



**BRADLEY HEIGHTS METROPOLITAN DISTRICT NOS. 1, 2 and 3**

Regular Board Meeting  
 Tuesday, July 11, 2023, at 9:00 AM  
 119 N. Wahsatch Ave.  
 Colorado Springs, Colorado 80903

and  
 Via tele/videoconference

<https://video.cloudoffice.avaya.com/join/109995525>

United States: [+1 \(213\) 463-4500](tel:+12134634500)

Access Code: 109-995-525

Board of Director	Title	Term
Randle W Case II	President	May 2027
Bryan T Long	Vice-President	May 2027
Ray O’Sullivan	Treasurer/ Secretary	May 2025
Robert Case	Assistant Secretary	May 2025
Jim Byers	Assistant Secretary	May 2027 (appointment to May 2025)

**AGENDA**

1. Call to order
2. Declaration of Quorum/Director Qualifications/ Disclosure Matters
3. Approval of Agenda
4. Approval of June 13, 2023 Meeting Minutes (enclosure)
5. Review and consider approval of the 2022 Audit (enclosure)
6. District Manager Report
  - a. Service Plan Amendment Status
  - b. Right-of-way acquisition update
7. President of the Board Report
8. Development Status Review
  - a. Engineering Update
    - i. Schedule
  - b. Plan Updates
    - i. Roadway/ Utility/ Storm Water
    - ii. Channel design
    - iii. 24” and 16” water line update
  - c. Construction Schedule/Construction Contracts Approval/Ratify/Pre-approval
  - d. Update on Construction Budget and Assurance
  - e. Redemption Hill Church
  - f. Challenger Homes
  - g. Bradley Ridge
9. Financial Matters
  - a. Approve Unaudited Financial Reports through June 30, 2023 (enclosure)
  - b. Review and Approve Payables through July 11, 2023 (enclosure)
  - c. Discuss status of establishing Platting fees
  - d. Ratify contract with appraiser

10. Legal Matters
11. Other Business
  - a. Next Regular Meeting scheduled: August 8, 2023, at 9:00 a.m.
12. Adjourn

#### NOTICE OF REGULAR MEETINGS

NOTICE IS HEREBY GIVEN That the Board of Directors of **BRADLEY HEIGHTS METROPOLITAN DISTRICT NOS. 1, 2 and 3**, County of El Paso, State of Colorado, will hold a regular meeting at 9:00 AM on Tuesday, the 11<sup>th</sup> day of July, 2023, at 119 North Wahsatch Ave., Colorado Springs, CO 80903, and via tele/videoconferencing at the following: <https://video.cloudoffice.avaya.com/join/451389423> United States: [+1 \(213\) 463-4500](tel:+12134634500) Access Code: 451-389-423 for the purpose of conducting such business as may come before the Board including the business on the attached agenda. The meeting is open to the public.

BY ORDER OF THE BOARD OF DIRECTORS:  
BRADLEY HEIGHTS METROPOLITAN DISTRICT NOS. 1, 2 AND 3



**MINUTES OF THE REGULAR BOARD MEETING  
OF THE BOARD OF DIRECTORS OF THE  
BRADLEY HEIGHTS METROPOLITAN DISTRICT NOS. 1, 2, AND 3  
HELD JUNE 13, 2023  
AT 9:00 AM**

Pursuant to posted notice, the regular meetings of the Board of Directors of the Bradley Heights Metropolitan District Nos. 1, 2 and 3 were held on Tuesday, June 13, 2023, at 9:00 a.m., at 119 N. Wahsatch Avenue, Colorado Springs, CO, and via tele/videoconference: <https://video.cloudoffice.avaya.com/join/451389423>.

Attendance

In attendance were Directors:

Randle Case II, President  
Bryan Long, Vice President  
Robert Case, Assistant Secretary  
Ray O’Sullivan, Treasurer/Secretary  
Jim Byers, Assistant Secretary

Also in attendance were:

K. Sean Allen, Esq., White Bear Ankele Tanaka & Waldron  
Kevin Walker, WSDM District Managers  
Rebecca Harris, WSDM District Managers  
Jeff Odor, Matrix Design Group  
Eric Smith, Matrix Design Group  
Chris Grundy, Project Manager  
David Neville, Kiemele Family Partnerships  
Nathan Steele, ROI  
Brady Shyrock

Combined Meeting: The Board of Directors of the Districts have determined to hold a joint meeting of the Districts and to prepare joint minutes of actions taken by the Districts in such meetings. Unless otherwise noted herein, all official action reflected in these minutes shall be deemed to be the action of all Districts. Where necessary, action taken by an individual District will be so reflected in these minutes.

1. Call to Order: The meeting was called to order by President Case II at 9:00 AM.
2. Declaration of Quorum/Director Qualifications/ Disclosure Matters: President Case II indicated that a quorum of the Boards was present and stated that each Director has been qualified as an eligible elector of the Districts pursuant to Colorado law. The Directors confirmed their qualification. Mr. Allen advised the Boards that, pursuant to Colorado law, certain disclosures might be required prior to taking official action at the meeting. Ms. Harris reported that disclosures for those directors with potential or existing conflicts of interest were filed with the Secretary of State’s Office and the Boards at least 72 hours prior to the meeting, in accordance with Colorado law, and those disclosures were acknowledged by the Board. Mr. Allen inquired into whether members of the Boards had any additional disclosures of potential or existing conflicts of interest with regard to any matters scheduled for discussion at the meeting. No additional disclosures were noted. The Boards determined that the participation of the members present was necessary to obtain a quorum or to otherwise enable the Boards to act.
3. Approval of Agenda: Director O’Sullivan moved to approve the Agenda as presented; seconded by Director Long. Motion passed unanimously.

