | | | | | | |

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

ELBERT AND HIGHWAY 86 METROPOLITAN DISTRICT
STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2022

| | <u>General Fund</u> | <u>Debt Service Fund</u> | <u>Total Governmental Funds</u> |
|---|---------------------|--------------------------|---------------------------------|
| <u>REVENUES</u> | | | |
| Grants | \$ 1,011 | \$ - | \$ 1,011 |
| Property taxes | 96,515 | 415,014 | 511,529 |
| Specific ownership taxes | 15,516 | 66,717 | 82,233 |
| Investment income | 12,355 | 7,883 | 20,238 |
| Total revenues | 125,397 | 489,614 | 615,011 |
| <u>EXPENDITURES</u> | | | |
| Current: | | | |
| Accounting and audit | 8,825 | - | 8,825 |
| Bank charges | 371 | - | 371 |
| County Treasurer fees | 2,865 | 12,321 | 15,186 |
| Dues and subscriptions | 637 | - | 637 |
| Elections | 1,973 | - | 1,973 |
| Insurance | 8,476 | - | 8,476 |
| Legal services | 19,114 | - | 19,114 |
| Management and accounting fees | 27,000 | - | 27,000 |
| Miscellaneous | 274 | - | 274 |
| Postage | 230 | - | 230 |
| Repairs and maintenance | 8,670 | - | 8,670 |
| Utilities | 1,528 | - | 1,528 |
| Debt service: | | | |
| Bank and other charges | - | 3,450 | 3,450 |
| Bond principal payments | - | 100,000 | 100,000 |
| Bond interest payments | - | 272,063 | 272,063 |
| Total expenditures | 79,963 | 387,834 | 467,797 |
| Excess of revenues over expenditures | 45,434 | 101,780 | 147,214 |
| Net change in fund balances | 45,434 | 101,780 | 147,214 |
| Fund balances, beginning of year | 402,687 | 493,819 | 896,506 |
| Fund balances, end of year | \$ 448,121 | \$ 595,599 | \$ 1,043,720 |

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

ELBERT AND HIGHWAY 86 METROPOLITAN DISTRICT
RECONCILIATION OF THE STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2022

| | | |
|-----------------------------|----|---------|
| Net change in fund balances | \$ | 147,214 |
|-----------------------------|----|---------|

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 assets over the estimated useful lives of the assets. Capital outlay, the conveyance of capital assets to other governments, and depreciation expense in the current period are as follows:

| | | |
|---------------------|--|---------|
| <u>Depreciation</u> | | (5,817) |
|---------------------|--|---------|

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

| | | |
|--------------------------------|--|---------|
| <u>Bond principal payments</u> | | 100,000 |
|--------------------------------|--|---------|

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

| | | |
|--|--|--------|
| <u>Amortization of bond premium</u> | | 17,949 |
| <u>Change in accrued interest on bonds payable</u> | | 334 |

| | | |
|-------------------------------|-----------|----------------|
| <u>Change in net position</u> | <u>\$</u> | <u>259,680</u> |
|-------------------------------|-----------|----------------|

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

ELBERT AND HIGHWAY 86 METROPOLITAN DISTRICT
GENERAL FUND - STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE (BUDGET AND ACTUAL)
YEAR ENDED DECEMBER 31, 2022

