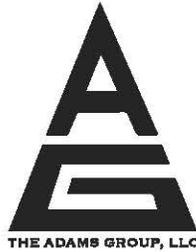


INDEPENDENCE METROPOLITAN DISTRICT NO. 3
FINANCIAL STATEMENTS
DECEMBER 31, 2019

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CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Independence Metropolitan District No. 3
Elbert County, Colorado

We have audited the accompanying financial statements of the governmental activities and each major fund of Independence Metropolitan District No. 3 (the District), as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

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 Independence Metropolitan District No. 3 as of December 31, 2019, and the respective changes in financial position and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

Planning stage government

As described in Note 3, the Independence Metropolitan Districts No. 1–3 are collectively in the planning phase of the development and it is not clear what percentage of debt service each District will individually pay on the Series 2019A and 2019B Bonds described herein.

Other Matters

Required Supplementary Information

Management has omitted the Management Discussion & 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, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other 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 listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relate 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.

The Adams Group, LLC

March 30, 2020
Denver, Colorado

INDEPENDENCE METROPOLITAN DISTRICT NO. 3
GOVERNMENTAL FUNDS BALANCE SHEET/STATEMENT OF NET POSITION
DECEMBER 31, 2019

	General Fund	Capital Projects Fund	Debt Service Fund	Total Governmental Funds	Adjustments	Statement of Net Position
Assets						
Cash and investments	\$ 939	\$ -	\$ -	\$ 939	\$ -	\$ 939
Cash and investments - restricted	-	11,047,057	5,338,929	16,385,986	-	16,385,986
Property taxes receivable	1	-	2	3	-	3
Intergovernmental receivable	-	-	-	-	11,875,700	11,875,700
Prepaid expenses	2,510	-	-	2,510	-	2,510
Total assets	<u>\$ 3,450</u>	<u>\$ 11,047,057</u>	<u>\$ 5,338,931</u>	<u>\$ 16,389,438</u>	<u>\$ 11,875,700</u>	<u>\$ 28,265,138</u>
Liabilities						
Accounts payable	871	-	-	871	-	871
Accrued interest	-	-	-	-	132,509	132,509
Noncurrent liabilities:						
Due in more than one year	-	-	-	-	30,342,938	30,342,938
Total liabilities	<u>871</u>	<u>-</u>	<u>-</u>	<u>871</u>	<u>30,475,447</u>	<u>30,476,318</u>
Deferred Inflows of Resources						
Property taxes	1	-	2	3	-	3
Total deferred inflows of resources	<u>1</u>	<u>-</u>	<u>2</u>	<u>3</u>	<u>-</u>	<u>3</u>
Fund Balance						
Nonspendable:						
Prepaid expenditures	2,510	-	-	2,510	(2,510)	
Restricted:						
Debt service	-	-	5,338,929	5,338,929	(5,338,929)	
Capital projects	-	11,047,057	-	11,047,057	(11,047,057)	
Emergencies	313	-	-	313	(313)	
Assigned:						
Subsequent year's budget: appropriation	2,649	-	-	2,649	(2,649)	
Unassigned:						
General government	(2,894)	-	-	(2,894)	2,894	
Total fund balances	<u>2,578</u>	<u>11,047,057</u>	<u>5,338,929</u>	<u>16,388,564</u>	<u>(16,388,564)</u>	
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 3,450</u>	<u>\$ 11,047,057</u>	<u>\$ 5,338,931</u>	<u>\$ 16,389,438</u>		
Net Position						
Restricted						16,385,673
Unrestricted						(18,596,856)
Total net position						<u>\$ (2,211,183)</u>

The accompanying notes are an integral part of these financial statements.