4. Approval of May 9, 2023 Meeting Minutes: After review, Director O’Sullivan moved to approve the May 9, 2023 Meeting Minutes; seconded by Director Long. Motion passed unanimously.
5. District Manager Report
  - a. Service Plan Amendment Status: Mr. Walker discussed that he will be getting ready to submit the service plan amendment to the County this week. It’s a simple amendment that increases the O&M mills to 20.
  - b. Right-of-way Acquisition Update: The Board discussed the right-of-way acquisition update and condemnation matter.
    - i. Approval to hire Appraiser: After review, Director O’Sullivan moved to authorize the District Manager and the appropriate officers to negotiate with HDR, the appraisal company up to \$20,000 for four appraisals; seconded by Director Long. Motion passed unanimously.
6. President of the Board Report: President Case II discussed the recent heavy rainfall and noted the systems did well. He noted additional updates will be discussed later in the Agenda.
7. Development Status Review
  - a. Engineering Update: Mr. Grundy presented the monthly engineering and construction report.
    - i. Schedule: Mr. Grundy provided an update on the schedule.
  - b. Plan Updates
    - i. Roadway/ Utility/ Storm Water: Mr. Odor provided an update on utilities, road, and storm plans.
    - ii. Channel Design: The Board discussed channel design.
    - iii. 24” and 16” Water Line Update: Mr. Grundy discussed the water main extension project. Mr. Grundy discussed the revocable license agreement with the Colorado Springs Airport in order to access the property and tie in the 16” water main extension. Director O’Sullivan moved to authorize the appropriate officers to execute the revocable license agreement with the City, subject to the District’s legal counsel approval; seconded by Director Long. Motion passed unanimously.
  - c. Construction Schedule/Construction Contracts Approval/Ratify/Pre-Approval: The Board reviewed Change Orders 13, 14, 15, and 16. Director Byers requested a follow-up conversation regarding Change Order 13 and ways to identify stormwater management procedures. Director O’Sullivan moved to approve Change Orders 14, 15, and 16; seconded by Director Long. Motion passed unanimously. Director O’Sullivan moved to approve Change Order 13; seconded by Director Long. Motion passed with Director Byers abstaining.
  - d. Update on Construction Budget and Assurance: The Board reviewed the updated construction budget.
  - e. Redemption Hill Church: There was no update.
  - f. Challenger Homes: There was no update.
  - g. Bradley Ridge: Director O’Sullivan provided an update on Bradley Ridge.
8. Financial Matters
  - a. Approve Unaudited Financial Reports through May 31, 2023: Ms. Harris presented the Unaudited Financial Reports through May 31, 2023. Director O’Sullivan moved to approve the Unaudited Financial Reports through May 31, 2023; seconded by Director Byers. Motion passed unanimously.
  - b. Review and Approve Payables through June 13, 2023: Ms. Harris presented the Payables through June 13, 2023. Director Long moved to approve the Payables through June 13, 2023; seconded by Director O’Sullivan. Motion passed unanimously.
  - c. Discuss status of establishing Platting fees and O&M Fees: Mr. Walker discussed sharing costs for the detention ponds and establishing O&M fees for items such as landscape maintenance and covenant enforcement.

9. Legal Matters: There were no legal matters.
10. Other Business
  - a. Next Regular Meeting scheduled for July 11, 2023, at 9:00 AM.
11. Adjourn: The Board unanimously adjourned the meeting at 10:30 AM.

Respectfully Submitted,

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By: Recording Secretary



**BRADLEY HEIGHTS METROPOLITAN DISTRICT NO. 2**  
**COLORADO SPRINGS, COLORADO**

**FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022**

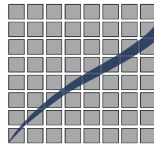
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**BiggsKofford**

CERTIFIED PUBLIC ACCOUNTANTS

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## INDEPENDENT AUDITOR'S REPORT

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Board of Directors

**Bradley Heights Metropolitan District No. 2**

Colorado Springs, Colorado

We have audited the accompanying financial statements of the governmental activities and each major fund of Bradley Heights Metropolitan District No. 2 ("District"), as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

### **Basis for Opinions**

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

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

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

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

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

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

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

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

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

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

## **Other Matters**

### *Required Supplementary Information*

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

### *Supplementary Information*

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

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

*DRAFT ONLY, NOT FOR DISTRIBUTION*

Colorado Springs, Colorado

[REPORT DATE PENDING]

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# BRADLEY HEIGHTS METROPOLITAN DISTRICT NO. 2

## STATEMENT OF NET POSITION

DECEMBER 31, 2022

	<b>Governmental Activities</b>
<b><u>ASSETS</u></b>	
Cash and investments	\$ 358
Cash and investments - restricted	25,817,484
Other receivables	48
Receivable from County Treasurer	7
Property taxes receivable	6,261
Construction in progress	10,467,161
<b>Total assets</b>	<b>36,291,319</b>
<b><u>LIABILITIES</u></b>	
Accounts payable	1,542,110
Due to other districts	1,200
Noncurrent liabilities:	
Retainage payable	306,409
Accrued interest payable	2,267,035
Due in more than one year	35,000,000
<b>Total liabilities</b>	<b>39,116,754</b>
<b><u>DEFERRED INFLOWS OF RESOURCES</u></b>	
Deferred property taxes	6,261
<b>Total deferred inflows of resources</b>	<b>6,261</b>
<b><u>NET POSITION</u></b>	
Restricted for:	
Capital projects	24,279,663
Emergency reserve	10
Unrestricted	(27,111,369)
<b>Total net position</b>	<b>\$ (2,831,696)</b>