| | Original and Final Budget | Actual | Variance |
|---|--------------------------------------|--------------------------|------------------------|
| <u>REVENUES</u> | | | |
| Facility fees | \$ 14,000 | \$ - | \$ (14,000) |
| Grants | - | 1,011 | 1,011 |
| Property taxes | 96,338 | 96,515 | 177 |
| Specific ownership taxes | 9,634 | 15,516 | 5,882 |
| Investment income | 500 | 12,355 | 11,855 |
| Total revenues | 120,472 | 125,397 | 4,925 |
| <u>EXPENDITURES</u> | | | |
| Accounting and audit | 4,500 | 8,825 | (4,325) |
| Bank charges | - | 371 | (371) |
| County Treasurer fees | 2,890 | 2,865 | 25 |
| Dues and subscriptions | 600 | 637 | (37) |
| Elections | 2,000 | 1,973 | 27 |
| Insurance | 6,000 | 8,476 | (2,476) |
| Legal services | 20,000 | 19,114 | 886 |
| Management and accounting fees | 27,000 | 27,000 | - |
| Miscellaneous | 5,000 | 274 | 4,726 |
| Postage | - | 230 | (230) |
| Repairs and maintenance | 7,500 | 8,670 | (1,170) |
| Utilities | 1,500 | 1,528 | (28) |
| Total expenditures | 76,990 | 79,963 | (2,973) |
| Excess of revenues over expenditures | 43,482 | 45,434 | 1,952 |
| Net change in fund balance | <u>\$ 43,482</u> | 45,434 | <u>\$ 1,952</u> |
| Fund balance, beginning of year | | 402,687 | |
| Fund balance, end of year | | <u>\$ 448,121</u> | |

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

ELBERT AND HIGHWAY 86 METROPOLITAN DISTRICT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022

1. DEFINITION OF REPORTING ENTITY

Elbert and Highway 86 Metropolitan District ("District"), a quasi-municipal corporation and political subdivision of the state of Colorado, was organized by order and decree of the Elbert County District Court on November 26, 2002, and is governed pursuant to provisions of the Colorado Special District Act. The District's service area is located in Elbert County, Colorado ("County"). In accordance with its service plan which was approved in October 2002 by the board of county commissioners of the County, the District was formed to provide financing for the construction of improvements for streets and safety control, landscaping, storm drainage, water, sewer, television relay, and park and recreation facilities in its service area within the County. The District's water services are provided by Elbert and Highway 86 Commercial Metropolitan District ("Commercial District").

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Government-wide and fund financial statements

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

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

The statement of activities demonstrates the degree to which the direct and indirect expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and grants and contributions that are restricted to meet the operational or capital requirements of a particular function or segment. Taxes and other items are properly excluded from program revenues and are reported as general revenues.

Measurement focus, basis of accounting, and financial statement position

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

See independent auditor's report.

ELBERT AND HIGHWAY 86 METROPOLITAN DISTRICT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022

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

The District reports the following major governmental funds:

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

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

Budgets

In accordance with state budget law, the District holds public hearings in the fall each year to approve the budget and appropriate funds for the ensuing year. The appropriation is at the total fund expenditures, fund balance remaining, and other financing uses level, and lapses at year end. The District's board of directors can modify the budget by line item within the total appropriation without notification. The appropriation can only be modified upon completion of notification and publication requirements. The budget includes each fund on its basis of accounting unless otherwise indicated.

The District incurred expenditures in excess of appropriations for the year ended December 31, 2022 in the general fund and debt service fund, which may be a violation of state budget law.

Pooled cash and investments

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

Property taxes

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

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

Capital assets

Capital assets, which include property, equipment, and infrastructure assets (e.g., roads, sidewalks, and similar items), 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 and a useful life greater than one year. Such assets are recorded at cost or estimated cost if purchased or constructed. Contributed capital assets are recorded at estimated acquisition value at the date of contribution.

See independent auditor's report.

ELBERT AND HIGHWAY 86 METROPOLITAN DISTRICT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022

Depreciation expense has been computed using the straight-line method over the estimated economic useful lives of the assets, which range from 20 to 40 years.

Maintenance and repairs are charged to expense as incurred. At the time of retirement or disposition of depreciable assets, the related cost and accumulated depreciation are removed from the accounts, and the resulting gain or loss, if any, is reflected in revenues or expenses.

Capital assets which are anticipated to be conveyed to other governmental entities are not depreciated or included in the calculation of net investment in capital assets component of the District's net position.

Bond premium

In the government-wide financial statements, bond premiums are deferred and amortized over the life of the bonds using the effective interest method.

Deferred inflows of resources

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenues) until that time. Accordingly, property taxes are deferred and recognized as an inflow of resources in the period that the amounts become available.

