

**STERLING RANCH METROPOLITAN
DISTRICT NO. 3
El Paso County, Colorado**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED DECEMBER 31, 2022

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BiggsKofford

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Sterling Ranch Metropolitan District No. 3
El Paso County, Colorado

Opinions

We have audited the accompanying financial statements of the governmental activities and each major fund of Sterling Ranch Metropolitan District No. 3 ("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, 2022, the respective changes in financial position, and the budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

Other Matters

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such

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

Other Information

Management is responsible for the other information, as identified in the table of contents. The other information does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or provide any assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

BiggsKofford, P.C.

Colorado Springs, Colorado
September 21, 2023

BASIC FINANCIAL STATEMENTS

STERLING RANCH METROPOLITAN DISTRICT NO. 3
STATEMENT OF NET POSITION
DECEMBER 31, 2022

	Governmental Activities
ASSETS	
Cash and Investments - Restricted	\$ 288,786
Due from other District - SRMD 1	24
Due from other District - SRMD 2	3,588
Accounts Receivable	1,619
Receivable - County Treasurer	75
Property Taxes Receivable	5,799
Prepaid Insurance	8,502
Capital Assets, Not Being Depreciated	20,921,500
Total Assets	21,229,893
LIABILITIES	
Accounts Payable	356,610
Unearned Revenue	857
Due to Other Districts	4,791
Noncurrent Liabilities:	
Due in More than One Year	61,678
Total Liabilities	423,936
DEFERRED INFLOWS OF RESOURCES	
Deferred Property Tax Revenue	5,799
Total Deferred Inflows of Resources	5,799
NET POSITION	
Restricted:	
Emergency Reserve	6,000
Debt Service	7,762
Unrestricted	20,786,396
Total Net Position	\$ 20,800,158

See accompanying Notes to Basic Financial Statements.

**STERLING RANCH METROPOLITAN DISTRICT NO. 3
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2022**

		Program Revenues			Net Revenues (Expenses) and Change in Net Position
FUNCTIONS/PROGRAMS	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Primary Government:					
Governmental Activities:					
General Government	\$ 287,324	\$ -	\$ 155,742	\$ 1,781,693	\$ 1,650,111
Capital Assets Conveyed from Other Entities	-	-	-	19,099,615	19,099,615
Interest on Long-Term Debt and Related Costs	1,309	-	-	-	(1,309)
Total Governmental Activities	\$ 288,633	\$ -	\$ 155,742	\$ 20,881,308	20,748,417
GENERAL REVENUES					
Property Taxes					8,830
Specific Ownership Taxes					948
Net Investment Income					76
Open Space Fees					20,109
Street Light Fees					14,244
Capital Fees					4,725
Other Revenue					2,384
Total General Revenues					51,316
CHANGE IN NET POSITION					20,799,733
Net Position - Beginning of Year					425
NET POSITION - END OF YEAR					\$ 20,800,158

See accompanying Notes to Basic Financial Statements.

**STERLING RANCH METROPOLITAN DISTRICT NO. 3
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2022**

	General	Debt Service	Capital Projects	Total Governmental Funds
ASSETS				
Cash and Investments - Restricted	\$ 803	\$ 7,702	\$ 280,281	\$ 288,786
Due from other District - SRMD 1	24	-	-	24
Due from other District - SRMD 2	3,588	-	-	3,588
Accounts Receivable	1,619	-	-	1,619
Receivable - County Treasurer	15	60	-	75
Property Taxes Receivable	1,160	4,639	-	5,799
Prepaid Insurance	8,502	-	-	8,502
Total Assets	\$ 15,711	\$ 12,401	\$ 280,281	\$ 308,393
 LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
LIABILITIES				
Accounts Payable	\$ 36,525	\$ -	\$ 320,085	\$ 356,610
Unearned Revenue	857	-	-	857
Due to FAWWA	4,791	-	-	4,791
Total Liabilities	42,173	-	320,085	362,258
 DEFERRED INFLOWS OF RESOURCES				
Deferred Property Tax Revenue	1,160	4,639	-	5,799
	1,160	4,639	-	5,799
 FUND BALANCES				
Nonspendable:				
Prepaid Expenses	8,502	-	-	8,502
Restricted for:				
Emergency Reserve	6,000	-	-	6,000
Debt Service	-	7,762	-	7,762
Capital Projects	-	-	(39,804)	(39,804)
Unassigned	(42,124)	-	-	(42,124)
Total Fund Balances	(27,622)	7,762	(39,804)	(59,664)
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 15,711	\$ 12,401	\$ 280,281	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the funds.

