

HIGHLANDS METROPOLITAN DISTRICT NO. 2

Financial Statements

Year Ended December 31, 2021

with

Independent Auditor's Report

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# HIRATSUKA & ASSOCIATES, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS

## **INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors  
Highlands Metropolitan District No. 2  
City and County of Broomfield, Colorado

### **Opinion**

We have audited the accompanying financial statements of the governmental activities and each major fund of the Highlands Metropolitan District No. 2 (the District) as of and for the year ended December 31, 2021, 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, 2021, and the respective changes in financial position and the budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Basis for Opinion**

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

### **Responsibilities of Management for the Financial Statements**

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

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

### **Auditor's Responsibilities for the Audit of the Financial Statements**

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

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

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

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

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

### **Required Supplementary Information**

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

### **Supplementary Information**

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

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

*Hiratsuka & Associates, LLP*

September 8, 2022  
Wheat Ridge, Colorado

## Highlands Metropolitan District No. 2

### BALANCE SHEET/STATEMENT OF NET POSITION - GOVERNMENTAL FUNDS December 31, 2021

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
<b>ASSETS</b>						
Cash and investments	\$ 65,829	\$ -	\$ -	\$ 65,829	\$ -	\$ 65,829
Cash and investments - restricted	1,062	10,853	-	11,915	-	11,915
Receivable - County Treasurer	154	1,705	-	1,859	-	1,859
Property taxes receivable	41,339	377,626	-	418,965	-	418,965
Accounts receivable- Taxes (TIF)	-	238	-	238	-	238
Capital assets not being depreciated	-	-	-	-	7,073,758	7,073,758
Total Assets	<u>\$ 108,384</u>	<u>\$ 390,422</u>	<u>\$ -</u>	<u>\$ 498,806</u>	<u>7,073,758</u>	<u>7,572,564</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>						
Deferred loss on refunding	-	-	-	-	408,529	408,529
Total Deferred Outflows of Resources	-	-	-	-	408,529	408,529
Total Assets and Deferred Outflows of	<u>\$ 108,384</u>	<u>\$ 390,422</u>	<u>\$ -</u>	<u>\$ 498,806</u>		
<b>LIABILITIES</b>						
Accounts Payable	\$ 7,125	\$ -	\$ -	\$ 7,125	-	7,125
Due to Highland MD No. 1	49,882	4,167	-	54,049	-	54,049
Accrued interest	-	-	-	-	20,071	20,071
Long-term liabilities:						
Due within one year	-	-	-	-	150,000	150,000
Due in more than one year	-	-	-	-	7,099,896	7,099,896
Total Liabilities	<u>57,007</u>	<u>4,167</u>	<u>-</u>	<u>61,174</u>	<u>7,269,967</u>	<u>7,331,141</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Deferred property taxes	41,339	377,626	-	418,965	-	418,965
Total Deferred Inflows of Resources	<u>41,339</u>	<u>377,626</u>	<u>-</u>	<u>418,965</u>	<u>-</u>	<u>418,965</u>
<b>FUND BALANCES/NET POSITION</b>						
<b>Fund Balances:</b>						
<b>Restricted:</b>						
Emergencies	1,062	-	-	1,062	(1,062)	-
Debt service	-	8,629	-	8,629	(8,629)	-
Unassigned	8,976	-	-	8,976	(8,976)	-
Total Fund Balances	<u>10,038</u>	<u>8,629</u>	<u>-</u>	<u>18,667</u>	<u>(18,667)</u>	<u>-</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 108,384</u>	<u>\$ 390,422</u>	<u>\$ -</u>	<u>\$ 498,806</u>		
Net Position:						-
<b>Restricted for:</b>						
Emergencies					1,062	1,062
Unrestricted					<u>229,925</u>	<u>229,925</u>
Total Net Position					<u>\$ 230,987</u>	<u>\$ 230,987</u>