INDEPENDENCE METROPOLITAN DISTRICT No. 3
GOVERNMENTAL FUND REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES/STATEMENT OF ACTIVITIES
DECEMBER 31, 2019

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
Revenues						
General:						
Property taxes	\$ 1	\$ -	\$ -	\$ 1	\$ -	\$ 1
Investment income	-	264,128	100,492	364,620	-	364,620
Total revenues	<u>1</u>	<u>264,128</u>	<u>100,492</u>	<u>364,621</u>	<u>-</u>	<u>364,621</u>
Expenditures						
Current:						
Bank charges	-	21,866	8,323	30,189	-	30,189
Dues and subscriptions	292	-	-	292	-	292
Information technology	150	-	-	150	-	150
Insurance	1,758	-	-	1,758	-	1,758
Management & accounting	8,223	-	-	8,223	-	8,223
Debt service:						
Interest expense	-	-	1,150,923	1,150,923	437,447	1,588,370
Bond cost of issuance	-	946,822	-	946,822	-	946,822
Total expenditures	<u>10,423</u>	<u>968,688</u>	<u>1,159,246</u>	<u>2,138,357</u>	<u>437,447</u>	<u>2,575,804</u>
Excess (Deficiency) of Revenues over (under) expenditures	<u>(10,422)</u>	<u>(704,560)</u>	<u>(1,058,754)</u>	<u>(1,773,736)</u>	<u>(437,447)</u>	<u>(2,211,183)</u>
Other Financing Sources (Uses)						
Bond proceeds Series 2019A	-	25,795,000	-	25,795,000	(25,795,000)	-
Bond proceeds Series 2019B	-	4,230,000	-	4,230,000	(4,230,000)	-
Developer advances	13,000	-	-	13,000	(13,000)	-
Transfer to debt service fund	-	(6,397,683)	-	(6,397,683)	6,397,683	-
Transfer in from capitol projects fund	-	-	6,397,683	6,397,683	(6,397,683)	-
Transfer to District #1 capital fund	-	(11,875,700)	-	(11,875,700)	11,875,700	-
Total other financing sources (uses)	<u>13,000</u>	<u>11,751,617</u>	<u>6,397,683</u>	<u>18,162,300</u>	<u>(18,162,300)</u>	<u>-</u>
Net change in fund balances	2,578	11,047,057	5,338,929	16,388,564	(18,599,747)	(2,211,183)
Fund balances, beginning of year	-	-	-	-	-	-
Fund balances, end of year	<u>\$ 2,578</u>	<u>\$ 11,047,057</u>	<u>\$ 5,338,929</u>	<u>\$ 16,388,564</u>	<u>\$ (2,211,183)</u>	<u>\$ (2,211,183)</u>

The accompanying notes are an integral part of these financial statements.

INDEPENDENCE METROPOLITAN DISTRICT No. 3
GENERAL FUND – SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
DECEMBER 31, 2019

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues				
Property taxes	\$ 1	\$ 1	\$ 1	\$ -
Specific ownership taxes	-	1	-	(1)
Total revenues	<u>1</u>	<u>2</u>	<u>1</u>	<u>(1)</u>
Expenditures				
Current:				
Dues and subscriptions	300	300	292	8
Information technology	-	-	150	(150)
Insurance	2,500	2,500	1,758	742
Legal	20,000	20,000	-	20,000
Management & accounting	20,000	20,000	8,223	11,777
Treasurer fees	100	100	-	100
Emergency reserve	2,100	2,100	-	2,100
Total expenditures	<u>45,000</u>	<u>45,000</u>	<u>10,423</u>	<u>34,577</u>
Excess of revenues over (under) expenditures	(44,999)	(44,998)	(10,422)	34,576
Other Financing Sources (Uses)				
Developer advance	45,000	45,000	13,000	(32,000)
Total other financing sources (uses)	<u>45,000</u>	<u>45,000</u>	<u>13,000</u>	<u>(32,000)</u>
Net change in fund balance	<u>\$ 1</u>	<u>\$ 2</u>	2,578	<u>\$ 2,576</u>
Fund balances, beginning of year			<u>-</u>	
Fund balances, end of year			<u>\$ 2,578</u>	

See the accompanying independent auditor's report

INDEPENDENCE METROPOLITAN DISTRICT NO. 3
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Independence Metropolitan District No. 3 (District), a quasi-municipal corporation and political subdivision of the State of Colorado was established on November 7, 2017 and is governed pursuant to provisions of the Colorado Special District Act. The District's service area is located within Elbert County, Colorado.

