

**Three Springs Metropolitan District No. 3
Durango, Colorado
Financial Statements
December 31, 2023**

**Three Springs Metropolitan District No. 3
Financial Statements
December 31, 2023**

Table of Contents

	Page
Independent Auditors' Report	1 – 3
Management's Discussion and Analysis	4 – 7
Fund Financial Statements / Government-wide Financial Statements	
Balance Sheet/Statement of Net Position – Governmental Funds	8
Statement of Revenues, Expenditures and Changes in Fund Balance / Statement of Activities – Governmental Funds	9
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund	10
Notes to Financial Statements	11 - 22
Supplementary Information	
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Capital Projects Fund	23
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Debt Service Fund	24

Independent Auditors' Report

Board of Directors
Three Springs Metropolitan District No. 3
Durango, Colorado

Opinions

We have audited the accompanying financial statements of the governmental activities and each major fund, of the Three Springs Metropolitan District No. 3 (the “District”) as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the District’s basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of December 31, 2023, and the respective changes in financial position and the respective 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 (“GAAS”). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of 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 for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of 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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The supplementary information listed in the accompanying table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The supplementary 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 financial statements or to 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 supplementary information is fairly stated in all material respects in relation to the financial statements as a whole.

Tatton and Company, LLC

Cedaredge, CO
July 16, 2024

Three Springs Metropolitan District No. 3

Management's Discussion and Analysis
December 31, 2023

As management of the Three Springs Metropolitan District No. 3 (the "District"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended December 31, 2023.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to the financial statements. The District is a special-purpose government, quasi-municipal corporation, and political subdivision of the State of Colorado engaged in a single governmental program and as such the fund financial statements and the government-wide statements have been combined using a columnar format that reconciles individual line items of fund financial data to government-wide data in a separate column on the face of the financial statement.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business. The Statement of Net Position presents information on all the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference between the four reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. The Statement of Activities presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods.

The governmental activity of the District is primarily construction, operation and maintenance of parks and parks related drainage systems within the District. The District does not operate any business-type activities.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The District currently has three funds; the General Fund, the Capital Projects Fund, and the Debt Service Fund which are governmental funds.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of expendable resources, as well as on balances of expendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Overview of the Financial Statements (continued)

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both expenditures and changes in fund balances/net position provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The Notes to the Financial Statements can be found on pages 11 through 22 of this report.

Budgetary Information. Budgetary information is included on pages 10, 23, and 24 and provides additional insight into how the District's actual operations compared to the budgeted operations.

Government-wide Financial Analysis. The District's primary source of revenue is property taxes levied by Three Springs Metropolitan Districts Nos. 1, 2 and 4 and transferred to the District under the terms of an Inter-District Financing Agreement approved in 2007 and amended in December, 2020. The Property taxes levied by Districts No. 1, 2 and 4 in 2022 are payable by property owners in 2023. The District has also negotiated a payment in lieu of taxes agreement with a major property owner.

The following tables show the District's condensed Statement of Net Position and Condensed Statement of Activities for 2023 with comparative numbers for 2022.

Three Springs Metropolitan District No. 3 - Net Position

	<u>2023</u>	<u>2022</u>
Assets		
Current and other assets	\$48,954	\$10,118
Capital assets	12,133,920	12,252,104
Total assets	<u>\$12,182,874</u>	<u>\$12,262,222</u>
Liabilities		
Developer advances	\$3,695,742	\$3,423,226
Developer advances interest payable	2,806,717	2,345,068
Junior revenue series 2013 note payable	10,083,766	10,080,169
Junior revenue series 2013 interest payable	2,250,334	1,390,555
Other liabilities	42,298	27,657
Total liabilities	<u>18,878,857</u>	<u>17,266,675</u>
Net position		
Net investment in capital assets	(6,702,639)	(4,986,914)
Restricted for emergencies	11,465	10,009
Restricted for debt service	75	75
Unrestricted	(4,884)	(27,623)
Total net position	<u>(\$6,695,983)</u>	<u>(\$5,004,453)</u>

Overview of the Financial Statements (continued)