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

## Highlands Metropolitan District No. 2

### STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES/STATEMENT OF ACTIVITIES - GOVERNMENTAL FUNDS

For the Year Ended December 31, 2021

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>	<u>Adjustments</u>	Statement of <u>Activities</u>
<b>EXPENDITURES</b>						
Accounting and audit	\$ 14,295	\$ -	\$ -	\$ 14,295	\$ -	\$ 14,295
Insurance	3,427	-	-	3,427	-	3,427
Legal	12,485	-	-	12,485	-	12,485
Miscellaneous expenses	80	-	-	80	-	80
Trustee fee	-	5,700	-	5,700	-	5,700
Treasurer's fees	10	107	-	117	-	117
Owner advances interest	-	-	-	-	56,235	56,235
Loan issuance costs	-	230,295	-	230,295	-	230,295
Interest expense	-	144,918	-	144,918	205,576	350,494
Principal payments	-	100,000	-	100,000	(100,000)	-
Repay developer advances	-	350,000	-	350,000	(350,000)	-
Total Expenditures	<u>30,297</u>	<u>831,020</u>	<u>-</u>	<u>861,317</u>	<u>(188,189)</u>	<u>673,128</u>
<b>GENERAL REVENUES</b>						
Property taxes	624	6,945	-	7,569	-	7,569
Specific ownership taxes	2,258	24,783	-	27,041	-	27,041
Interest income	71	439	1	511	-	511
TIF revenue	<u>37,362</u>	<u>415,418</u>	<u>-</u>	<u>452,780</u>	<u>-</u>	<u>452,780</u>
Total General Revenues	<u>40,315</u>	<u>447,585</u>	<u>1</u>	<u>487,901</u>	<u>-</u>	<u>487,901</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>						
	10,018	(383,435)	1	(373,416)	188,189	(185,227)
<b>OTHER FINANCING SOURCES (USES)</b>						
Loan proceeds	-	7,275,000	-	7,275,000	(7,275,000)	-
Payment to refunding escrow	-	(7,961,581)	-	(7,961,581)	7,961,581	-
Forgiveness of debt	-	-	-	-	1,417,272	1,417,272
Transfers (to)/from other Funds	<u>-</u>	<u>11,833</u>	<u>(11,833)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>-</u>	<u>(674,748)</u>	<u>(11,833)</u>	<u>(686,581)</u>	<u>2,103,853</u>	<u>1,417,272</u>
<b>NET CHANGES IN FUND BALANCES</b>						
	10,018	(1,058,183)	(11,832)	(1,059,997)	1,059,997	
<b>CHANGE IN NET POSITION</b>						
					1,232,045	1,232,045
<b>FUND BALANCES/NET POSITION:</b>						
BEGINNING OF YEAR	<u>20</u>	<u>1,066,812</u>	<u>11,832</u>	<u>1,078,664</u>	<u>(2,079,722)</u>	<u>(1,001,058)</u>
END OF YEAR	<u>\$ 10,038</u>	<u>\$ 8,629</u>	<u>\$ -</u>	<u>\$ 18,667</u>	<u>\$ 212,320</u>	<u>\$ 230,987</u>

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

## Highlands Metropolitan District No. 2

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

For the Year Ended December 31, 2021

	Original & Final <u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
REVENUES			
Property taxes	\$ 623	\$ 624	\$ 1
Specific ownership taxes	2,656	2,258	(398)
Interest Income	-	71	71
TIF revenue	<u>37,948</u>	<u>37,362</u>	<u>(586)</u>
Total Revenues	<u>41,227</u>	<u>40,315</u>	<u>(912)</u>
EXPENDITURES			
Audit	4,500	4,500	-
Accounting	5,500	9,795	(4,295)
Insurance	3,400	3,427	(27)
Legal	15,000	12,485	2,515
Miscellaneous expenses	1,500	80	1,420
Treasurer's fees	9	10	(1)
Contingency	14,002	-	14,002
Emergency reserve	<u>897</u>	<u>-</u>	<u>897</u>
Total Expenditures	<u>44,808</u>	<u>30,297</u>	<u>14,511</u>
NET CHANGE IN FUND BALANCE	(3,581)	10,018	13,599
FUND BALANCE:			
BEGINNING OF YEAR	<u>3,581</u>	<u>20</u>	<u>(3,561)</u>
END OF YEAR	<u>\$ -</u>	<u>\$ 10,038</u>	<u>\$ 10,038</u>