The District was established principally to finance the acquisition, construction, and installation of improvements, for the use and benefit of property owners, residents, taxpayers, and system users within and without the boundaries of the District.

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

The District's 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 of the organization to provide specific financial benefits or burdens, and fiscal dependency.

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

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the Statement of Net Position column and the Statement of Activities column) include all of the activities of the District. As a general rule, the effect of interfund activity has been removed from these statements. These financial statements include all of the activities of the primary government except for the fiduciary activities or fiduciary component units.

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

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

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

INDEPENDENCE METROPOLITAN DISTRICT NO. 3
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. Intergovernmental and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider has been met. Expenditures for property and equipment are shown as increases in assets and redemption of bonds, notes, and developer advances are recorded as a reduction in liabilities.

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 revenue susceptible to accrual are property taxes, capital fees and interest. 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 paid.

In the fund financial statements, the District reports the following major governmental funds:

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 other funds.

Capital Projects Fund accounts for the resources accumulated and available for capital expenditure within the development.

Debt Service Fund accounts for the resources accumulated and payments made for principal, interest, and related expenses on the long-term general obligation debt of the governmental funds.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted first, then unrestricted resources as they are needed.

Budgets

In accordance with the State Budget Law, the District's Board of Directors hold 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 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. The Debt Service Fund is over budget and this may be a violation of State of Colorado statute.

INDEPENDENCE METROPOLITAN DISTRICT NO. 3
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 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.

Investments

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs, Level 3 inputs are significant unobservable inputs. The District has no investments required to be reported under the fair value hierarchy.

Property Tax

Property taxes are levied by the District's Board of Directors. The levy is based on assessed valuations determined by the County Assessor generally as of January 1 of each year. The levy is normally set by December 15 by certification to the County Commissioners to put the tax lien on the individual properties as of January 1 of the following year. The County Treasurer collects the determined taxes during the ensuing calendar year. The taxes are payable by April 30 or if in equal installments, at the 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 inflows of resources in the year they are levied and measurable. The deferred inflows of resources related to property tax revenues are recorded as revenue in the year for which they are levied, in most instances in the year in which collection occurs.

Deferred Inflows and Deferred Outflows of Resources

In addition to assets, the statement of net position and balance sheets will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflow of resources, represents a consumption of net position and fund balance that applies to a future period(s) and so will not be recognized as an outflow of resources (expenditure) until then.

In addition to liabilities, the statement of net position and balance sheets will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position and fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Fund Balances-Governmental Funds

The District's governmental fund balances may consist of five classifications based on the relative strength of the spending constraints:

Nonspendable fund balance – the amount of fund balance that is not in spendable form (such as inventory or prepaids) or is legally or contractually required to be maintained intact.

INDEPENDENCE METROPOLITAN DISTRICT NO. 3
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Restricted fund balance – the amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.

Committed fund balance – amounts constrained to specific purposes by the District itself, using its highest level of decision-making authority (i.e., Board of Directors). To be reported as committed, amounts cannot be used for any other purpose unless the District takes the same highest-level action to remove or change the constraint. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Board.

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

Unassigned fund balance – amounts that are available for any purpose.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, then finally unassigned funds, as needed, unless the District Board of Directors has provided otherwise in its commitment or assignment actions.

NOTE 2 - CASH AND INVESTMENTS

Cash and investments as of December 31, 2019, are classified in the accompanying financial statements as follows:

Statement of net position:	
Cash and investments	\$ 939
Cash and investments - restricted	16,385,986
Total cash and investments	<u>\$ 16,386,925</u>
Deposits with financial institutions	\$ 939
Investments	16,385,986
Total cash and investments	<u>\$ 16,386,925</u>

Cash Deposits

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

INDEPENDENCE METROPOLITAN DISTRICT NO. 3
NOTES TO FINANCIAL STATEMENTS

NOTE 2 - CASH AND INVESTMENTS (CONTINUED)

At December 31, 2019, the District's cash deposits had a bank balance of \$1,434, and a carrying balance of \$939. At December 31, 2019, of the District's deposits were covered by the Federal Deposit Insurance Corporation (FDIC).