Capital Outlay, Net 20,921,500

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

Developer Advance (61,678)

Net position of governmental activities \$ 20,800,158

See accompanying Notes to Basic Financial Statements.

STERLING RANCH METROPOLITAN DISTRICT NO. 3
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2022

	General	Debt Service	Capital Projects	Total Governmental Funds
REVENUES				
Property Taxes	\$ 1,766	\$ 7,064	\$ -	\$ 8,830
Specific Ownership Taxes	190	758	-	948
Net Investment Income	30	46	-	76
Open Space Fees	20,109	-	-	20,109
Street Light Fees	14,244	-	-	14,244
Capital Fees	4,725	-	-	4,725
Other Revenue	2,384	-	-	2,384
Intergovernmental Revenues - SRMD No. 1	36,569	-	356,040	392,609
Intergovernmental Revenues - SRMD No. 2	119,173	-	1,425,653	1,544,826
Total Revenues	<u>199,190</u>	<u>7,868</u>	<u>1,781,693</u>	<u>1,988,751</u>
EXPENDITURES				
Audit	20,012	-	-	20,012
Dues and Licenses	4,433	-	-	4,433
Legal	87,022	-	-	87,022
Bank Charges	336	-	-	336
Utilities	24,032	-	-	24,032
Website Development	4,180	-	-	4,180
Accounting	39,293	-	-	39,293
County Treasurer's Fee	27	106	-	133
Insurance and Bonds	5,856	-	-	5,856
District Management	47,204	-	-	47,204
Miscellaneous	3,557	-	-	3,557
Election Expense	11,712	-	-	11,712
Engineering	1,306	-	178,258	179,564
Landscaping	38,354	-	-	38,354
Capital Outlay	-	-	1,643,627	1,643,627
Total Expenditures	<u>287,324</u>	<u>106</u>	<u>1,821,885</u>	<u>2,109,315</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(88,134)	7,762	(40,192)	(120,564)
OTHER FINANCING SOURCES (USES)				
Developer Advance	60,000	-	-	60,000
Transfer to Other Fund	(388)	-	388	-
Total Other Financing Sources (Uses)	<u>59,612</u>	<u>-</u>	<u>388</u>	<u>60,000</u>
NET CHANGE IN FUND BALANCES	(28,522)	7,762	(39,804)	(60,564)
Fund Balances - Beginning of Year	<u>900</u>	<u>-</u>	<u>-</u>	<u>900</u>
FUND BALANCES (DEFICIT) - END OF YEAR	<u>\$ (27,622)</u>	<u>\$ 7,762</u>	<u>\$ (39,804)</u>	<u>\$ (59,664)</u>

See accompanying Notes to Basic Financial Statements.

**STERLING RANCH METROPOLITAN DISTRICT NO. 3
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF THE
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2022**

Net Change in Fund Balances - Total Governmental Funds \$ (60,564)

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

Governmental funds report capital outlays as expenditures. In the statement of activities, capital outlay is not reported as an expenditure. However, the statement of activities will report as depreciation expense, the allocation of the cost of any depreciable asset over the estimated useful life of the asset. Capital outlay, the conveyance of capital assets to other governments and depreciation expense in the current period are as follows:

Capital Assets 20,921,500

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

Developer Advance (60,000)

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

Accrued Interest on Developer Advances - Change in Liability (1,203)

Changes in Net Position of Governmental Activities \$ 20,799,733

**STERLING RANCH METROPOLITAN DISTRICT NO. 3
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE – BUDGET AND ACTUAL
YEAR ENDED DECEMBER 31, 2022**