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

# BRADLEY HEIGHTS METROPOLITAN DISTRICT NO. 2

## STATEMENT OF ACTIVITIES

DECEMBER 31, 2022

<b>FUNCTIONS / PROGRAMS</b>	<b>Expenses</b>	<b>Program Revenues</b>			<b>Net (Expenses) Revenues and Changes in Net Position</b>
		<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>	<b>Governmental Activities</b>
Primary government					
Government activities:					
General government	\$ 23,192	\$ -	\$ -	\$ -	\$ (23,192)
Interest and related costs on long-term debt	1,693,950	-	-	-	(1,693,950)
<b>Total government activities</b>	<b>\$ 1,717,142</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>(1,717,142)</b>
<b>GENERAL REVENUES</b>					
Property taxes					794
Specific ownership taxes					83
Investment income					500,474
Intergovernmental					250
Miscellaneous					251
<b>Total general revenues</b>					<b>501,852</b>
<b>Change in net position</b>					<b>(1,215,290)</b>
<b>Net position, beginning of year</b>					<b>(1,616,406)</b>
<b>Net position, end of year</b>					<b>\$ (2,831,696)</b>

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

# BRADLEY HEIGHTS METROPOLITAN DISTRICT NO. 2

## BALANCE SHEETS - GOVERNMENTAL FUNDS

DECEMBER 31, 2022

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
<b><u>ASSETS</u></b>				
Cash and investments	\$ 358	\$ -	\$ -	\$ 358
Cash and investments - restricted	-	-	25,817,484	25,817,484
Other receivables	9	-	39	48
Receivable from County Treasurer	2	5	-	7
Property taxes receivable	1,565	4,696	-	6,261
Due from other funds	-	3,995	-	3,995
<b>Total assets</b>	<b>\$ 1,934</b>	<b>\$ 8,696</b>	<b>\$ 25,817,523</b>	<b>\$ 25,828,153</b>
<b><u>LIABILITIES</u></b>				
Accounts payable	\$ 250	\$ 4,000	\$ 1,537,860	\$ 1,542,110
Due to other districts	1,200	-	-	1,200
Due to other funds	3,995	-	-	3,995
<b>Total liabilities</b>	<b>5,445</b>	<b>4,000</b>	<b>1,537,860</b>	<b>1,547,305</b>
<b><u>DEFERRED INFLOWS OF RESOURCES</u></b>				
Deferred property taxes	1,565	4,696	-	6,261
<b>Total deferred inflows of resources</b>	<b>1,565</b>	<b>4,696</b>	<b>-</b>	<b>6,261</b>
<b><u>FUND BALANCES</u></b>				
Restricted for:				
Capital projects	-	-	24,279,663	24,279,663
Emergency reserve	10	-	-	10
Unassigned:				
Unrestricted	(5,086)	-	-	(5,086)
<b>Total fund balance</b>	<b>(5,076)</b>	<b>-</b>	<b>24,279,663</b>	<b>24,274,587</b>
<b>Total liabilities, deferred inflows of resources, and fund balances</b>	<b>\$ 1,934</b>	<b>\$ 8,696</b>	<b>\$ 25,817,523</b>	
Amounts reported in governmental activities in the statement of net position are different because:				
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:				
Construction in progress				10,467,161
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds:				
Retainage payable				(306,409)
Accrued interest on bonds payable				(2,267,035)
Bonds payable				(35,000,000)
<b>Net position of governmental activities</b>				<b>\$ (2,831,696)</b>

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

**BRADLEY HEIGHTS METROPOLITAN DISTRICT NO. 2**  
**STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -**  
**GOVERNMENTAL FUNDS**  
**DECEMBER 31, 2022**

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
<b><u>REVENUES</u></b>				
Property taxes	\$ 198	\$ 596	\$ -	\$ 794
Specific ownership taxes	21	62	-	83
Investment income	-	-	500,474	500,474
Intergovernmental	250	-	-	250
Miscellaneous	251	-	-	251
<b>Total revenues</b>	<b>720</b>	<b>658</b>	<b>500,474</b>	<b>501,852</b>
<b><u>EXPENDITURES</u></b>				
Current:				
County Treasurer fees	3	9	-	12
Intergovernmental	209	-	-	209
Bank charges	-	-	22,971	22,971
Debt service:				
Paying agent fee	-	4,000	-	4,000
Bond interest payments	-	874	-	874
Capital projects:				
Capital outlay	-	-	9,911,601	9,911,601
Construction management fees	-	-	99,670	99,670
<b>Total expenditures</b>	<b>212</b>	<b>4,883</b>	<b>10,034,242</b>	<b>10,039,337</b>
Excess of revenues over expenditures	508	(4,225)	(9,533,768)	(9,537,485)
<b><u>OTHER FINANCING SOURCES AND USES</u></b>				
Transfer between funds	(4,407)	4,157	250	-
<b>Total other financing sources and uses</b>	<b>(4,407)</b>	<b>4,157</b>	<b>250</b>	<b>-</b>
<b>Net change in fund balance</b>	<b>(3,899)</b>	<b>(68)</b>	<b>(9,533,518)</b>	<b>(9,537,485)</b>
Fund balance, beginning of year	(1,177)	68	33,813,181	33,812,072
Fund balance, end of year	<b>\$ (5,076)</b>	<b>\$ -</b>	<b>\$ 24,279,663</b>	<b>\$ 24,274,587</b>