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

## HIGHLANDS METROPOLITAN DISTRICT NO. 2

### Notes to Financial Statements December 31, 2021

#### Note 1: Summary of Significant Accounting Policies

The accounting policies of the Highlands Metropolitan District No. 2 (“District”), located in the City and County of Broomfield, Colorado (“Broomfield”), conform to the accounting principles generally accepted in the United States of America (“GAAP”) as applicable to governmental units.

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

#### Definition of Reporting Entity

The District was organized in June 2008, as a quasi-municipal organization established under the State of Colorado Special District Act. The District was organized concurrently with Highlands Metropolitan District No. 1 (“District No. 1”), and is responsible for providing a portion of the funding for certain residential public capital improvements, facilities and operational requirements. District No. 1 was established to manage the construction and operations of public commercial and residential facilities and improvements in addition to providing part of the funding for capital improvements and for operations. On July 26, 2016 Broomfield approved an Amended and Restated Service Plan for the District, pursuant to this revised service plan the District is no longer managed by District No. 1 and is responsible for implementing its own financing plan. The District's primary revenues are property taxes and TIF revenue. The District is governed by an elected Board of Directors.

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

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

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



## HIGHLANDS METROPOLITAN DISTRICT NO. 2

### Notes to Financial Statements December 31, 2021

#### Basis of Presentation

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

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

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

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

#### Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

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

## HIGHLANDS METROPOLITAN DISTRICT NO. 2

### Notes to Financial Statements December 31, 2021

The District reports the following major governmental funds:

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

Debt Service Fund – The Debt Service Fund is used to account for all financial resources that are restricted, committed or assigned to expenditures for principal, interest and other debt related costs.

Capital Projects Fund – The Capital Projects Fund is used to account for all financial resources that are restricted, committed or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other assets. All remaining assets in the Capital Projects Fund were transferred and the fund was closed during the year.

#### Budgetary Accounting

Budgets are adopted on a non-GAAP basis for the governmental funds. In accordance with the State Budget Law of Colorado, the District's Board of Directors holds public hearings in the fall of each year to approve the budget and appropriate the funds for the ensuing year. The District's Board of Directors can modify the budget by line item within the total appropriation without notification. The appropriation can only be modified upon completion of notification and publication requirements. The budget includes each fund on its basis of accounting unless otherwise indicated. The appropriation is at the total fund expenditures level and lapses at year end. The District's amended its total appropriations from \$342,457 to \$9,000,000 due to the refunding of the Series 2016A Bonds and the Series 2016B Bonds.

#### Assets, Liabilities and Net Position

##### Fair Value of Financial Instruments

The District's financial instruments include cash and cash equivalents, accounts receivable and accounts payable. The District estimates that the fair value of all financial instruments at December 31, 2021, does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying balance sheet. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

##### Deposits and Investments

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

## HIGHLANDS METROPOLITAN DISTRICT NO. 2

### Notes to Financial Statements December 31, 2021

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

#### Estimates

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

#### Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District only has one item that qualifies for reporting in this category. It is the deferred loss on refunding reported in the government-wide statement of net position. A deferred loss on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt..

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

#### Capital Assets

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

## HIGHLANDS METROPOLITAN DISTRICT NO. 2

### Notes to Financial Statements December 31, 2021

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the life of the asset are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable using the straight-line method. Depreciation on property that will remain assets of the District is reported on the Statement of Activities as a current charge. Improvements that will be conveyed to other governmental entities are classified as construction in progress and are not depreciated. Land and certain landscaping improvements are not depreciated. No depreciation expense was recognized during 2021.

#### Property Taxes

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

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

#### Deferred Loss on Refunding

The deferred loss on refunding is being amortized over the term of the loan using the interest method. The deferred loss on refunding is being amortized over the life of the 2021 Loan using the effective interest method. Accumulated amortization of the deferred loss on refunding amounted to \$15,607 at December 31, 2021.