Net position and fund balances

Net position

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

Fund balances

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

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

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

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

The *assigned fund balance* is the portion of fund balance that is constrained by the government's intent to be used for specific purposes, but is neither restricted nor committed. Intent is expressed by the board of directors to be used for a specific purpose. Constraints imposed on the use of assigned amounts are more easily removed or modified than those imposed on amounts that are classified as committed.

See independent auditor's report.

ELBERT AND HIGHWAY 86 METROPOLITAN DISTRICT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022

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

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

3. CASH AND INVESTMENTS

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

Statement of net position:

| | |
|-----------------------------------|---------------------|
| Cash and investments | \$ 663,105 |
| Cash and investments - restricted | <u>380,918</u> |
| | <u>\$ 1,044,023</u> |

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

| | |
|--------------------------------------|---------------------|
| Deposits with financial institutions | \$ 2,063 |
| Investments | <u>1,041,960</u> |
| | <u>\$ 1,044,023</u> |

Deposits with financial institutions

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

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

As of December 31, 2022, the District's cash deposits had a bank balance of \$2,063 and a carrying balance of \$2,063.

Investments

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

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

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

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

- Obligations of the US and certain US government agency securities
- Certain international agency securities
- General obligation and revenue bonds of US local government entities
- Bankers' acceptances of certain banks
- Commercial paper
- Written repurchase agreements collateralized by certain authorized securities
- Certificates of deposit in Colorado PDPA approved banks or savings banks
- Certain money market funds
- Guaranteed investment contracts
- Local government investment pools

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

| <u>Investment</u> | <u>Maturity</u> | <u>Amount</u> |
|---|--------------------------------|---------------------|
| Liquid Asset Trust (COLOTRUST) | Weighted average under 60 days | \$ 661,042 |
| Colorado Surplus Asset Trust Fund (CSAFE) | Weighted average under 60 days | <u>380,918</u> |
| Total investments | | <u>\$ 1,041,960</u> |

COLOTRUST

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

COLOTRUST PRIME and COLOTRUST PLUS+, which operate similarly to a money market fund in which each share is equal in value to \$1, offer daily liquidity. Both portfolios may invest in US Treasury securities and repurchase agreements collateralized by US Treasury securities. COLOTRUST PLUS+ may also invest in certain obligations of US government agencies, highest rated commercial paper, and any security allowed under CRS 24-75-601.

COLOTRUST EDGE, a variable net asset value ("NAV") local government investment pool, offers weekly liquidity and is managed to approximate a \$10 transactional share price. COLOTRUST EDGE may invest in US Treasury securities, repurchase agreement collateralized by US Treasury securities, certain obligations of US 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 AAAs/S1 by FitchRatings. COLOTRUST records its investment at fair value and the District records its investment 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.

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CSAFE

The District invested in the Colorado Surplus Asset Fund Trust ("CSAFE"), which is an investment vehicle established by state statute for local government entities to pool surplus assets. The State Securities Commissioner administers and enforces all state statutes governing CSAFE. CSAFE offers two portfolios: CSAFE CASH FUND and CSAFE CORE.

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

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

A designated custodial bank serves as custodian for CSAFE's portfolios pursuant to a custodian agreement. The custodian acts as safekeeping agent for CSAFE's investment portfolios and provides services as the depository in connection with direct investments and withdrawals. The custodian's internal records segregate investments owned by CSAFE. CSAFE is rated AAAM by FitchRatings. CSAFE records its investment at amortized cost and the District records its investments in CSAFE using the amortized cost method. There are no unfunded commitments, the redemption frequency is daily or weekly, and there is no redemption notice period.

4. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2022, is as follows:

| | Balance 01-01-22 | Additions | Dispositions | Reclassifications | Balance 12-31-22 |
|-----------------------------------|---------------------|------------|--------------|-------------------|---------------------|
| <u>Governmental activities</u> | | | | | |
| Capital assets, depreciable: | | | | | |
| Fish pond | \$ 16,594 | \$ - | \$ - | \$ - | \$ 16,594 |
| Gazebo | 34,791 | - | - | - | 34,791 |
| Entry monuments | 146,287 | - | - | - | 146,287 |
| Water cistern | 5,765 | - | - | - | 5,765 |
| Total capital assets, depreciable | 203,437 | - | - | - | 203,437 |
| Less accumulated depreciation | (68,557) | (5,817) | - | - | (74,374) |
| Capital assets, net | \$ 134,880 | \$ (5,817) | \$ - | \$ - | \$ 129,063 |
| Capital assets, not depreciable: | | | | | |
| Landscaping improvements | \$ 5,247 | \$ - | \$ - | \$ - | \$ 5,247 |
| Capital assets, not depreciable | \$ 5,247 | \$ - | \$ - | \$ - | \$ 5,247 |

Depreciation expense for the year ended December 31, 2022, totaled \$5,817.

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5. LONG-TERM OBLIGATIONS

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

| | Balance 01-01-22 | Additions | Repayments / Amortization | Balance 12-31-22 | Due Within One Year |
|--------------------------------|---------------------|-------------|------------------------------|---------------------|------------------------|
| <u>Governmental activities</u> | | | | | |
| Bonds payable: | | | | | |
| Series 2016 Bonds | \$ 5,020,000 | \$ - | \$ 100,000 | \$ 4,920,000 | \$ 100,000 |
| Series 2016 premium | 304,898 | - | 17,949 | 286,949 | |
| Total bonds | 5,324,898 | - | 117,949 | 5,206,949 | 100,000 |
| Total long-term obligations | <u>\$ 5,324,898</u> | <u>\$ -</u> | <u>\$ 117,949</u> | <u>\$ 5,206,949</u> | <u>\$ 100,000</u> |

Series 2016 General Obligation Bonds

On September 30, 2016, the District issued Series 2016 General Obligation Limited Tax Convertible to Unlimited Tax Refunding Bonds ("Series 2016 Bonds") for the purpose of: (i) refunding the previously issued bonds and other debt obligations; (ii) funding the reserve fund; and (iii) paying other costs incurred in connection with the issuance of the Series 2016 Bonds. The Series 2016 Bonds were issued in the amount of \$5,370,000, plus an original issue premium of \$400,296. The bonds bear interest from 3.00% to 5.75%, payable to the extent of pledged revenues available on each June 1 and December 1, and mature on December 1, 2046.

The District is required to maintain a bond payment, reserve, rebate, and revenue cash account. The purpose of this reserve cash account is to provide adequate reserves to meet principal and interest requirements if the bond account does not have enough funding.

Pledged revenues

The Series 2016 Bonds are secured by and payable from the pledged revenues consisting of monies derived by the District from the following sources, net of any collection costs: (a) required mill levy; (b) the portion of the specific ownership taxes which are collected as a result of the imposition of the required mill levy; and (c) any other legally available monies which the District determines to be treated as pledged revenues. The Series 2016 Bonds are also secured by amounts held by the trustee in the reserve fund. Required mill levy means an ad valorem mill levy imposed upon all taxable property within the District each year in an amount sufficient to pay the principal, premium if any, and interest on the bonds as they become due, and payable, and to make up any deficiencies in the reserve fund. The mill levy is adjusted for changes in the ratio of actual value to assessed value of property within the District.

Optional redemption

The Series 2016 Bonds maturing on December 1, 2033, and thereafter are subject to redemption prior to maturity, at the option of the District, as a whole or in integral multiples of \$5,000, in any order of maturity and in whole or partial maturities, on December 1, 2031, and on any date thereafter, upon payment of par, accrued interest, and a redemption premium.

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The District's long-term obligations on the 2016 Series Bond mature as follows:

| <u>Year Ending December 31,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|---------------------------------|---------------------|---------------------|---------------------|
| 2023 | \$ 100,000 | \$ 268,062 | \$ 368,062 |
| 2024 | 105,000 | 264,063 | 369,063 |
| 2025 | 110,000 | 259,862 | 369,862 |
| 2026 | 115,000 | 255,463 | 370,463 |
| 2027 | 120,000 | 250,862 | 370,862 |
| 2028 - 2032 | 695,000 | 1,158,563 | 1,853,563 |
| 2033 - 2037 | 900,000 | 957,612 | 1,857,612 |
| 2038 - 2042 | 1,185,000 | 669,300 | 1,854,300 |
| 2043 - 2047 | <u>1,590,000</u> | <u>265,650</u> | <u>1,855,650</u> |
| Total | <u>\$ 4,920,000</u> | <u>\$ 4,349,437</u> | <u>\$ 9,269,437</u> |