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



**BRADLEY HEIGHTS METROPOLITAN DISTRICT NO. 2**  
**RECONCILIATION OF THE STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND**  
**BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**  
**DECEMBER 31, 2022**

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Net change in fund balance \$ (9,537,485)

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

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

<u>Capital outlay</u>	10,317,680
<u>Retainage payable</u>	(306,409)

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

<u>Change in accrued interest on bonds payable</u>	<u>(1,689,076)</u>
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<u>Change in net position</u>	<u><u>\$ (1,215,290)</u></u>
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The accompanying notes and independent auditor's report  
should be read with these financial statements.

**BRADLEY HEIGHTS METROPOLITAN DISTRICT NO. 2**  
**GENERAL FUND - STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN**  
**FUND BALANCE (BUDGET AND ACTUAL)**  
**DECEMBER 31, 2022**

	<b>Original and Final Budget</b>	<b>Actual</b>	<b>Variance</b>
<b><u>REVENUES</u></b>			
Property taxes	\$ 198	\$ 198	\$ -
Specific ownership taxes	14	21	7
Intergovernmental	-	250	250
Miscellaneous	-	251	251
<b>Total revenues</b>	<b>212</b>	<b>720</b>	<b>508</b>
<b><u>EXPENDITURES</u></b>			
County Treasurer fees	3	3	-
Intergovernmental	209	209	-
<b>Total expenditures</b>	<b>212</b>	<b>212</b>	<b>-</b>
Excess of revenues over expenditures	-	508	508
<b><u>OTHER FINANCING SOURCES AND USES</u></b>			
Transfer between funds	-	(4,407)	(4,407)
<b>Total other financing sources and uses</b>	<b>-</b>	<b>(4,407)</b>	<b>(4,407)</b>
Net change in fund balance	<u>\$ -</u>	<u>(3,899)</u>	<u>\$ (3,899)</u>
Fund balance, beginning of year		(1,177)	
Fund balance, end of year		<u>\$ (5,076)</u>	

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

# BRADLEY HEIGHTS METROPOLITAN DISTRICT NO. 2

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022

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### 1. DEFINITION OF REPORTING ENTITY

Bradley Heights Metropolitan District No. 2 ("District"), a quasi-municipal corporation and political subdivision of the state of Colorado, was formed in September 2005, and is governed pursuant to provisions of the Colorado Special District Act. The District's service area is located in El Paso County, Colorado ("County"). The District was organized to plan, design, acquire, construct, install, relocate, redevelop, and finance public improvements including water, sewer, storm sewer, detention, flood, and other drainage improvements needed for the area.

The District was organized in conjunction with Bradley Heights Metropolitan District No. 1 ("District No. 1") and Bradley Heights Metropolitan District No. 3 ("District No. 3"). District No. 1 is the coordinating district and the District and District No. 3 are the taxing districts.

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

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

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

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Government-wide and fund financial statements

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

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

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

#### Measurement focus, basis of accounting, and financial statement position

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

See independent auditor's report.

# BRADLEY HEIGHTS METROPOLITAN DISTRICT NO. 2

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022

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

The District reports the following major governmental funds:

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

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

The *capital projects fund* accounts for financial resources to be used for the acquisition and construction of capital equipment and facilities.

### Budgets

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

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

The District incurred expenditures in excess of appropriations for the year ended December 31, 2022 in the debt service fund and capital projects fund, which may be a violation of state budget law. The District has indicated that it plans to amend the budget further.

### Pooled cash and investments

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

### Property taxes

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

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

See independent auditor's report.

# BRADLEY HEIGHTS METROPOLITAN DISTRICT NO. 2

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022

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### Capital assets

Capital assets, which include property, equipment, and infrastructure assets (e.g., roads, sidewalks, and similar items), are reported in the applicable governmental activities column in the government-wide financial statements. Capital assets are defined by the District as assets with an initial individual cost of more than \$5,000 and a useful life greater than one year. Such assets are recorded at cost or estimated cost if purchased or constructed. Contributed capital assets are recorded at estimated acquisition value at the date of contribution.

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

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

### Deferred inflows of resources

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

### Interfund balances and transactions

The District reports interfund balances and transfers that are representative of lending and borrowing arrangements between funds in the fund financial statements as due to other funds and due from other funds, respectively. The interfund balances have been eliminated in the government-wide statements.

### Net position and fund balances

#### *Net position*

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

#### *Fund balances*

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

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

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

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

See independent auditor's report.

# BRADLEY HEIGHTS METROPOLITAN DISTRICT NO. 2

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022

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

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

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

### *Deficit*

The general fund reported a deficit in the fund financial statements as of December 31, 2022. The deficit is expected to be eliminated with property taxes in the future.

### 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	\$ 358
Cash and investments - restricted	25,817,484
	<u>\$ 25,817,842</u>

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

Deposits with financial institutions	\$ 358
Investments	25,817,484
	<u>\$ 25,817,842</u>

### Deposits with financial institutions

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

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

As of December 31, 2022, the District's cash deposits had a bank balance of \$358 and a carrying balance of \$358.