Three Springs Metropolitan District No. 3 - Change in Net Position

	<u>2023</u>	<u>2022</u>
Revenues:		
General revenues		
Transfer from District No 1	\$116,963	\$102,702
Transfer from District No 2	5,305	6,193
Transfer from District No 4	11,555	13,825
Payment in lieu of taxes	5,938	5,821
Interest and other revenue	1,600	1,600
Debt service transfer in	41,428	111,896
Total revenues	<u>\$182,789</u>	<u>\$242,037</u>
Expenses:		
General government	138,130	117,346
Community operations	255,148	226,745
Interest on developer advances	461,650	414,636
Interest on junior revenue note	901,207	843,686
Depreciation and amortization expense	118,184	117,661
Total expenses	<u>1,874,319</u>	<u>1,720,074</u>
Change in net position	(\$1,691,530)	(\$1,478,038)
Net position - beginning	(5,004,454)	(3,526,416)
Net position - ending	<u>(\$6,695,984)</u>	<u>(\$5,004,454)</u>

The District's overall financial position, as measured by net position, decreased by \$1,691,530 during 2023. The decrease in net position is primarily the result of an increase in accrued interest expense. The developer advanced a total of \$272,515 consisting of \$261,575 in current year operating advances. In addition, \$10,941 was advanced for administrative fees for services provided by the developer of the District.

Depreciation expense was \$118,184 for the year ended December 31, 2023.

Financial Analysis of the District's Funds

As noted previously, the District uses governmental fund accounting to ensure and demonstrate the compliance with finance-related legal requirements.

Governmental Funds. The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the District's financing requirements. In particular, unrestricted fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

Financial Analysis of the District's Funds (continued...)

The District's combined fund balances increased \$24,195 in 2023 from 2022 compared to an increase of \$6,589, in 2022 from 2021 due to operations. The combined fund balance at the end of the year for 2023 and 2022 was \$34,279 and \$10,084, respectively.

Capital Assets. The District's depreciable capital assets are \$3,421,722 as of December 31, 2023 and 2022.

Debt. The District issued bonds in 2010 in the amount of \$16,900,000. These bonds were defeased in 2020 using proceeds from debt issued by District No. 1.

As of December 31, 2023, the Series 2020 note had a remaining principal balance due of \$3,695,742 plus accrued interest of \$2,806,717 compared to a December 31, 2022 principal balance of \$3,423,226 plus accrued interest of \$2,345,068.

As of December 31, 2023, the Junior Revenue Note Series 2013 has a remaining principal balance due of \$10,083,766 and accrued interest of \$2,250,334 compared to a December 31, 2022 principal balance of \$10,080,169 and accrued interest of \$1,390,555. The Series 2013 Note accrues interest at 7.75% and matures on December 31, 2042. On December 30, 2014, the District Board amended the issued amount to \$11,500,000.

Request for Information

This financial report is designed to provide a general overview of the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Tim Zink, President Three Springs Metropolitan District No 3, 65 Mercado Street, Suite 250, Durango, CO 81301, tzink@sugf.com.

Three Springs Metropolitan District No. 3
Governmental Funds Balance Sheet/Statement of Net Position
December 31, 2023

Asset	<u>General</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
Current assets						
Cash and investments	\$30,304	\$0	\$75	\$30,379	\$0	\$30,379
Due from developer	27,623	-	-	27,623	(27,623)	-
Prepaid insurance	11,640	-	-	11,640	-	11,640
Due from Three Springs Metropolitan District No. 1, 2 & 4	6,935	-	-	6,935	-	6,935
Capital assets						
Land	-	-	-	-	2,976,406	2,976,406
Parks & Drainage Improvements, net of accumulated depreciation of \$2,202,352	-	-	-	-	5,248,405	5,248,405
Construction in progress	-	-	-	-	3,909,109	3,909,109
Total assets	<u>\$76,502</u>	<u>\$0</u>	<u>\$75</u>	<u>\$76,577</u>	<u>\$12,106,297</u>	<u>\$12,182,874</u>
Liabilities						
Current liabilities						
Accounts payable	\$42,298	\$0	\$0	\$42,298	\$0	\$42,298
Other long-term liabilities						
Series 2020 interest payable	-	-	-	-	2,806,717	2,806,717
Series 2013 note interest payable	-	-	-	-	2,250,334	2,250,334
Series 2020 note payable	-	-	-	-	3,695,742	3,695,742
Series 2013 note payable	-	-	-	-	10,083,766	10,083,766
Total liabilities	<u>42,298</u>	<u>-</u>	<u>-</u>	<u>42,298</u>	<u>18,836,559</u>	<u>18,878,857</u>
Fund balance/net position						
Restricted for						
Prepaid expenses	11,640	-	-	11,640	(11,640)	-
Emergencies	11,465	-	-	11,465	(11,465)	-
Debt service	-	-	75	75	(75)	-
Unassigned	11,099	-	-	11,099	(11,099)	-
Total fund balances	<u>34,204</u>	<u>-</u>	<u>75</u>	<u>34,279</u>	<u>(34,279)</u>	<u>-</u>
Total liabilities and fund balance	<u>\$76,502</u>	<u>\$0</u>	<u>\$75</u>	<u>\$76,577</u>		
Net position						
Net investment in capital assets					(6,702,639)	(6,702,639)
Restricted for						
Emergencies					11,465	11,465
Debt service					75	75
Unrestricted					(4,884)	(4,884)
Total net position					<u>(\$6,695,983)</u>	<u>(\$6,695,983)</u>