Events of default

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

- a. Before the first interest payment date occurring after the first mill levy certification by the District occurring after the date on which the ratio derived by dividing the then-outstanding principal amount of all the general obligation debt of the District by the assessed valuation of the taxable property in the District, as such assessed valuation is certified from time to time by the appropriate county assessor, becomes 50% or less ("Unlimited Tax Receipt Date"), the District fails or refuses to impose the required mill levy or to apply the pledged revenue as required by the indenture.
- b. On and after the Unlimited Tax Receipt Date, the District fails to pay the principal or interest on the Series 2016 Bonds when due.
- c. The District defaults in performance or observance of any other covenants, agreements, or conditions in the indenture or bond resolution, and such default continues for 30 days after notice specifying such default provided by the issuer.
- d. The District files a petition under the federal bankruptcy laws or other applicable bankruptcy laws seeking to adjust the obligation represented by the Series 2016 Bonds.

It is acknowledged that, due to the limited nature of the pledged revenue, prior to the Unlimited Tax Receipt Date the failure to pay the principal of or interest on the loans when due does not, in itself, constitute an event of default.

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

- i. Receivership - Upon the filing of a bill in equity or other commencement of judicial proceedings to enforce the rights of the trustee and of the owners, the trustee is entitled as a matter of right to the appointment of receiver or receivers of the trust estate, and of the revenues, income, product, and profits thereof pending such proceedings, subject however, to constitutional limitation inherent in the sovereignty of the District; but notwithstanding the appointment of any receiver or other custodian, the trustee will be entitled to the possession and control of any cash, securities, or other instruments at the time held by, or payable or deliverable under the provisions of the indenture to the trustee.
- ii. Suit for judgment - The trustee may proceed to protect and enforce its rights and the rights of the owners by such suit, action, or special proceedings as the trustee, being advised by counsel, deems appropriate.

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

Notwithstanding the foregoing, acceleration will not be an available remedy for an event of default.

Debt authorization

On November 5, 2002, the District's voters authorized the issuance of indebtedness in an amount not to exceed \$11,108,500 at an interest rate not to exceed 18%. As of December 31, 2022, the District had authorized but unissued indebtedness allocated for the following purposes:

| | Amount Authorized on November 5, 2002 | Authorization Used Series 2006 Bonds | Authorization Used Series 2016 Refunding Bonds | Authorized But Unissued |
|----------------------------|--|---|--|-------------------------------|
| Water | \$ 1,655,947 | \$ 1,655,947 | \$ - | \$ - |
| Streets | 3,390,290 | 3,390,290 | - | - |
| Storm and Sewer Drainage | 227,895 | 227,895 | - | - |
| Parks and Recreation | 225,868 | 225,868 | - | - |
| Operations and Maintenance | 108,500 | - | - | 108,500 |
| Debt Refunding | 5,500,000 | - | 5,370,000 | 130,000 |
| | <u>\$ 11,108,500</u> | <u>\$ 5,500,000</u> | <u>\$ 5,370,000</u> | <u>\$ 238,500</u> |

6. NET POSITION

The District has net position consisting of: invested in capital assets, net of related debt; restricted; and unrestricted.

Net position invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by the outstanding balance of debt that is attributable to the acquisition, construction, or improvement of those assets.

As of December 31, 2022, the District had net position invested in capital assets, net of related debt as follows:

Invested in capital assets, net of related debt:

| | |
|-------------------------------|------------------|
| Capital assets | \$ 129,063 |
| Related long-term obligations | <u>(203,437)</u> |

Invested in capital assets, net of related debt

\$ (74,374)

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

Restricted net position:

| | |
|----------------------------|-------------------|
| Debt service (Note 5) | \$ 595,599 |
| Emergency reserve (Note 9) | <u>2,400</u> |
| | <u>\$ 597,999</u> |

The District's unrestricted net position as of December 31, 2022, totaled a deficit of \$4,574,882.