### Investments

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

See independent auditor's report.

# BRADLEY HEIGHTS METROPOLITAN DISTRICT NO. 2

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022

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

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

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

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

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

<u>Investment</u>	<u>Maturity</u>	<u>Amount</u>
Liquid Asset Trust (COLOTRUST)	Weighted average under 60 days	<u>\$ 25,817,484</u>

### COLOTRUST

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

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

COLOTRUST EDGE, a variable net asset value ("NAV") local government investment pool, offers weekly liquidity and is managed to approximate a \$10 transactional share price. COLOTRUST EDGE may invest in US Treasury securities, repurchase agreement collateralized by US Treasury securities, certain obligations of US government agencies, and highest rated commercial paper.

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

See independent auditor's report.

# BRADLEY HEIGHTS METROPOLITAN DISTRICT NO. 2

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022

### 4. CAPITAL ASSETS

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

	Balance 01-01-22	Additions	Dispositions	Reclassifications	Balance 12-31-22
<u>Governmental activities</u>					
Capital assets, not depreciable:					
Construction in progress	\$ 149,481	\$ 10,317,680	\$ -	\$ -	\$ 10,467,161

### 5. LONG-TERM OBLIGATIONS

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

	Balance 01-01-22	Additions	Repayments / Amortization	Balance 12-31-22	Due Within One Year
<u>Governmental activities</u>					
Bonds payable:					
Series 2021 Bonds	\$ 35,000,000	\$ -	\$ -	\$ 35,000,000	\$ -
Total bonds	35,000,000	-	-	35,000,000	-
Total long-term obligations	\$ 35,000,000	\$ -	\$ -	\$ 35,000,000	\$ -

#### Series 2021A(3) General Obligation Limited Tax Bonds

On August 26, 2021, the District issued Series 2021A(3) General Obligation Limited Tax Bonds ("Series 2021 Bonds") for the purpose of: (i) paying the project costs; and (ii) paying other costs incurred in connection with the issuance of the bonds. The Series 2021 Bonds were issued in the amount of \$35,000,000; bear interest at 4.75% per annum, calculated on the basis of a 360-day year of twelve 30-day months; are payable to the extent of pledged revenues available on December 1 each year; and mature on December 1, 2051.

#### Pledged revenues

The Series 2021 Bonds are secured by and payable from the pledged revenue consisting of monies derived by the District from the following sources, net of any collection costs: (i) required mill levy; (ii) capital fees; (iii) pledged fees; (iv) portion of the specific ownership tax which is collected as a result of imposition of the required mill levy; and (v) any other legally available monies which the District determines to be treated as pledged revenue. Required mill levy means an ad valorem mill levy imposed upon all taxable property of the District each year in an amount sufficient to pay the principal, premium if any, and interest on the bonds as they become due and payable. The mill levy is adjusted for changes in the ratio of actual value to assessed value of property within the District.

See independent auditor's report.



# BRADLEY HEIGHTS METROPOLITAN DISTRICT NO. 2

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022

### Optional redemption

The Series 2021 Bonds are subject to redemption prior to maturity, at the option of the District, as a whole or in integral multiples of \$1,000, in any order of maturity and in whole or partial maturities, on September 1, 2026, and on any date thereafter, upon payment of par, accrued interest, and a redemption premium on the principal amount redeemed, as follows:

<u>Date of Redemption</u>	<u>Redemption Premium</u>
September 1, 2026 to August 31, 2027	3.00%
September 1, 2027 to August 31, 2028	2.00%
September 1, 2028 to August 31, 2029	1.00%
September 1, 2029 and thereafter	0.00%

### Events of default

The occurrence of any one or more of the following events or the existence of any one or more of the following conditions constitutes an event of default under the indenture; however, there will be no event of default until the trustee or the District notifies District No. 3 in writing of the existence thereof:

- i. District No. 3 fails to impose the mandatory capital levy.
- ii. District No. 3 district fails to promptly remit its pledged district capital revenue to the District.
- iii. District No. 3 fails to observe or perform any other of the material covenants, agreements, duties, or conditions on the part of District No. 3 in the agreement, and such failure is not remedied to the satisfaction of the trustee or the District within 30 days after District No. 3 receives written notice from the trustee or the District of the occurrence of such failure.
- iv. Any representation or warranty made by District No. 3 in the agreement proves to have been untrue or incomplete in any material respect when made or deemed made.
- v. District No. 3 files a petition under the federal bankruptcy laws or other applicable bankruptcy laws seeking to adjust the obligation represented by the bonds.

Upon the occurrence and continuance of an event of default, the District, District No. 3, or the trustee may proceed to protect and enforce their rights against the party or parties causing the event of default by mandamus or such other suit or action available in equity or at law. In the event of any litigation or other proceeding to enforce any of the terms, covenants or conditions, the prevailing party in such litigation or other proceeding will obtain, as part of its judgment or award, its reasonable attorneys' fees, and costs. Nothing should be construed as requiring any district's consent or participation in any such enforcement action, the intent being that the trustee can enforce this agreement independently from any such consent or participation of the District and District No. 3.

Notwithstanding the foregoing or anything else herein to the contrary, no remedy will lie at law or in equity for any event of default consisting solely of the failure of the District to pay the principal of and interest on the bonds, it being acknowledged by the District and the trustee that: (i) the amount of District No. 3's capital revenue is limited; and (ii) acceleration will not be an available remedy for an event of default.