	Budget		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Property Taxes	\$ 1,340	\$ 1,766	\$ 1,766	\$ -
Specific Ownership Taxes	-	190	190	-
Net Investment Income	-	30	30	-
Open Space Fees	-	20,109	20,109	-
Street Light Fees	-	14,244	14,244	-
Capital Fees	-	4,725	4,725	-
Other Revenue	-	34,441	2,384	(32,057)
Intergovernmental Revenues - SRMD No. 1	-	36,569	36,569	-
Intergovernmental Revenues - SRMD No. 2	-	119,173	119,173	-
Total Revenues	<u>1,340</u>	<u>231,247</u>	<u>199,190</u>	<u>(32,057)</u>
EXPENDITURES				
Audit	-	20,012	20,012	-
Dues and Licenses	655	4,433	4,433	-
Legal	30,000	87,022	87,022	-
Bank Charges	-	336	336	-
Utilities	-	24,032	24,032	-
Website Development	-	4,180	4,180	-
Accounting	1,500	39,293	39,293	-
County Treasurer's Fee	20	27	27	-
Insurance and Bonds	2,017	5,856	5,856	-
District Management	-	47,204	47,204	-
Miscellaneous	-	3,557	3,557	-
Election Expense	-	11,712	11,712	-
Engineering	-	1,306	1,306	-
Landscaping	-	38,354	38,354	-
Contingency	1,026	7,676	-	7,676
Total Expenditures	<u>35,218</u>	<u>295,000</u>	<u>287,324</u>	<u>7,676</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(33,878)</u>	<u>(63,753)</u>	<u>(88,134)</u>	<u>(24,381)</u>
OTHER FINANCING SOURCES (USES)				
Developer Advance	34,000	60,000	60,000	-
Transfer to Other Fund	-	-	(388)	(388)
Total Other Financing Sources (Uses)	<u>34,000</u>	<u>60,000</u>	<u>59,612</u>	<u>(388)</u>
NET CHANGE IN FUND BALANCES	122	(3,753)	(28,522)	(24,769)
Fund Balance - Beginning of Year	<u>3,753</u>	<u>3,753</u>	<u>900</u>	<u>(2,853)</u>
FUND BALANCES (DEFICIT) - END OF YEAR	<u>\$ 3,875</u>	<u>\$ -</u>	<u>\$ (27,622)</u>	<u>\$ (27,622)</u>

See accompanying Notes to Basic Financial Statements.

STERLING RANCH METROPOLITAN DISTRICT NO. 3
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 1 DEFINITION OF REPORTING ENTITY

Sterling Ranch Metropolitan District No. 3 (the District), a quasi-municipal corporation and political subdivision of the State of Colorado, was organized by order and decree of the District Court for El Paso County, Colorado on February 1, 2011, and is governed pursuant to provisions of the Colorado Special District Act (Title 32, Article 1, Colorado Revised Statutes). The District's service area is located entirely within the City of Colorado Springs (City) in El Paso County, Colorado. The Consolidated Service Plan, approved by the City on March 7, 2011, formed Sterling Ranch Metropolitan Districts Nos. 1 – 3. The District was organized to provide planning, acquisition, construction, installation and financing of public improvements, including streets, water, wastewater, traffic and safety, park and recreation, mosquito control, television relay and transportation facilities, primarily for residential and commercial development.

The District was organized in conjunction with Sterling Ranch Metropolitan District No. 1 ("District No. 1") and Sterling Ranch Metropolitan District No. 2 ("District No. 2") to serve the needs of the Sterling Ranch development for the purpose of financing, construction and operation of improvements and infrastructure serving the three districts. The District is responsible for managing the construction, operation and maintenance of all improvements not transferred to the City of Colorado Springs. District No. 1 and District No. 2 are responsible for providing the funding and tax base needed to support the financing plan for capital improvements and to fund ongoing operations.

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

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Government-Wide and Fund Financial Statements

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

STERLING RANCH METROPOLITAN DISTRICT NO. 3
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government-Wide and Fund Financial Statements (Continued)

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

The statement of activities demonstrates the degree to which the direct and indirect expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 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.

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The major sources of revenues susceptible to accrual are property taxes and public improvement fees. All other revenue items are considered to be measurable and available only when cash is received by the District. The District determined that Developer advances are not considered as revenue susceptible to accrual. Expenditures, other than interest on long-term obligations, are recorded when the liability is incurred or the long-term obligation is due.