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

Three Springs Metropolitan District No. 3
Statement of Governmental Fund Revenues, Expenditures and
Changes in Fund Balances/Statement of Activities
For the year ended December 31, 2023

	General	Capital Projects	Debt Service	Total	Adjustments	Statement of Activities
Expenditures/expenses						
General government:						
Insurance/dues	\$9,244	\$0	\$0	\$9,244	\$0	\$9,244
Legal	43,161	-	-	43,161	-	43,161
Audit and accounting	29,570	-	-	29,570	-	29,570
Administration	143	-	-	143	-	143
Bank fees	101	-	-	101	-	101
Plaza lease	5,035	-	-	5,035	-	5,035
Dues and subscriptions	2,325	-	-	2,325	-	2,325
Landscape/Grounds/Maintenance/Snow	202,543	-	-	202,543	-	202,543
Utilities	52,605	-	-	52,605	-	52,605
Management	37,439	171	-	37,610	10,941	48,551
Debt service						
Series 2013 note interest	-	-	41,428	41,428	859,779	901,207
Series 2020 note interest	-	-	-	-	461,650	461,650
Depreciation and amortization	-	-	-	-	118,184	118,184
Total expenditures/expenses	<u>382,166</u>	<u>171</u>	<u>41,428</u>	<u>423,765</u>	<u>1,450,554</u>	<u>1,874,319</u>
General revenues						
Payment in lieu of taxes	5,938	-	-	5,938	-	5,938
Permit fees	1,600	-	-	1,600	-	1,600
Transfer from Three Springs						
Metropolitan District No. 1	116,963	-	-	116,963	-	116,963
Metropolitan District No. 2	5,305	-	-	5,305	-	5,305
Metropolitan District No. 4	11,555	-	-	11,555	-	11,555
Total general revenues	<u>141,361</u>	<u>-</u>	<u>-</u>	<u>141,361</u>	<u>-</u>	<u>141,361</u>
Excess (deficiency) of revenues over expenditures	(240,805)	(171)	(41,428)	(282,404)	(1,450,554)	(1,732,958)
Other financing sources (uses)						
Transfer from Three Springs No. 4- 2013 Note payment	-	-	41,428	41,428	-	41,428
Advance from developer	265,000	171	-	265,171	(265,171)	-
Total other financing sources	<u>265,000</u>	<u>171</u>	<u>41,428</u>	<u>306,599</u>	<u>(265,171)</u>	<u>41,428</u>
Excess (deficiency) of revenues and other financing sources over Expenditures and other financing uses	24,195	-	-	24,195	(24,195)	-
Change in net position					(1,691,530)	(1,691,530)
Fund balance/net position – beginning of year	10,009	-	75	10,084	(5,014,537)	(5,004,453)
Fund balance/net position - December 31, 2023	<u>\$34,204</u>	<u>\$0</u>	<u>\$75</u>	<u>\$34,279</u>	<u>(6,730,262)</u>	<u>(6,695,983)</u>

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

Three Springs Metropolitan District No. 3
Statement of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual -
General Fund
For the year ended December 31, 2023

	Original Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Metropolitan District No. 1	\$107,856	\$116,963	\$9,107
Metropolitan District No. 2	5,141	5,305	164
Metropolitan District No. 4	13,609	11,555	(2,054)
Permit fees	1,200	1,600	400
Payment in lieu of taxes	5,900	5,938	38
Total revenues	133,706	141,361	7,655
Expenditures			
General government			
Accounting and audit	38,000	29,570	8,430
Insurance/dues	12,000	9,244	2,756
Legal	35,000	43,161	(8,161)
Plaza lease	5,000	5,035	(35)
Subscriptions	2,000	2,325	(325)
Administration	-	143	(143)
Bank fees	-	101	(101)
Community operations			-
Landscaping/grounds/maintenance	145,000	146,440	(1,440)
Management	42,000	37,439	4,561
Utilities	75,000	52,605	22,395
Snow removal	35,000	56,103	(21,103)
Contingency	15,000	-	15,000
Total expenditures	404,000	382,166	21,834
Excess (deficiency) of revenues over expenditures	(270,294)	(240,805)	29,489
Other financing sources			
Developer advances - operating	272,516	265,000	(7,516)
Total other financing sources	272,516	265,000	(7,516)
Excess (deficiency) of revenue and other sources over expenditures and other uses	2,222	24,195	21,973
Fund balance - beginning of year	9,898	10,009	111
Fund balance - December 31, 2023	\$12,120	\$34,204	\$22,084