Credit Risk

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

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

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

The District generally limits its concentration of investments to those noted with an asterisk (*) above, 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 disclosure requirements or subject to investment custodial risk 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.

Interest Rate Risk

Through its bond trustee, UMB, the District invested in the Colorado Local Government Liquid Asset Trust (COLOTRUST), 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 operates similarly to a money market fund and each share is equal in value to \$1.00. The Trust offers shares in two portfolios, COLOTRUST PRIME and COLOTRUST PLUS+. 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 repurchase agreements collateralized by certain obligations of U.S. government agencies. A designated custodial bank serves as custodian for the Trust's portfolios pursuant to a custodian agreement. As of December 31, 2019, the District's investments were held in the COLOTRUST Prime Fund.

INDEPENDENCE METROPOLITAN DISTRICT NO. 3
NOTES TO FINANCIAL STATEMENTS

NOTE 2 - CASH AND INVESTMENTS (CONTINUED)

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 is rated AAAM by Standards & Poor's. COLOTRUST does not have any unfunded commitments, redemption restrictions or redemption notice periods. As of December 31, 2019, COLOTRUST Prime Fund had weighted average maturities of 55 days to reset and 80 days to maturity.

Annual audited financial statements of COLOTRUST can be obtained at: <https://www.colotrust.com/document-center/>

Cash and investments are restricted for the following purposes:

Capital Projects

Cash and investments in the amount of \$11,047,057 are restricted for the payment of capital expenditures related to the development

Debt Service

Cash and investments in the amount of \$5,338,929 are restricted for the payment of debt service on the District's long-term obligations. As described in Note 3, included in restricted cash is \$2,434,761 of reserve funds.

NOTE 3 - LONG-TERM OBLIGATIONS

The following is an analysis of changes in long-term obligations for the year ended December 31, 2019:

	Balance 12/31/2018	Additions	Repayments	Balance 12/31/2019	Due Within One Year
Governmental activities:					
General obligation bonds:					
Series 2019A	\$ -	\$ 25,795,000	\$ -	\$ 25,795,000	\$ -
Series 2019B	-	4,230,000	-	4,230,000	-
Interest on 2019B Bonds	-	304,560	-	304,560	-
Developer advances	-	13,000	-	13,000	-
Interest on Developer advances	-	378	-	378	-
	<u>\$ -</u>	<u>\$ 30,342,938</u>	<u>\$ -</u>	<u>\$ 30,342,938</u>	<u>\$ -</u>

Senior General Obligation Limited Tax Bonds, Series 2019A

On March 7, 2019, the District issued \$25,795,000 of Tax-Exempt Senior General Obligation Bonds Series 2019A (the 2019A Bonds). The 2019A Bonds were issued with an interest rate of 6.25% per annum. Interest is payable semi-annually on June 1 and December 1, commencing on June 1, 2019. Any unpaid interest compounds semi-annually thereafter. The 2019 Bonds mature on December 1, 2049.

Principal is payable each December 1 from the available pledged revenues, if any. The failure to pay principal of or interest on the 2019A Bonds when due shall not constitute an event of default.

INDEPENDENCE METROPOLITAN DISTRICT NO. 3
NOTES TO FINANCIAL STATEMENTS

NOTE 3 - LONG-TERM OBLIGATIONS (CONTINUED)