#### Long-Term Obligations

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

#### Fund Equity

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

## HIGHLANDS METROPOLITAN DISTRICT NO. 2

### Notes to Financial Statements December 31, 2021

#### Nonspendable Fund Balance

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

#### Restricted Fund Balance

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

The restricted fund balance in the General Fund represents Emergency Reserves that have been provided as required by Article X, Section 20 of the Constitution of the State of Colorado. A total of \$1,062 of the General Fund balance has been restricted in compliance with this requirement.

#### Committed Fund Balance

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

#### Assigned Fund Balance

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

#### Unassigned Fund Balance

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

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

#### Net Position

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

Net investment in capital assets – consists of net capital assets, reduced by outstanding balances of any related debt obligations and deferred inflows of resources attributable to the acquisition, construction, or improvement of those assets and increased by balances of deferred outflows or resources related to those assets.

## HIGHLANDS METROPOLITAN DISTRICT NO. 2

### Notes to Financial Statements December 31, 2021

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

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

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

#### Note 2: Cash and Investments

As of December 31, 2021, cash and investments are classified in the accompanying financial statements as follows:

##### Statement of Net Position:

Cash and investments	\$ 65,828
Cash and investments - Restricted	<u>11,916</u>
Total	<u>\$ 77,744</u>

Cash and investments as of December 31, 2021, consist of the following:

Deposits with financial institutions	\$ 16,488
Morgan Stanley Liq Govt Adv MAYXX	892
Investments - COLOTRUST	<u>60,364</u>
	<u>\$ 77,744</u>

##### Deposits

##### Custodial Credit Risk

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

The District follows state statutes for deposits. As of December 31, 2021, none of the District’s deposits were exposed to custodial credit risk.

## HIGHLANDS METROPOLITAN DISTRICT NO. 2

### Notes to Financial Statements December 31, 2021

#### Investments

##### Credit Risk

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

##### Custodial and Concentration of Credit Risk

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

##### Interest Rate Risk

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

##### Investment Valuation

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

As of December 31, 2021, the District had the following investments:

##### Morgan Stanley Treasury Portfolio

The District's funds that were included in the trust accounts at Zion Bank were invested in the Morgan Stanley Government Portfolio ("Portfolio"). This Portfolio is a money market fund and each share is equal in value to \$1.00. All investments within the Portfolio are recorded at fair value and the District records its investment in the Portfolio at NAV. The Portfolio is AAAM rated and invests exclusively in U.S. Treasury securities and repurchase agreements collateralized by U.S. Treasury securities. The maturity of the underlying securities is 15 days or less. As of December 31, 2021, the District has \$892 invested in the fund.

## HIGHLANDS METROPOLITAN DISTRICT NO. 2

### Notes to Financial Statements December 31, 2021

#### COLOTRUST

The local government investment pool, Colorado Local Government Liquid Asset Trust (“COLOTRUST”) is rated AAAM by Standard & Poor’s with a weighted average maturity of under 60 days. COLOTRUST is an investment trust/joint ventures established for local government entities in Colorado to pool surplus funds. The State Securities Commissioner administers and enforces all State statutes governing the Trust. COLOTRUST records its investments at fair value and the District records its investment in COLOTRUST using the net asset value method. The trusts operate similarly to a money market fund with each share maintaining a value of \$1.00. The Trust offers shares in two portfolios, COLOTRUST PRIME and COLOTRUST PLUS+. Both investments consist of U.S. Treasury bills and notes 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 repurchase agreements collateralized by certain obligations of U.S. government agencies. Designated custodian banks provide safekeeping and depository services to the trusts. Substantially all securities owned by the trusts are held by the Federal Reserve Bank in the accounts maintained for the custodian banks. The custodians’ internal records identify the investments owned by COLOTRUST. At December 31, 2021, the District had \$60,364 invested in COLOTRUST PRIME.