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

Three Springs Metropolitan District No. 3
Notes to the Financial Statements
December 31, 2023

I. Summary of Significant Account Policies

Three Springs Metropolitan District No. 3 (the "District") was established in 2006 as a quasi-municipal corporation and political subdivision of the State of Colorado. The District was formed primarily to finance, construct, operate, and maintain parks, recreation facilities and parks related drainage infrastructure within the boundaries of Three Springs Metropolitan Districts Nos. 1, 2, 3 and 4 in the City of Durango, Colorado. Per an Inter-District Financing Agreement and an Inter-District Construction and Service Agreement the District receives transfers of property tax revenues from Three Springs Metropolitan Districts Nos. 1, 2 & 4 to perform the tasks listed above.

The District's financial statements are prepared in accordance with generally accepted accounting principles ("GAAP"). The Governmental Accounting Standards Board ("GASB") is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The more significant accounting policies established by GAAP used by the District are discussed below.

a. Reporting Entity

The District is governed by an elected Board of five members which is responsible for setting policy, appointing administrative personnel and adopting an annual budget in accordance with the provisions of the Colorado Special District Act.

The reporting entity consists of (a) the primary government; i.e., the District, and (b) organizations for which the District is financially accountable. The District is considered financially accountable for legally separate organizations if it is able to appoint a voting majority of an organization's governing body and is either able to impose its will on that organization or there is a potential for the organization to provide special financial benefits, to, or impose specific financial burdens on the District. Consideration is also given to other organizations which are fiscally dependent; i.e., unable to adopt a budget, levy taxes, or issue debt without approval by the District. Organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete are also included in the reporting entity.

Based on the criteria discussed above, the District is not financially accountable for any other entity, nor is the District a component unit of any other government.

b. Government-wide and Fund Financial Statements

The District's basic financial statements include both government-wide (reporting the District as a whole) and fund financial statements (reporting the District's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business type. The District is a special-purpose government engaged in a single governmental program and as such the fund financial statements and the government-wide statements have been combined using a columnar format that reconciles individual line items of fund financial data to government-wide data in a separate column on the face of the financial statement.

Three Springs Metropolitan District No. 3
Notes to the Financial Statements
December 31, 2023

i. Government-wide Financial Statements

In the government-wide Statement of Net Position, the governmental activities columns are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net position is reported in three parts; (a) net investment in capital assets, (b) unrestricted net position, and (c) restricted net position.

The government-wide focus is on the sustainability of the District as an entity and the change in the District's net position resulting from the current year's activities.

ii. Fund Financial Statements

The financial transactions of the District are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues and expenditures/expenses. The fund focus is on current available resources and budget compliance.

The District reports the following governmental funds:

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

The *Capital Projects Fund* is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

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

c. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Measurement focus refers to whether financial statements measure changes in current resources only (current financial focus) or changes in both current and long-term resources (long-term economic focus). Basis of accounting refers to the point at which revenues, expenditures, or expenses are recognized in the accounts and reported in the financial statements. Financial statement presentation refers to classification of revenues by source and expenses by function.

i. Long-term Economic Focus and Accrual Basis

Governmental-type activities in the government-wide financial statements use the long-term economic focus and are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of the related cash flows.

Three Springs Metropolitan District No. 3
Notes to the Financial Statements
December 31, 2023

ii. Current Financial Focus and Modified Accrual Basis

The governmental fund financial statements use the current financial focus and are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are generally recognized when the related liability is incurred. The exception to this general rule is that principal and interest on general long-term debt, if any, is recognized when due.

iii. Financial Statement Presentation

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all transfers of taxes from District No 1, District No 2 and District No 4.

d. Financial Statement Accounts

i. Cash and Cash Equivalents

Cash and cash equivalents are defined as deposits that can be withdrawn at any time without notice or penalty and investments with maturities of three months or less.

ii. Receivables

Receivables are reported net of any allowance for uncollectible accounts. No such allowance has been established as all receivables are deemed collectable.

iii. Capital Assets

Capital assets, which include land, buildings, equipment, vehicles, and infrastructure assets, are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an initial cost of \$5,000 or more and an estimated life in excess of two years. Such assets are recorded at historical cost. Donated capital assets are recorded at estimated fair value at the date of donation. Construction in progress is not completed until the construction is completed. The District defines completion of construction in progress as the date upon which the project is accepted by the City of Durango and approved by the District's Board of Directors. At December 31, 2023 the District's Board of Directors had approved \$15,893,112 in assets that were under construction.