The 2019A Bonds are secured and payable from the Senior Pledged Revenues, consisting generally of (i) all Senior Property Tax Revenues, (ii) all Senior Specific Ownership Tax Revenues, (iii) all Senior PILOT Revenues, and (iv) all Capital Fees. The District along with Independence Metropolitan District No. 1 and Independence Metropolitan District No. 2 have each covenanted to levy the Senior Required Mill Levy, consisting of ad valorem property taxes. The mill levy is capped at 55 mills. Failure to make any payment does not result in the acceleration of the all principal on the debt. The proceeds of the 2019A Bonds were used to: (i) finance public improvements related to the development, (ii) fund capitalized interest on the 2019A Bonds, (iii) fund the Senior Reserve Fund, and (iv) pay the costs of issuance of the 2019A and 2019B Bonds. The 2019A Bonds are also secured by capitalized interest in the amount of \$3,972,251, the Senior Reserve Fund in the amount of \$2,414,375, and the Senior Surplus Fund, up to \$2,579,500. None of these accounts are available to the holders of the Tax-Exempt Subordinated General Obligation Bonds Series 2019B.

The 2019 Bonds cannot be prepaid prior to June 1, 2024. From June 1, 2024 to May 31, 2025 bonds can be prepaid at a redemption premium of 3%. From June 1, 2025 to May 31, 2026 bonds can be prepaid at a redemption premium of 2%. From June 1, 2026 to May 31, 2027 bonds can be prepaid at a redemption premium of 1%. After May 31, 2027 bonds can be redeemed without premium.

The 2019A Bonds are subject to mandatory sinking fund redemption. The Following table sets forth the estimated debt service payment schedule for the principal of and interest on the notes:

Year Ending December 31,	Principal	Interest	Total
2020	\$ -	\$ 1,612,188	\$ 1,612,188
2021	-	1,612,188	1,612,188
2022	-	1,612,188	1,612,188
2023	-	1,612,188	1,612,188
2024	-	1,612,188	1,612,188
2025-2029	690,000	8,039,689	8,729,689
2030-2034	2,725,000	7,537,502	10,262,502
2035-2039	4,260,000	6,505,939	10,765,939
2040-2044	6,405,000	4,924,376	11,329,376
2045-2049	11,715,000	2,582,804	14,297,804
Total	<u>\$ 25,795,000</u>	<u>\$ 37,651,250</u>	<u>\$ 63,446,250</u>

Subordinated General Obligation Limited Tax Bonds, Series 2019B

On March 7, 2019, the District issued \$4,230,000 of Tax-Exempt Subordinated General Obligation Bonds Series 2019B (the 2019B Bonds). The 2019B Bonds were issued with an interest rate of 9.00% per annum. Interest is payable annually on December 15, commencing on December 15, 2019. Any unpaid interest compounds annually thereafter. The 2019 Bonds mature on December 15, 2049.

The 2019B Bonds are structured as cash flow bonds, meaning that the Indenture contains no scheduled payments of principal on the Bonds other than at maturity. Principal is payable each December 15 from the available pledged revenues, if any, pursuant to a mandatory redemption.

INDEPENDENCE METROPOLITAN DISTRICT NO. 3
NOTES TO FINANCIAL STATEMENTS

NOTE 3 - LONG-TERM OBLIGATIONS (CONTINUED)

All principal is due upon maturity. Payment of principal of and interest on the 2019B Bonds is subordinate to the annual payment of debt service on the 2019A Bonds and to the funding of the Senior Surplus Fund in the Maximum Surplus Amount of \$2,597,500. The failure to pay principal of or interest on the 2019B Bonds when due shall not constitute an event of default. Any amount of unpaid principal of or interest on the 2019B Bonds shall be deemed discharged on December 15, 2059. The 2019B Bonds are secured and payable from the Subordinate Pledged Revenues, consisting generally of (i) all Subordinate Property Tax Revenues, (ii) all Subordinate Specific Ownership Tax Revenues, (iii) all Subordinate PILOT Revenues, and (iv) all Subordinate Capital Fees. The District along with Independence Metropolitan District No. 1 and Independence Metropolitan District No. 2 have each covenanted to levy the Subordinate Required Mill Levy, consisting of ad valorem property taxes. The proceeds of the 2019B Bonds were used to: (i) finance additional public improvements related to the development, and (ii) pay certain other costs of issuance of the 2019B Bonds.