#### Note 3: Capital Assets

An analysis of the changes in capital assets for the year ended December 31, 2021 follows:

<u>Governmental Type Activities:</u>	<u>Balance 1/1/2021</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12/31/2021</u>
<u>Capital assets not being depreciated:</u>				
Construction in progress	\$ 7,073,758	\$ -	\$ -	\$ 7,073,758
Total capital assets not being depreciated	<u>7,073,758</u>	<u>-</u>	<u>-</u>	<u>7,073,758</u>
Government type assets, net	<u>\$ 7,073,758</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,073,758</u>

Upon completion and acceptance, all fixed assets except for landscaping and drainage facilities, open space and park and recreation improvements are expected to be conveyed by the District to other local governments. The District will not be responsible for maintenance of the improvements conveyed to other entities.

#### Note 4: Long Term Debt

A description of the long-term obligations as of December 31, 2021, is as follows:



## HIGHLANDS METROPOLITAN DISTRICT NO. 2

### Notes to Financial Statements December 31, 2021

#### 2021 Loan Agreement

On May 27, 2021, the District entered into a Loan Agreement with Zions Bancorporation, N.A., D/B/A Vectra Bank Colorado whereby the Bank agreed to loan the District \$7,275,000, ("2021 Loan") for the purpose of fully refunding the Series 2016A Bonds and the Series 2016B Bonds and generating additional funds to make the Termination Payment to the Owner as described below. The 2021 Loan bears interest initially at the rate of 4.15% until the Tax Exempt Reissuance Date, which occurred on September 15, 2021 when the rate became 3.32%. The interest rate resets on December 1, 2041, based upon the Index Rate plus 1.50% as such is multiplied by 80%. The 2021 Loan may be prepaid prior to the third anniversary of the Closing Date with a Prepayment Fee of 1%, on or after the third anniversary of the Closing Date no Prepayment Fee shall apply.

The 2021 Loan is secured by the Required Mill Levy, the portion of the Specific Ownership Tax which is collected as a result of the Senior Required Mill Levy, and any other legally available moneys as determined by the District.

Events of Default as defined in the Loan Agreement include 1) the failure of the District to impose the Required Mill levy, 2) the Districts failure to observe or perform any other of the covenants, agreements, or conditions of the Loan Agreement, and failure to remedy the same after notice thereof within 30 days, 3) the District fails to pay principle or interest when due on the Loan and continuance of such default beyond any grace period; 4) the pledge of the Pledged Revenue or any other security interest created hereunder or under the Custodial Agreement fails to be fully enforceable with the priority required according to the Loan Agreement and 5) the filing of a petition under the federal bankruptcy laws or other applicable laws seeking to adjust the obligations represented by the Bonds. Remedies available in the Event of Default include 1) exercise any and all remedies available under the Custodial Agreement; or 2) take any other action or remedy available under the other Financing Documents or any other document, or at law or in equity.

#### \$5,880,000 Limited Tax (Convertible to Unlimited Tax) General Obligation Bonds, Series 2016A and \$1,269,000 Subordinate Limited Tax General Obligation Bonds, Series 2016B

On October 26, 2016, the District issued \$5,880,000 of Limited Tax (Convertible to Unlimited Tax) General Obligation Bonds, Series 2016A ("Series 2016A Bonds"), and \$1,269,000 of Subordinate Limited Tax General Obligation Bonds, Series 2016B ("Series 2016B Bonds"). The Series 2016A Bonds bore interest at 5.125%, payable semiannually on June 1 and December 1, commencing December 1, 2016, and matured on December 1, 2046. The Series 2016B Bonds bore interest at 7.5%, were payable to the extent of available Subordinate Pledged Revenue, on December 15, commencing December 15, 2016 and matured on December 15, 2046. The Series 2016A Bonds were issued for the purpose of paying a portion of the Project Costs, paying capitalized interest on the Series 2016A Bonds, funding the Senior Reserve Fund, and paying the issuance costs of the Series 2016A Bonds. The Series 2016B Bonds were issued for the purpose of paying additional Project Costs and paying the issuance costs of the Series 2016B Bonds.