Three Springs Metropolitan District No. 3
Notes to the Financial Statements
December 31, 2023

- iv. The following assets are depreciated using the straight line method over the following estimated lives:

Assets	Years
Buildings	25
Landscape improvements	15
Irrigation and sprinklers	10-15
Street furniture and signs	5

v. Property Taxes

Property taxes are assessed in one year as a lien on the property, but not collected by governmental entities until the subsequent year. In accordance with generally accepted accounting principles, the assessed but uncollected property taxes have been recorded as a receivable and as a deferred inflow.

vi. Payables and Accrued Liabilities

Payables and accrued liabilities are defined as obligations arising out of the current period that are anticipated to be liquidated with currently available financial resources.

vii. Uses of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that effect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expense during the reporting period. Actual results could differ from those estimates.

II. Reconciliation of Government-wide and Fund Financial Statements

- a. The Balance Sheet/Statement of Net Position – Governmental Funds includes an adjustments column. The adjustments have the following elements:
- i. Capital improvements used in government activities are not financial resources and, therefore are not reported in the funds; and
 - ii. Long-term liabilities such as bonds payable, developer advances, accrued developer advance interest and accrued bond interest payable are not due and payable in the current period and, therefore are not in the funds.
- b. The Statement of Revenues, Expenditures, and Changes in Fund Balances/Statement of Activities – Governmental Funds includes an adjustments column. The adjustments have the following elements:
- i. Governmental funds report capital outlays as expenditures, however, in the statement of activities, the costs of those assets are held as construction in process pending transfer to other governmental entities;
 - ii. Governmental funds report interest expense on the modified accrual basis; however, interest expense is reported on the full accrual method in the Statement of Activities;

Three Springs Metropolitan District No. 3
Notes to the Financial Statements
December 31, 2023

- iii. Governmental funds report bond/note proceeds and developer advances as revenue, however, the bond/note proceeds and developer advances are an increase in long term liabilities in the statement of activities; and
- iv. Governmental funds report long-term debt payments as expenditures; however, in the statement of activities, the payment of long-term debt is recorded as a decrease of long-term liabilities.

III. Stewardship, Compliance, and Accountability

a. Budgetary Information

In the fall of each year, the District's Board of Directors formally adopts a budget with appropriations by fund for the ensuing year pursuant to the Colorado Local Budget Law. The budgets for the governmental funds are adopted on a basis consistent with generally accepted accounting principles ("GAAP").

As required by Colorado statutes, the District followed the following time table in approving and enacting a budget for the ensuing years:

- i. For the 2023 budget year, prior to August 25, 2022, the County Assessor sent to the District the certified assessed valuation of all taxable property within the District's boundaries. The County Assessor may change the assessed valuation on or before December 10, only once by a single notification to the District.
- ii. On or before October 15, 2022, the District accountant submitted to the District's Board of Directors a recommended budget which detailed the necessary property taxes needed along with other available revenues to meet the District's operating requirements.
- iii. A public hearing on the proposed budget and capital program was held by the Board no later than 45 days prior to the close of the fiscal year.
- iv. Prior to December 15, 2022, the District computed and certified to the Directors of Three Springs Metropolitan Districts Nos. 1, 2 & 4 the rate of levy that derived the necessary property taxes as computed in the proposed 2023 budget.
- v. For the 2023 budget, the final budget and appropriating resolution was adopted prior to December 31, 2022.

After adoption of the budget resolution, the District may make the following changes: 1) it may transfer appropriated monies between funds or between spending agencies within a fund, as determined by the original appropriation level; 2) supplemental appropriations to the extent of revenues in excess of the amounts estimated in the budget; 3) emergency appropriations; and 4) reduction of appropriations for which originally estimated revenues are insufficient.

Three Springs Metropolitan District No. 3
Notes to the Financial Statements
December 31, 2023

Taxes levied in one year are collected in the succeeding year. Thus, taxes certified in 2022 will be collected in 2023. Taxes are due on January 1st in the year of collection; however, they may be paid in either one installment (no later than April 30th) or two equal installments (not later than February 28th and June 15th) without interest or penalty. Taxes which are not paid within the prescribed time bear interest at the rate of one percent (1%) per month until paid. Unpaid amounts and the accrued interest thereon become delinquent on June 15th.