The District reports the following major governmental funds:

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

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

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

STERLING RANCH METROPOLITAN DISTRICT NO. 3
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budgets

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

The District has amended its annual budget for the year ended December 31, 2022.

Pooled Cash and Investments

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

Property Taxes

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

Property taxes, net of estimated uncollectible taxes, are recorded initially as deferred inflow of resources in the year they are levied and measurable. The unearned property tax revenues are recorded as revenue in the year they are available or collected.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., streets), are reported in the applicable governmental activities column in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

STERLING RANCH METROPOLITAN DISTRICT NO. 3
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets (Continued)

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

Deferred Inflow of Resources

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

Equity

Net Position

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

Fund Balance

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

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

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

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

**STERLING RANCH METROPOLITAN DISTRICT NO. 3
 NOTES TO BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2022**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Equity (Continued)

Fund Balance (Continued)

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

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

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

Deficit

The General Fund and Capital Projects Fund reported a deficit in the fund financial statements as of December 31, 2022. The deficit will be eliminated with the receipt of intergovernmental revenues from District No. 1 and District No. 2 in 2023.

NOTE 3 CASH AND INVESTMENTS

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

Statement of Net Position:

Cash and Investments - Restricted	\$ 288,786
Total Cash and Investments	<u>\$ 288,786</u>

Cash and investments as of December 31, 2022 consist of the following:

Deposits with Financial Institutions	\$ 281,065
Investments	7,721
Total Cash and Investments	<u>\$ 288,786</u>

Deposits with Financial Institutions

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

**STERLING RANCH METROPOLITAN DISTRICT NO. 3
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE 3 CASH AND INVESTMENTS (CONTINUED)

Deposits with Financial Institutions (Continued)

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

At December 31, 2022, the District's cash deposits had a bank balance and a carrying balance of \$281,065.

Investments

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

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

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

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

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

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

<u>Investment</u>	<u>Maturity</u>	<u>Amount</u>
Colorado Local Government Liquid Asset Trust (COLOTRUST)	Weighted-Average Under 60 Days	\$ <u>7,721</u>

**STERLING RANCH METROPOLITAN DISTRICT NO. 3
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE 3 CASH AND INVESTMENTS (CONTINUED)

COLOTRUST

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

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

COLOTRUST EDGE, a variable Net Asset Value (NAV) Local Government Investment Pool, offers weekly liquidity and is managed to approximate a \$10.00 transactional share price. COLOTRUST EDGE may invest in securities authorized by CRS 24-75-601, including U.S. Treasury securities, repurchase agreements collateralized by U.S. Treasury securities, certain obligations of U.S. government agencies, highest rated commercial paper, and any security allowed under CRS 24-75-601.

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

NOTE 4 CAPITAL ASSETS

An analysis of the changes in capital assets for the year ended December 31, 2022 follows:

	Balance at December 31, 2021	Increases	Decreases	Balance at December 31, 2022
Capital Assets, Not Being Depreciated:				
Construction in Progress	\$ -	\$ 20,921,500	\$ -	\$ 20,921,500
Total Capital Assets, Not Being Depreciated	<u>\$ -</u>	<u>\$ 20,921,500</u>	<u>\$ -</u>	<u>\$ 20,921,500</u>

STERLING RANCH METROPOLITAN DISTRICT NO. 3
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 5 LONG-TERM OBLIGATIONS

The following is an analysis of changes in the District's long-term obligations for the year ended December 31, 2022:

	Balance at December 31, 2021	Additions	Retirements	Balance at December 31, 2022	Due Within One Year
Developer Advance					
Payable - Operations					
Classic SRJ, LLC	\$ -	\$ 60,000	\$ -	\$ 60,000	\$ -
SR Land, LLC	475	-	-	475	-
Accrued Interest on Developer					
Advances - Operations					
Classic SRJ, LLC	-	1,156	-	1,156	-
SR Land, LLC	-	47	-	47	-
Total	<u>\$ 475</u>	<u>\$ 61,203</u>	<u>\$ -</u>	<u>\$ 61,678</u>	<u>\$ -</u>

The details of the District's long-term obligations are as follows:

Developer Advances

Funding and Reimbursement Agreement

The District entered into a Funding and Reimbursement Agreement (the Agreement) with District 1 and District 2 (Districts) and Classic SRJ, LLC (Developer, see Note 7) whereby the Developer agrees to loan the Districts up to \$60,000 per year, up to \$120,000, to provide funding for operations. The Districts agree to repay the Developer along with accrued interest at a rate of prime plus 2% from the date the of the advance.