## HIGHLANDS METROPOLITAN DISTRICT NO. 2

### Notes to Financial Statements December 31, 2021

The Series 2016A Bonds were secured by Property Taxes derived from the Senior Required Mill Levy, including such amounts payable to the District by Broomfield Urban Renewal Authority (“BURA”) pursuant to the Cooperation Agreement (described below) all Specific Ownership Tax Revenues as the result of the Senior Required Mill Levy, all Capital Fees, and any other legally available moneys as determined by the District in its absolute discretion. The Series 2016B Bonds were secured by Property Taxes derived from the Subordinate Required Mill Levy, all Specific Ownership Tax Revenues as the result of the Subordinate Required Mill Levy, all Subordinate Capital Fees Revenue, any amounts in the Senior Surplus Fund upon the termination of such fund, and any other legally available moneys as determined by the District at its absolute discretion and credited to the Subordinate Bond Fund.

On May 27, 2021, the District entered into the 2021 Loan and with those proceeds along with funds on hand deposited in funds in an escrow to repay the Series 2016A Bonds and the Series 2016 B Bonds. As a result the Series 2016 A Bonds and the Series 2016B Bonds are considered defeased and have been removed from the District’s Statement of Net Position. The refunding resulted in a net present value savings of \$1,345,442.

#### Cooperation Agreement

On September 13, 2016 the District entered into a Cooperation Agreement with BURA whereby BURA agreed to transfer the property taxes revenues as a result of the District’s mill levy on the increment assessed valuation to the District, less a 1.5% fee. The Cooperation Agreement terminates on April 27, 2029. The District is in the North Park West Urban Renewal Project – Broomfield Urban Renewal Authority (“NPWURP”). On April 27, 2004, BURA authorized the Urban Renewal Plan for the NPWURP which terminates on April 27, 2029. After April 27, 2029, it is projected that the District will be entitled to receive the full amount of property taxes resulting from its mill levies imposed on the total assessed value of the District.

#### Funding and Reimbursement Agreement

The District is party to a Funding and Reimbursement Agreement with Vista Highlands, LLC, (“Owner”) dated April 20, 2015, pursuant to which Vista agreed to advance certain funds to the District to finance the District’s operation, administrative and maintenance expenses. The District’s obligations under this agreement are subject to annual appropriation by the District, and it accrues interest at 7%.

#### Vista Infrastructure Acquisition and Reimbursement Agreement

On October 12, 2015, the District entered into an Amended and Restated Infrastructure Acquisition and Reimbursement Agreement (“RIARA”) with an effective date of August 19, 2008 with Owner whereby Owner agrees to construct and convey or cause to be constructed or conveyed certain public improvements to the District or Broomfield, and the District agreed to reimburse Owner for the costs of such improvements as verified by a District engineer and subject to additional requirements. The District agreed to reimburse Owner the cost of such improvements plus interest at 8% per annum.

# HIGHLANDS METROPOLITAN DISTRICT NO. 2

## Notes to Financial Statements December 31, 2021

### First Amendment to the Amended and Restated Infrastructure Acquisition and Reimbursement Agreement

On February 21, 2021, the District and the Owner entered into a First Amendment to the Amended and Restated Infrastructure Acquisition and Reimbursement Agreement, whereby the Owner agreed that the District's obligation to reimburse the Owner for all District Eligible Costs, and any other Repayment Obligation of the District, will terminate automatically upon the District paying a lump sum payment of \$350,000 to the Owner no later than December 31, 2021 (the "Termination Payment"). Upon the Owner's receipt of the Termination Payment, any obligation of the District to reimburse the Owner due and outstanding under the Agreement, including accrued interest, is forgiven in its entirety. On May 27, 2021 the District paid the Owner \$350,000 as the Termination Payment. The total debt forgiveness from the Owner after this Termination Payment was 1,417,272 as reflected in the financial statements.