The level of control in the budget at which expenditures exceed appropriations is at the fund level. All appropriations lapse at year end. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the District because it is at present considered not necessary to assure effective budgetary control or to facilitate effective cash planning and control.

The debt service fund budget was amended from \$38,706 to \$41,428 for unanticipated debt service expenses in excess of those budgeted.

b. TABOR Amendment

In November 1992, Colorado voters amended Article X of the Colorado Constitution by adding section 20; commonly known as the Taxpayer's Bill of Rights ("TABOR"). TABOR contains revenue, spending, tax and debt limitations that apply to the State of Colorado and local governments. TABOR requires, with certain exceptions, advance voter approval of any new tax, tax rate increase, mill levy above that for the prior year, extension of any expiring tax, or tax policy changes directly causing a net tax revenue gain to any local government.

Except for refinancing bonded debt at a lower interest rate or adding new employees to existing pension plans, TABOR requires advance voter approval for creations of any multiple-fiscal year debt or other financial obligation unless adequate present cash reserves are pledged irrevocably and held for payments in all future fiscal years.

TABOR also requires local governments to establish an emergency reserve fund to be used for declared emergencies only. The reserve is calculated at 3% of fiscal year spending. Fiscal year spending excludes bonded debt service, expenditure of bond proceeds and enterprise spending. The District has reserved \$11,465, which is the approximate required reserve at December 31, 2023.

The District's management believes that it is in compliance with the financial provisions of TABOR. However, TABOR is complex and subject to interpretation.

Many of its provisions, including the interpretation of how to compute fiscal year spending limits, will require judicial interpretation.

Three Springs Metropolitan District No. 3
Notes to the Financial Statements
December 31, 2023

c. Fund Equity

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

Nonspendable Fund Balance

Nonspendable fund balance includes amounts that cannot be spent because they are either not spendable in form (such as inventory and 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 \$11,465 of the General Fund balance has been restricted in compliance with this requirement.

The restricted fund balance in the Debt Service Fund in the amount of \$75 is reserved for the payment of costs associated with the long-term obligations.

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 authority to.

Unassigned Fund Balance

Unassigned fund balance includes amounts that are available for any purpose. Positive amounts are reported only in the General Fund.

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

Three Springs Metropolitan District No. 3
Notes to the Financial Statements
December 31, 2023

d. 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 of resources related to those assets.

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 those 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 is available, the District will use the most restrictive net position first.

IV. Detailed Notes on All Funds

a. Deposits and Investments

i. Deposits

The Colorado Public Deposit Protection Act (“PDPA”) requires that all units of local government deposit cash in eligible public depositories; eligibility is determined by State regulators. Amounts on deposit in excess of Federal insurance levels must be collateralized. The eligible collateral is determined by the PDPA. 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 at least equal to 102% of the aggregate uninsured deposits.

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

At December 31, 2023, the District’s cash deposits had a carrying value of \$30,379 and a bank balance of \$30,379.

Three Springs Metropolitan District No. 3
Notes to the Financial Statements
December 31, 2023

ii. Investments

Investment Valuation

Certain investments are measured at fair value within the 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.

As of December 31, 2023, the District did not have any investments.

Colorado statutes specify investment instruments meeting defined rating and risk criteria in which local governments, and entities such as the District, may invest which include:

1. Obligations of the United States and certain U.S. government agency securities
2. Certain international agency securities
3. General obligation and revenue bonds of U.S. local government entities
4. Banker's acceptances of certain banks
5. Commercial paper
6. Written repurchase agreements collateralized by certain authorized securities
7. Certain money market mutual funds
8. Guaranteed investment contracts
9. Local government investment pools

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

b. Capital Assets

Capital asset activity for the year ended December 31, 2023 was as follows:

	Beginning Balance	Net Changes	Ending Balance
Governmental activities			
Capital assets not being depreciated			
Construction in progress	\$3,909,110	\$0	\$3,909,110
Land and improvements	7,005,440	-	7,005,440
Total capital assets not being depreciated	<u>10,914,550</u>	<u>-</u>	<u>10,914,550</u>
Capital assets being depreciated			
Landscape improvements	2,679,279	-	2,679,279
Buildings	160,599	-	160,599
Equipment	491,940	-	491,940
Capitalized interest	89,904	-	89,904
Total capital assets being depreciated	<u>3,421,722</u>	<u>-</u>	<u>3,421,722</u>
Less accumulated depreciation			
Landscape improvements	1,420,965	109,180	1,530,145
Buildings	87,793	6,424	94,217
Equipment	485,506	2,580	488,086
Capitalized interest	89,904	-	89,904
Total accumulated depreciation	<u>2,084,168</u>	<u>118,184</u>	<u>2,202,352</u>
Total government capital assets, net	<u>\$12,252,104</u>	<u>(\$118,184)</u>	<u>\$12,133,920</u>