See independent auditor's report.

# BRADLEY HEIGHTS METROPOLITAN DISTRICT NO. 2

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022

### 6. NET POSITION

The District has net position consisting of restricted and unrestricted.

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

Restricted net position:

Capital projects (Note 4)	\$ 24,279,663
Emergency reserve (Note 10)	<u>10</u>
	<u>\$ 24,279,673</u>

The District's unrestricted net position as of December 31, 2022, totaled a deficit of \$27,111,369.

### 7. CAPITAL PLEDGE AGREEMENT

To provide for the payment of the Series 2021 Bonds, the District entered into a Capital Pledge Agreement with District No. 3 and the trustee dated August 26, 2021. Under this agreement, the District agrees to remit to the trustee, or as otherwise directed by the District, as soon as practicable upon receipt, all of District No. 3's capital revenue. The District should apply such revenue, together with all other pledged revenue (Note 5) in its possession, to the payment of the principal, premium if any, and interest on the bonds due in accordance with the terms of the Series 2021 Bonds indenture. District No. 3's capital revenue consists of monies derived from the following sources, net of any collection costs: (i) mandatory capital levy; (ii) portion of the specific ownership tax which is collected as a result of imposition of the mandatory capital levy; and (iii) any PILOT revenues received from any PILOT recorded against property within District No. 3's boundaries. Mandatory capital levy means an ad valorem mill levy imposed upon all taxable property of District No. 3 each year in an amount of 30.000 mills, or such lesser mill levy which will (together with any PILOT revenues) be sufficient to pay the principal, premium if any, and interest on the Series 2021 Bonds as they become due and payable.

### 8. RELATED PARTIES

The developers of the property within the District are Ros Equity, LLC and Challenger Communities, LLC. Members of the board of directors are officers, employees, or associated with the developer and may have conflicts of interest in dealing with the District.

### 9. RISK MANAGEMENT

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

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

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

See independent auditor's report.

# BRADLEY HEIGHTS METROPOLITAN DISTRICT NO. 2

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022

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### 10. TAX, SPENDING, AND DEBT LIMITATIONS

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

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

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

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

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See independent auditor's report.

**SUPPLEMENTARY INFORMATION**

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**BRADLEY HEIGHTS METROPOLITAN DISTRICT NO. 2**  
**DEBT SERVICE FUND - SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND**  
**BALANCE (BUDGET AND ACTUAL)**  
**DECEMBER 31, 2022**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
<b><u>REVENUES</u></b>				
Property taxes	\$ 595	\$ 595	\$ 596	\$ 1
Specific ownership taxes	41	41	62	21
Total revenues	<u>636</u>	<u>636</u>	<u>658</u>	<u>22</u>
<b><u>EXPENDITURES</u></b>				
County Treasurer fees	9	14	9	5
Paying agent fee	-	4,000	4,000	-
Bond interest payments	-	-	874	(874)
Total expenditures	<u>9</u>	<u>4,014</u>	<u>4,883</u>	<u>(869)</u>
Excess of revenues over expenditures	<u>627</u>	<u>(3,378)</u>	<u>(4,225)</u>	<u>(847)</u>
<b><u>OTHER FINANCING SOURCES AND USES</u></b>				
Developer advance	-	4,000	-	(4,000)
Transfers between funds	(13,850,000)	(622)	4,157	4,779
Total other financing sources and uses	<u>(13,850,000)</u>	<u>3,378</u>	<u>4,157</u>	<u>779</u>
Net change in fund balance	<u>\$ (13,849,373)</u>	<u>\$ -</u>	<u>(68)</u>	<u>\$ (68)</u>
Fund balance, beginning of year			<u>68</u>	
Fund balance, end of year			<u>\$ -</u>	

See independent auditor's report.

**BRADLEY HEIGHTS METROPOLITAN DISTRICT NO. 2**  
**CAPITAL PROJECTS FUND - SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND**  
**BALANCE (BUDGET AND ACTUAL)**  
**DECEMBER 31, 2022**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance</b>
<b><u>REVENUES</u></b>				
Investment income	\$ -	\$ 440,000	\$ 500,474	\$ 60,474
Total revenues	-	440,000	500,474	60,474
<b><u>EXPENDITURES</u></b>				
Bank charges	-	18,000	22,971	(4,971)
Capital outlay	-	6,014,000	9,911,601	(3,897,601)
Construction management fees	-	80,000	99,670	(19,670)
Total expenditures	-	6,112,000	10,034,242	(3,922,242)
Excess of revenues over expenditures	-	(5,672,000)	(9,533,768)	(3,861,768)
<b><u>OTHER FINANCING SOURCES AND USES</u></b>				
Transfer between funds	-	-	250	250
Total other financing sources and uses	-	-	250	250
Net change in fund balance	<u>\$ -</u>	<u>\$ (5,672,000)</u>	(9,533,518)	<u>\$ (3,861,518)</u>
Fund balance, beginning of year			33,813,181	
Fund balance, end of year			<u>\$ 24,279,663</u>	

See independent auditor's report.