The following is an analysis of changes in long-term debt for the period ending December 31, 2021:

	Balance 1/1/2021	Additions	Deletions	Balance 12/31/2021	Current Portion
<b>General Obligation Bonds</b>					
Series 2016A Bonds	\$5,880,000	\$ -	\$ 5,880,000	\$ -	\$ -
Series 2016B Bonds	1,269,000	-	1,269,000	-	-
<b>Other Direct Borrowings</b>					
Series 2021 Loan	-	7,275,000	100,000	7,175,000	150,000
Owner Reimbursment - Capital	1,626,789	-	1,626,789	-	-
Owner Reimbursment - Operations	54,587	-	-	54,587	-
Interest on Owner Reimbursement Operations	16,488	3,821	-	20,309	-
Interest on Owner Reimbursement Capital	88,069	52,414	140,483	-	-
	<u>\$8,934,933</u>	<u>\$7,331,235</u>	<u>\$ 9,016,272</u>	<u>\$ 7,249,896</u>	<u>\$ 150,000</u>

The following is a summary of the annual long-term debt principal and interest requirements for 2021 Loan:

	Principal	Interest	Total
2022	\$ 150,000	\$ 241,518	\$ 391,518
2023	155,000	236,469	391,469
2024	165,000	231,885	396,885
2025	175,000	225,698	400,698
2026	185,000	219,807	404,807
2027-2031	1,080,000	999,292	2,079,292
2032-2036	1,390,000	797,798	2,187,798
2037-2041	1,755,000	539,516	2,294,516
2042-2046	2,120,000	301,293	2,421,293
	<u>\$ 7,175,000</u>	<u>\$ 3,793,277</u>	<u>\$ 10,968,277</u>

## HIGHLANDS METROPOLITAN DISTRICT NO. 2

### Notes to Financial Statements December 31, 2021

#### Debt Authorization

As of December 31, 2021, the District had remaining voted debt authorization of approximately \$6,151,000. The District is not planning on issuing any new debt in 2022. According to the District's Service Plan, the District cannot issue debt in excess of \$18,000,000.

#### Note 5: Related Party

During 2021 one of the Board of Directors was an employees, owners or are otherwise associated with the Owner and may have conflicts of interest in dealing with the District. Management believes that all potential conflicts, if any, had been disclosed to the Board.

#### Note 6: Tax, Spending and Debt Limitations

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

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

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

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

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

#### Note 7: Interfund Transfers

The transfer of \$11,833 from the Capital Projects Fund to the Debt Service Fund was for the purpose of refunding the Series 2016A Bonds.

## HIGHLANDS METROPOLITAN DISTRICT NO. 2

### Notes to Financial Statements December 31, 2021

Note 8: Risk Management

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

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

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

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

- 1) capital improvements used in government activities are not financial resources and, therefore are not reported in the funds;
- 2) long-term liabilities such as notes payable and accrued interest payable are not due and payable in the current period and, therefore, are not in the funds; and
- 3) deferred loss on refunding is amortized over the life of the debt and therefor is not in the funds.

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

- 1) governmental funds report interest expense on the modified accrual basis; however, interest expense is reported on the full accrual method on the Statement of Activities;
- 2) governmental funds do not report debt forgiveness as a revenue; however it is reported in the Statement of Activities as it relates to long-term debt.