Three Springs Metropolitan District No. 3
Notes to the Financial Statements
December 31, 2023

c. Long-term Debt

i. Authorized Debt

The District was organized in conjunction with two other metropolitan districts, Three Springs Metropolitan District Nos. 1 & 2. At the organizational elections for the three districts each District received approval to issue revenue or general obligation indebtedness, including bonds and other multiple-fiscal year financial obligations such as intergovernmental agreements and acquisition, reimbursement and funding agreements, in the amounts of \$38,000,000. The Service Plans of the Districts limit the aggregate debt of the Districts for funding of capital costs of improvements to \$38,000,000, unless approved in writing by the City Manager of the City of Durango. As of December 31, 2023, the District had remaining voted debt authorization of approximately \$1,080,705.

ii. Developer Advances

On June 16, 2006 and amended January 1, 2009 and February 7, 2017, the District entered into a funding agreement with GRVP, LLC (the Developer). Under this agreement the Developer had agreed to advance up to \$27,500,000. Advances accrued interest at 8%.

On May 1, 2007 and amended January 1, 2009, October 13, 2015, February 13, 2017, December 20, 2017, September 5, 2018, December 5, 2018, December 4, 2019, September 16, 2020 and December 9, 2020 the District entered into an Acquisition and Reimbursement Agreement with GRVP, LLC (the Developer). Under this agreement the District has agreed to reimburse the Developer for costs incurred by the Developer for the completion of public improvements.

Developer Advances accrue interest at 8% from the date of transfer of the public improvements to the District or the City. Developer advances associated with the Debt Service Guaranty accrue interest at 7.70%.

On December 9, 2020 the District entered into a financing agreement with the Developer to consolidate certain parts of the funding agreement into the Junior Revenue Note Series 2020 (Series 2020 Note). This note accrues interest at 7.75% with a principal amount not to exceed \$7,600,000. The Series 2020 Note continues to include developer operating advances, the Debt Service Guaranty Note and the administrative fee debt. The Series 2020 Note is payable from junior pledged revenue as stated in the Resolution Authorizing Issuance of the Junior Revenue Note Series 2020.

Three Springs Metropolitan District No. 3
Notes to the Financial Statements
December 31, 2023

Through December 31, 2023, the District's balance owed to the Developer under the funding agreement was \$3,695,742. This was a net increase of \$272,515 from the December 31, 2022 balance of \$3,423,227. This increase includes \$10,941 in management fee advances and \$261,575 in developer operating advances.

	Changes in Developer advances			Balance December 31, 2023
	Balance January 1, 2023	Additions	Deletions	
Series 2020 Note				
Principal	\$3,423,227	\$272,515	\$0	\$3,695,742
Accrued interest	2,345,067	461,650	-	2,806,717
	<u>\$5,768,294</u>	<u>\$734,165</u>	<u>\$0</u>	<u>\$6,502,459</u>

iii. Junior Revenue Note Series 2013

The District issued the Junior Revenue Note Series 2013 (Series 2013 Note) in the amount of \$7,900,000 effective January 1, 2013. On December 30, 2014, the District Board amended the issued amount to \$11,500,000. The note is payable to the Developer. The Series 2013 Note is to be paid solely from junior pledged revenue as defined in the Third Amended and Restated Resolution Authorizing Issuance of the Third Revised Junior Revenue Note Series 2013 adopted December 9, 2020. The initial amount of the Series 2013 Note represents the amount due the Developer for project improvements at January 1, 2013 in the amount of \$6,681,464 including \$4,685,535 of principal and \$1,995,929 of accrued interest. The Series 2013 Note bears interest at 7.75% and matures December 31, 2042.

In December 2020, Three Springs Metropolitan District No. 1 and Three Springs Metropolitan District No. 4 issued debt for the purposes of defeasing in full the District's Property Tax Supported Revenue Bonds Series 2010 (the Series 2010 Bonds) and paying partial amounts due the Developer under the Series 2013 Note. Future debt proceeds from District No. 4 are pledged to the Series 2013 Note.