**BRADLEY HEIGHTS METROPOLITAN DISTRICT NO. 3**  
**COLORADO SPRINGS, COLORADO**

**FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022**

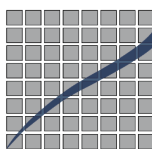
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**BiggsKofford**

CERTIFIED PUBLIC ACCOUNTANTS

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## INDEPENDENT AUDITOR'S REPORT

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Board of Directors

**Bradley Heights Metropolitan District No. 3**

Colorado Springs, Colorado

We have audited the accompanying financial statements of the governmental activities and each major fund of Bradley Heights Metropolitan District No. 3 ("District"), as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

### **Basis for Opinions**

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

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

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

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

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

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

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

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

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

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

## **Other Matters**

### *Required Supplementary Information*

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

### *Supplementary Information*

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

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

*DRAFT ONLY, NOT FOR DISTRIBUTION*

Colorado Springs, Colorado

[REPORT DATE PENDING]

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# BRADLEY HEIGHTS METROPOLITAN DISTRICT NO. 3

## STATEMENT OF NET POSITION

DECEMBER 31, 2022

	<u>Governmental Activities</u>
<b><u>ASSETS</u></b>	
Cash and investments	\$ 327
Receivable from County Treasurer	3
Property taxes receivable	996
Total assets	<u>1,326</u>
<b><u>LIABILITIES</u></b>	
Due to other districts	919
Total liabilities	<u>919</u>
<b><u>DEFERRED INFLOWS OF RESOURCES</u></b>	
Deferred property taxes	996
Total deferred inflows of resources	<u>996</u>
<b><u>NET POSITION</u></b>	
Restricted for:	
Debt service	437
Unrestricted	<u>(1,026)</u>
Total net position	<u>\$ (589)</u>

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

**BRADLEY HEIGHTS METROPOLITAN DISTRICT NO. 3**  
**STATEMENT OF ACTIVITIES**  
**DECEMBER 31, 2022**

	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expenses) Revenues and Changes in Net Position</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
<b><u>FUNCTIONS / PROGRAMS</u></b>				
Primary government				
Government activities:				
General government	\$ 335	\$ -	\$ -	\$ (335)
Total government activities	<u>\$ 335</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(335)</u>
<b><u>GENERAL REVENUES</u></b>				
Property taxes				302
Specific ownership taxes				32
Miscellaneous				249
Total general revenues				<u>583</u>
Change in net position				248
Net position, beginning of year				<u>(837)</u>
Net position, end of year				<u>\$ (589)</u>

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

# BRADLEY HEIGHTS METROPOLITAN DISTRICT NO. 3

## BALANCE SHEETS - GOVERNMENTAL FUNDS

DECEMBER 31, 2022

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
<b><u>ASSETS</u></b>			
Cash and investments	\$ 327	\$ -	\$ 327
Receivable from County Treasurer	1	2	3
Property taxes receivable	249	747	996
Due from other funds	-	435	435
Total assets	<u>\$ 577</u>	<u>\$ 1,184</u>	<u>\$ 1,761</u>
<b><u>LIABILITIES</u></b>			
Due to other districts	\$ 919	\$ -	\$ 919
Due to other funds	435	-	435
Total liabilities	<u>1,354</u>	<u>-</u>	<u>1,354</u>
<b><u>DEFERRED INFLOWS OF RESOURCES</u></b>			
Deferred property taxes	249	747	996
Total deferred inflows of resources	<u>249</u>	<u>747</u>	<u>996</u>
<b><u>FUND BALANCES</u></b>			
Restricted for:			
Debt service	-	437	437
Unassigned:			
Unrestricted	(1,026)	-	(1,026)
Total fund balance	<u>(1,026)</u>	<u>437</u>	<u>(589)</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 577</u>	<u>\$ 1,184</u>	<u>\$ 1,761</u>

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

**BRADLEY HEIGHTS METROPOLITAN DISTRICT NO. 3**  
**STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -**  
**GOVERNMENTAL FUNDS**  
**DECEMBER 31, 2022**

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
<b><u>REVENUES</u></b>			
Property taxes	\$ 76	\$ 226	\$ 302
Specific ownership taxes	8	24	32
Miscellaneous	249	-	249
Total revenues	<u>333</u>	<u>250</u>	<u>583</u>
<b><u>EXPENDITURES</u></b>			
Current:			
Intergovernmental	-	331	331
County Treasurer fees	1	3	4
Total expenditures	<u>1</u>	<u>334</u>	<u>335</u>
Excess of revenues over expenditures	<u>332</u>	<u>(84)</u>	<u>248</u>
Net change in fund balances	332	(84)	248
Fund balances, beginning of year	(1,358)	521	(837)
Fund balances, end of year	<u>\$ (1,026)</u>	<u>\$ 437</u>	<u>\$ (589)</u>

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



**BRADLEY HEIGHTS METROPOLITAN DISTRICT NO. 3**  
**GENERAL FUND - STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN**  
**FUND BALANCE (BUDGET AND ACTUAL)**  
**DECEMBER 31, 2022**

	Original and Final Budget	Actual	Variance
<b>REVENUES</b>			
Property taxes	\$ 76	\$ 76	\$ -
Specific ownership taxes	5	8	3
Miscellaneous	-	249	249
<b>Total revenues</b>	<b>81</b>	<b>333</b>	<b>252</b>
<b>EXPENDITURES</b>			
Intergovernmental	80	-	80
County Treasurer fees	1	1	-
<b>Total expenditures</b>	<b>81</b>	<b>1</b>	<b>80</b>
Excess of revenues over expenditures	-	332	332
Net change in fund balance	<u>\$ -</u>	332	<u>\$ 332</u>
Fund balance, beginning of year		(1,358)	
Fund balance, end of year		<u>\$ (1,026)</u>	

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

# BRADLEY HEIGHTS METROPOLITAN DISTRICT NO. 3

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022

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### 1. DEFINITION OF REPORTING ENTITY

Bradley Heights Metropolitan District No. 3 ("District"), a quasi-municipal corporation and political subdivision of the state of Colorado, was formed in September 2005, and is governed pursuant to provisions of the Colorado Special District Act. The District's service area is located in El Paso County, Colorado ("County"). The District was organized to plan, design, acquire, construct, install, relocate, redevelop, and finance public improvements including water, sewer, storm sewer, detention, flood, and other drainage improvements needed for the area.