## SUPPLEMENTAL INFORMATION

## Highlands Metropolitan District No. 2

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

For the Year Ended December 31, 2021

	Original <u>Budget</u>	Final <u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
REVENUES				
Property taxes	\$ 6,930	\$ 6,930	\$ 6,945	\$ 15
Specific ownership taxes	25,733	25,733	24,783	(950)
Interest income	3,500	3,500	439	(3,061)
TIF revenue	<u>421,954</u>	<u>421,954</u>	<u>415,418</u>	<u>(6,536)</u>
Total Revenues	<u>458,117</u>	<u>458,117</u>	<u>447,585</u>	<u>(10,532)</u>
EXPENDITURES				
Trustee fee	6,000	6,000	5,700	300
Interest expense	301,350	145,000	144,918	82
Principal payments	35,000	100,000	100,000	-
Loan issuance costs	-	250,000	230,295	19,705
Repay developer advances	-	350,000	350,000	-
Treasurer's fees	<u>107</u>	<u>107</u>	<u>107</u>	<u>-</u>
Total Expenditures	<u>342,457</u>	<u>851,107</u>	<u>831,020</u>	<u>20,087</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	115,660	(392,990)	(383,435)	9,555
OTHER FINANCING SOURCES (USES)				
Loan proceeds	-	7,500,000	7,275,000	(225,000)
Payment to refunding escrow	-	(8,148,893)	(7,961,581)	187,312
Transfers (to)/from other Funds	<u>-</u>	<u>12,000</u>	<u>11,833</u>	<u>(167)</u>
Total Other Financing Sources (Uses)	<u>-</u>	<u>(636,893)</u>	<u>(674,748)</u>	<u>(37,855)</u>
NET CHANGE IN FUND BALANCE	115,660	(1,029,883)	(1,058,183)	(28,300)
FUND BALANCE:				
BEGINNING OF YEAR	<u>1,343,664</u>	<u>1,066,812</u>	<u>1,066,812</u>	<u>-</u>
END OF YEAR	<u>\$ 1,459,324</u>	<u>\$ 36,929</u>	<u>\$ 8,629</u>	<u>\$ (28,300)</u>

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

## Highlands Metropolitan District No. 2

### SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - CAPITAL PROJECTS FUND For the Year Ended December 31, 2021

	Original and Final <u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
REVENUES			
Interest income	\$ 1,000	\$ 1	\$ (999)
Total Revenues	<u>1,000</u>	<u>1</u>	<u>(999)</u>
EXPENDITURES			
Capital Expenditures	<u>13,387</u>	<u>-</u>	<u>13,387</u>
Total Expenditures	<u>13,387</u>	<u>-</u>	<u>13,387</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(12,387)	1	12,388
OTHER FINANCING SOURCES (USES)			
Transfers (to)/from other Funds	<u>-</u>	<u>(11,833)</u>	<u>(11,833)</u>
Total Other Financing Sources (Uses)	<u>-</u>	<u>(11,833)</u>	<u>(11,833)</u>
NET CHANGE IN FUND BALANCE	(12,387)	(11,832)	555
FUND BALANCE:			
BEGINNING OF YEAR	<u>12,387</u>	<u>11,832</u>	<u>(555)</u>
END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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



## Highlands Metropolitan District No. 2

### SUMMARY OF ASSESSED VALUATION, MILL LEVY AND PROPERTY TAXES COLLECTED

December 31, 2021

For Collection Year Ended December 31,	Prior Year Assessed Valuation for Current Year Property Tax Levy	Mills Levied		Total Property Tax		Percent Collected to Levied
		General Fund	Debt Service	Levied	Collected	
2012	\$ 72	0.000	0.000	\$ -	\$ -	0.00%
2013	\$ 52	0.000	0.000	\$ -	\$ -	0.00%
2014	\$ 114	15.000	35.000	\$ 6	\$ 5	83.33%
2015	\$ 184	15.000	35.000	\$ 9	\$ 6	66.67%
2016	\$ 29,884	5.000	50.000	\$ 1,644	\$ 1,945	118.31%
2017	\$ 48,805	5.000	50.000	\$ 2,684	\$ 2,684	100.00%
2018	\$ 71,194	5.000	52.183	\$ 4,071	\$ 4,064	99.83%
2019	\$ 102,566	5.000	53.671	\$ 6,018	\$ 6,019	100.02%
2020	\$ 138,640	5.000	54.869	\$ 8,300	\$ 7,569	91.19%
2021	\$ 124,641	5.000	55.596	\$ 7,553	\$ 7,569	100.22%
Estimated for year ending December 31, 2022	\$ 128,752	5.000	45.000	\$ 6,438		

#### NOTE

Property taxes collected in any one year include collection of delinquent property taxes levied and/or abatements or valuations in prior years. Information received from the County Treasurer does not permit identification of specific year assessment.