As of December 31, 2023 and 2022, the District owed the Developer \$10,083,766 and \$10,080,169, respectively. Accrued interest was paid in its entirety as of December 31, 2020 as a result of the 2020 bond refinancing transaction. During the year ended December 31, 2023, \$901,207 in interest was accrued and \$41,428 was transferred from District No. 4 from excess property taxes collected.

	Changes in Series 2013 Note			Balance December 31, 2023
	Balance January 1, 2023	Additions	Deletions	
Series 2013 Note				
Principal	\$10,080,169	\$3,597	\$0	\$10,083,766
Accrued interest	1,390,555	901,207	(41,428)	2,250,334
	<u>\$11,470,724</u>	<u>\$904,804</u>	<u>(\$41,428)</u>	<u>\$12,334,100</u>

Three Springs Metropolitan District No. 3
Notes to the Financial Statements
December 31, 2023

iv. Developer Funded Infrastructure Improvements

Through December 31, 2023 the Developer has incurred \$15,893,112 of costs for infrastructure improvements representing continued development of infrastructure and related assets in the District. Of total Developer costs, the District accepted assets of \$15,893,112 as completed and subsequently transferred completed assets of \$10,088,492 to the City of Durango, Colorado. In addition, management fees of \$496,123 were allocated to the assets transferred making the total transfers to the City \$10,584,615.

V. Other Information

a. Colorado Special Districts Property and Liability Pool

The District is exposed to various risks and loss related to torts, thefts of, damage to, or destruction of assets; errors or omissions; or injuries to employees. The District is insured for such risks as a member of the Colorado Special Districts Property and Liability Pool ("Pool"). The Pool is an organization created by intergovernmental agreement to provide property and general liability, automobile physical damage and liability, public officials liability and boiler and machinery coverage to its members. The Pool provides coverage for property claims up to the values declared and liability coverage for claims up to \$1,000,000. 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 official's 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 Pool members. Any excess funds which the Pool determines are not needed for the purpose of the Pool may be returned to the members pursuant to a distribution formula.

b. Related Party Transactions

GRVP, LLC is the Developer within the District. It is the District's policy to not recognize improvements constructed by the Developer until they are 100% completed and accepted by the District and the City of Durango. At December 31, 2023, there were no partially completed improvements that are being constructed by GRVP, LLC.

On January 1, 2007 and amended January 1, 2009 and February 7, 2017, the District entered into a Management Services Agreement with GRVP, LLC. Under this agreement, the District would reimburse GRVP, LLC for management services provided for construction of the improvements and general administration of the District for 5% of the actual costs. Management fees accrue interest at 7.75% under the Series 2020 Note. On April 14, 2015, the Management Services Agreement was assigned to GF Properties Group, LLC who assumes all outstanding management fees, actual costs and interest accrued thereon.

On February 7, 2017, the District entered into a lease agreement with GRVP, LLC for property to be used as a public park for the benefit of the District. The lease term is 10 years expiring on February 7, 2027. The lease may be renewed for five years with written notice by the District to GRVP, LLC by February 7, 2026 and can be terminated by either party with one year's written notice. The lease amount is \$5,000 per year.

**Three Springs Metropolitan District No. 3
Statement of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual -
Capital Projects Fund
For the year ended December 31, 2023**

	Original Budget	Actual	Variance Favorable (Unfavorable)
Expenditures			
Capital outlay	\$95,000	\$0	\$95,000
Management	-	171	(171)
Total expenditures	<u>95,000</u>	<u>171</u>	<u>94,829</u>
Excess (deficiency) of revenues over expenditures	(95,000)	(171)	(94,829)
Other financing sources			
Developer advances - operating	95,000	171	94,829
Total other financing sources	<u>95,000</u>	<u>171</u>	<u>94,829</u>
Fund balance - beginning of year	-	-	-
Fund balance - December 31, 2023	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

**Three Springs Metropolitan District No. 3
Statement of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual -
Debt Service Fund
For the year ended December 31, 2023**

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
Expenditures				
Series 2013 Interest	\$38,706	\$41,428	\$41,428	\$0
Total expenditures	38,706	41,428	41,428	-
Excess (deficiency) of				
revenues over expenditures	(38,706)	(41,428)	(41,428)	-
Other financing sources				
Transfer from District No 4 - debt retirement	38,706	41,428	41,428	-
Total other financing sources	38,706	41,428	41,428	-
Fund balance - beginning of year	75	75	75	-
Fund balance - December 31, 2023	<u>\$75</u>	<u>\$75</u>	<u>\$75</u>	<u>\$0</u>