As of December 31, 2022, outstanding Developer Advances under the agreement totaled \$60,000 and accrued interest totaled \$1,156.

Infrastructure Acquisition and Reimbursement Agreement

The District entered into an Infrastructure Acquisition and Reimbursement Agreement (the Agreement) with District 1 and District 2 (Districts) and SR Land, LLC (Developer, see Note 7) whereby the District agrees to reimburse the developer for costs incurred on behalf of the District. The Districts agree to repay the Developer along with accrued interest at a rate of prime plus 2% from the date the of the advance.

As of December 31, 2022, outstanding Developer Advances under the agreement totaled \$475 and accrued interest totaled \$47.

STERLING RANCH METROPOLITAN DISTRICT NO. 3
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 5 LONG-TERM OBLIGATIONS (CONTINUED)

Authorized Debt

On November 2, 2010, a majority of the qualified electors of the District authorized the issuance of indebtedness in an amount not to exceed \$410,000,000 at an interest rate not to exceed 18% per annum. At December 31, 2022, the District had authorized but unissued indebtedness in the following amounts allocated for the following purposes:

	<u>Authorized November 2, 2010 Election</u>	<u>Remaining at December 31, 2022</u>
Streets	\$ 30,000,000	\$ 30,000,000
Water	25,000,000	25,000,000
Storm Drainage	25,000,000	25,000,000
Transportation	25,000,000	25,000,000
Parks and Recreation	25,000,000	25,000,000
Mosquito Control	5,000,000	5,000,000
Safety	5,000,000	5,000,000
Fire Protection	5,000,000	5,000,000
Television Relay	5,000,000	5,000,000
Security	5,000,000	5,000,000
Operations and Maintenance	25,000,000	25,000,000
Refunding Debt	30,000,000	30,000,000
Intergovernmental Agreements	100,000,000	100,000,000
Contractual Agreements	100,000,000	100,000,000
Total	<u>\$ 410,000,000</u>	<u>\$ 410,000,000</u>

NOTE 6 NET POSITION

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

Restricted net position consists of assets that are restricted for use either externally imposed by creditors, grantors, contributors, or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The District had a restricted net position as of December 31, 2022 as follows:

Restricted Net Position:	
Emergency Reserve	\$ 6,000
Debt Service	7,762
Total Restricted Net Position	<u>\$ 13,762</u>

STERLING RANCH METROPOLITAN DISTRICT NO. 3
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 7 RELATED PARTIES

The Developers of the property which constitutes the District are SR Land, LLC and Classic SRJ, LLC (Developer, or collectively, Developers). The members of the Board of Directors are officers of, employees of, or associated with the Developers and may have conflicts of interest in dealing with the District.

NOTE 8 AGREEMENTS

Coordinating Services Agreement

On February 25, 2022, the District entered into a district coordinating services agreement (Agreement) with District 1 and District 2 (Financing Districts). The purpose of the Agreement is to set forth the rights and obligations of the District and the Financing Districts to fund the public improvements and continued operation and maintenance of public improvements, in addition to the rights and obligations of the District to operate and maintain the public improvements on behalf of the Financing Districts. The public improvements to be designed and constructed by the District will benefit all property owners and residents within the Districts.

Intergovernmental Agreement

On December 17, 2021, District Nos. 1 – 3, The Retreat Metropolitan District No. 1 (“Retreat No. 1”) and The Retreat Metropolitan District No. 2 (“Retreat No. 2” and together with Retreat No. 1, the “Retreat Districts,” and together with the Sterling Ranch Districts, the “Members”) entered into an Amended and Restated Intergovernmental Agreement for the Establishment of the Falcon Area Water and Wastewater Authority (the “Amended and Restated Establishment Agreement”). The Amended and Restated Establishment Agreement superseded and replaced the Original Establishment Agreement and, among other things, authorized the provision of wastewater improvements by the Falcon Area Water and Wastewater Authority and added the Retreat Districts as Members of the Authority.