The District was organized in conjunction with Bradley Heights Metropolitan District No. 1 ("District No. 1") and Bradley Heights Metropolitan District No. 2 ("District No. 2"). District No. 1 is the coordinating district and District No. 2 and the District are the taxing districts.

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

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

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

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Government-wide and fund financial statements

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

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

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

#### Measurement focus, basis of accounting, and financial statement position

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

# BRADLEY HEIGHTS METROPOLITAN DISTRICT NO. 3

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022

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

The District reports the following major governmental funds:

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

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

### Budgets

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

The District incurred expenditures in excess of appropriations for the year ended December 31, 2022 in the debt service fund, which may be a violation of state budget law. The District has indicated that it plans to amend the budget further.

### Pooled cash and investments

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

### Property taxes

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

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

### Deferred inflows of resources

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

# BRADLEY HEIGHTS METROPOLITAN DISTRICT NO. 3

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022

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### Interfund balances and transactions

The District reports interfund balances and transfers that are representative of lending and borrowing arrangements between funds in the fund financial statements as due to other funds and due from other funds, respectively. The interfund balances have been eliminated in the government-wide statements.

### Net position and fund balances

#### *Net position*

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

#### *Fund balances*

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

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

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

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

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

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

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

#### *Deficit*

The general fund reported a deficit in the fund financial statements as of December 31, 2022. The deficit is expected to be eliminated with property taxes in the future.

### **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

\$ 327

See independent auditor's report

# BRADLEY HEIGHTS METROPOLITAN DISTRICT NO. 3

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022

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

Deposits with financial institutions	<u>\$</u> <u>327</u>
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### Deposits with financial institutions

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

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

As of December 31, 2022, the District's cash deposits had a bank balance of \$327 and a carrying balance of \$327.

### Investments

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

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

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

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

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

As of December 31, 2022, the District had no investments.

# BRADLEY HEIGHTS METROPOLITAN DISTRICT NO. 3

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022

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### 4. NET POSITION

The District has net position consisting of restricted and unrestricted.

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

Restricted net position:

Debt service	<u>\$</u> <u>437</u>
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The District's unrestricted net position as of December 31, 2022 totaled a deficit of \$1,026.

### 5. CAPITAL PLEDGE AGREEMENT

To provide for the payment of the bonds, the District entered into a capital pledge agreement with District No. 2 and the trustee of District No. 2's Series 2021 Bonds dated August 26, 2021. Under this agreement, the District agrees to remit to the trustee, or as otherwise directed by District No. 2, as soon as practicable upon receipt, all of the District's capital revenue. The District should apply such revenue, together with all other pledged revenue in its possession, to the payment of the principal, premium if any, and interest on the bonds due in accordance with the terms of the Series 2021 Bonds indenture. The District's capital revenue consists of monies derived by the District from the following sources, net of any collection costs: (i) mandatory capital levy; (ii) portion of the specific ownership tax which is collected as a result of imposition of the mandatory capital levy; and (iii) any PILOT revenues received from any PILOT recorded against property within the District's boundaries. Mandatory capital levy means an ad valorem mill levy imposed upon all taxable property of the District each year in an amount of 30.000 mills, or such lesser mill levy which will (together with any PILOT revenues) be sufficient to pay the principal, premium if any, and interest on the Series 2021 Bonds as they become due and payable.

### 6. RELATED PARTIES

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

### 7. RISK MANAGEMENT

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

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

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

### 8. TAX, SPENDING, AND DEBT LIMITATIONS

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

# BRADLEY HEIGHTS METROPOLITAN DISTRICT NO. 3

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022

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

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

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

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**SUPPLEMENTARY INFORMATION**

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**BRADLEY HEIGHTS METROPOLITAN DISTRICT NO. 3**  
**DEBT SERVICE FUND - SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN**  
**FUND BALANCE (BUDGET AND ACTUAL)**  
**DECEMBER 31, 2022**

	<b>Original and Final Budget</b>	<b>Actual</b>	<b>Variance</b>
<b><u>REVENUES</u></b>			
Property taxes	\$ 227	\$ 226	\$ (1)
Specific ownership taxes	16	24	8
<b>Total revenues</b>	<b>243</b>	<b>250</b>	<b>7</b>
<b><u>EXPENDITURES</u></b>			
Intergovernmental	239	331	(92)
County Treasurer fees	3	3	-
<b>Total expenditures</b>	<b>242</b>	<b>334</b>	<b>(92)</b>
Excess of revenues over expenditures	1	(84)	(85)
Net change in fund balance	<u>\$ 1</u>	(84)	<u>\$ (85)</u>
Fund balance, beginning of year		521	
Fund balance, end of year		<u>\$ 437</u>	

See independent auditor's report.