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ELBERT AND HIGHWAY 86 METROPOLITAN DISTRICT

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7. RELATED PARTIES

The developer of the property within the District is Wild Ponte Investments, LLC. The members of the board of directors are officers, employees, or associated with the developer and may have conflicts of interest in dealing with the District.

Intergovernmental agreement

On August 31, 2021, the District entered into an intergovernmental agreement with the Commercial District for the purpose of completing the performance obligation under the compromise, settlement, and release agreement and allocating responsibility for the installation of traffic signals that the Colorado Department of Transportation may mandate at the access points from state highway 86 to their respective properties. The District and the Commercial District agreed to the terms as follows:

(a) the District paid the Commercial District the sum of \$105,000; and

(b) the District conveyed to the Commercial District the real property interests, which the District and the Commercial District acknowledged and agreed had an appraised value of \$75,000.

The Commercial District is solely responsible for the traffic signal expenses.

Facility fees

On October 31, 2014, the District entered into a facility fee agreement with the developer. Pursuant to the agreement, the developer negotiated for the purchase of lots within the boundaries of the District, each of which is subject to the imposition of facility fees.

8. RISK MANAGEMENT

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

The District is a member of the Colorado Special Districts Property and Liability Pool ("Pool"). The Pool is an organization created by intergovernmental agreement to provide property, liability, public officials' liability, boiler and machinery, and workers' compensation coverage to its members. Settled claims have not exceeded this coverage in any of the past three fiscal years.

The District pays annual premiums to the Pool for liability, property, and public officials' liability coverage. In the event aggregated losses incurred by the Pool exceed amounts recoverable from reinsurance contracts and funds accumulated by the Pool, the Pool may require additional contributions from the Pool members. Any excess funds which the Pool determines are not needed for purposes of the Pool may be returned to the members pursuant to a distribution formula.

9. TAX, SPENDING, AND DEBT LIMITATIONS

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

Spending and revenue limits are determined based on the prior fiscal year spending adjusted for allowable increases based upon inflation and local growth. Fiscal year spending is generally defined as expenditures plus reserve increases with certain exceptions. Revenues in excess of the fiscal year spending limit must be refunded unless the voters approve retention of such revenues. The District's voters approved a ballot issue allowing the District to retain all revenues.

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

District management believes the District is in compliance with the provisions of TABOR. However, TABOR is complex and subject to interpretation. Many of the provisions, including the interpretation of how to calculate fiscal year spending limits, will likely require judicial interpretation.

* * * * *

See independent auditor's report.

SUPPLEMENTARY INFORMATION

ELBERT AND HIGHWAY 86 METROPOLITAN DISTRICT
DEBT SERVICE FUND - SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE (BUDGET AND ACTUAL)
YEAR ENDED DECEMBER 31, 2022

| | Original and Final Budget | Actual | Variance |
|---|------------------------------|-------------------|------------------|
| REVENUES | | | |
| Property taxes | \$ 414,252 | \$ 415,014 | \$ 762 |
| Specific ownership taxes | 41,425 | 66,717 | 25,292 |
| Investment income | 2,000 | 7,883 | 5,883 |
| Total revenues | 457,677 | 489,614 | 31,937 |
| EXPENDITURES | | | |
| County Treasurer fees | 12,428 | 12,321 | 107 |
| Bank and other charges | 3,000 | 3,450 | (450) |
| Bond principal payments | 100,000 | 100,000 | - |
| Bond interest payments | 272,063 | 272,063 | - |
| Total expenditures | 387,491 | 387,834 | (343) |
| Excess of revenues over expenditures | 70,186 | 101,780 | 31,594 |
| Net change in fund balance | \$ 70,186 | 101,780 | \$ 31,594 |
| Fund balance, beginning of year | | 493,819 | |
| Fund balance, end of year | | \$ 595,599 | |

See independent auditor's report.