NOTE 9 INTERFUND TRANSFERS

The transfer from the General Fund to the Capital Projects Fund was related to reimbursement for capital expenditures.

NOTE 10 RISK MANAGEMENT

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

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

STERLING RANCH METROPOLITAN DISTRICT NO. 3
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 10 RISK MANAGEMENT (CONTINUED)

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

NOTE 11 TAX, SPENDING, AND DEBT LIMITATIONS

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

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. For the year 2022, the District has not fully provided for the required Emergency Reserve, which might be a violation of State Law.

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

On November 2, 2010, 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 TABOR.

SUPPLEMENTARY INFORMATION

**STERLING RANCH METROPOLITAN DISTRICT NO. 3
DEBT SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
YEAR ENDED DECEMBER 31, 2022**

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Property Taxes	\$ 5,361	\$ 7,064	\$ 7,064	\$ -
Specific Ownership Taxes	-	706	758	52
Net Investment Income	-	36	46	10
Other Revenue	-	44	-	(44)
Total Revenues	<u>5,361</u>	<u>7,850</u>	<u>7,868</u>	<u>18</u>
EXPENDITURES				
County Treasurer's Fees	80	106	106	-
Contingency	-	44	-	44
Total Expenditures	<u>80</u>	<u>150</u>	<u>106</u>	<u>44</u>
NET CHANGE IN FUND BALANCES	5,281	7,700	7,762	62
Fund Balance - Beginning of Year	<u>11,287</u>	<u>11,287</u>	<u>-</u>	<u>(11,287)</u>
FUND BALANCE - END OF YEAR	<u><u>\$ 16,568</u></u>	<u><u>\$ 18,987</u></u>	<u><u>\$ 7,762</u></u>	<u><u>\$ (11,225)</u></u>

**STERLING RANCH METROPOLITAN DISTRICT NO. 3
CAPITAL PROJECTS FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
YEAR ENDED DECEMBER 31, 2022**

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenues - SRMD No. 1	\$ -	\$ 356,040	\$ 356,040	\$ -
Intergovernmental Revenues - SRMD No. 2	-	1,425,653	1,425,653	-
Other Revenue	-	39,804	-	(39,804)
Total Revenues	-	1,821,497	1,781,693	(39,804)
EXPENDITURES				
Engineering	-	178,258	178,258	-
Capital Outlay	-	1,643,627	1,643,627	-
Total Expenditures	-	1,821,885	1,821,885	-
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	-	(388)	(40,192)	(39,804)
OTHER FINANCING SOURCES (USES)				
Transfers from other Funds	-	388	388	-
Total Other Financing Sources (Uses)	-	388	388	-
NET CHANGE IN FUND BALANCES	-	-	(39,804)	(39,804)
Fund Balance - Beginning of Year	-	-	-	-
FUND BALANCE (DEFICIT) - END OF YEAR	\$ -	\$ -	\$ (39,804)	\$ (39,804)

OTHER INFORMATION

**STERLING RANCH METROPOLITAN DISTRICT NO. 3
 SCHEDULE OF ASSESSED VALUATION, MILL LEVY, AND PROPERTY TAXES COLLECTED
 DECEMBER 31, 2022**

Year Ended December 31,	Prior Year Assessed Valuation for Current Year Property Tax Levy	Mills Levied		Total Property Taxes		Percentage Collected to Levied
		General Fund	Debt Service	Levied	Collected	
2018	\$ 17,670	10.000	40.000	\$ 884	\$ 884	100.00 %
2019	23,770	10.000	40.000	1,189	1,189	100.00
2020	66,140	10.000	40.000	3,307	3,307	100.00
2021	64,700	10.000	40.000	3,235	3,235	100.00
2022	176,600	10.000	40.000	8,830	8,830	100.00
Estimated for the Year Ending December 31, 2023	\$ 115,980	10.000	40.000	\$ 5,799		

NOTE: Property taxes collected in any one year may include collection of delinquent property taxes levied in prior years. Information received from the County Treasurer does not permit identification of specific year of levy.