The 2019 Bonds cannot be prepaid prior to June 1, 2024. From June 1, 2024 to May 31, 2025 bonds can be prepaid at a redemption premium of 3%. From June 1, 2025 to May 31, 2026 bonds can be prepaid at a redemption premium of 2%. From June 1, 2026 to May 31, 2027 bonds can be prepaid at a redemption premium of 1%. After May 31, 2027 bonds can be redeemed without premium.

Senior Pledge Agreement

During 2019, the District transferred \$11,875,700 of 2019 Bond proceeds from the Capital Projects Fund to Independence Metropolitan District No. 1 to fund capital expenditures.

Pursuant to the Senior Pledge Agreement, the District, along with Independence Metropolitan District No. 1 and Independence Metropolitan District No. 2, will service the 2019A and 2019B Bonds with revenues derived from the required Senior and Subordinate Mill Levies. The District has recorded an intergovernmental receivable of \$11,875,700 for mills to be levied by Independence Metropolitan District No. 1 and Independence Metropolitan District No. 2. The amount of debt to be serviced by each District is unclear and a significant management estimate.

Developer Advances

The District entered into an Advance and Reimbursement Agreement to repay advances made by the Developer for advances made to the District. The District agreed to repay the Developer for such advances plus accrued interest at the rate of the higher of 7% or prime plus 2%.

Authorized Debt

On November 7, 2017, a majority of qualified electors of the District authorized the issuance of indebtedness in an amount not to exceed \$72,760,000 to fund the development.

At December 31, 2019, the District had authorized and issued indebtedness from the election in the following amounts:

	<u>Authorized</u>	<u>Remaining</u>
Voted debt authorization limit	<u>\$295,520,000</u>	<u>\$265,495,000</u>

INDEPENDENCE METROPOLITAN DISTRICT NO. 3
NOTES TO FINANCIAL STATEMENTS

NOTE 4 - NET POSITION

The District's net position consists of two components – restricted and unrestricted.

The restricted net position includes 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, 2019, as follows:

	<u>Governmental Activities</u>
Restricted net position:	
Debt service	\$ 5,338,929
Capital projects	<u>11,047,057</u>
	<u>\$ 16,385,986</u>

In the government-wide financial statements, the District's liabilities and deferred inflows exceeded assets by \$2,211,883 as a result of interest on and costs incurred for the issuance of the 2019A and 2019B Bonds.

NOTE 5 - INTERFUND TRANSFERS

During 2019, the Capital Projects Fund transferred \$6,397,683 to the Debt Service Fund to fund debt service and reserve accounts as required by the 2019A and 2018B Bonds.

NOTE 6 - RISK MANAGEMENT

Except as provided in the Colorado Governmental Immunity Act, the District may be 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, public officials' liability and workers compensation 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 7 - CONTINGENCY

The property in the service area of the District is currently vacant and undeveloped and there is no assurance that it will be developed as currently contemplated or at all. A number of factors may affect the development, including the overall economy of the region, Elbert County, and the southeast Denver metropolitan area in particular. The collection of property and other taxes is dependent on the development occurring in the District, and the timing of debt service payments is, in part, dependent on the collection of property and other taxes.

INDEPENDENCE METROPOLITAN DISTRICT NO. 3
NOTES TO FINANCIAL STATEMENTS

NOTE 7 – CONTINGENCY (CONTINUED)

The developer has estimated the cost of public improvements necessary to serve the property in the development to be approximately \$105 million but could be as high as \$184 million. The developer plans to fund \$61 million of the cost of the development.

NOTE 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, except those governmental activities designated as Enterprises.

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.

On November 7, 2017, the District's voters passed an election question authorized the retention of all revenues received from any source during the 2017 budget year and each budget year thereafter that are in excess of the revenue and fiscal year spending limits that would otherwise apply under Article X, Section 20 of the Colorado Constitution or any other 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.

NOTE 9 - RELATED PARTY

This is one of six districts and board members serve on all Districts. The developer of the infrastructure which constitutes the development is owned in part by Craft Bandera Acquisition Company, LLC. and Craft Companies, LLC. All members of the Board of Directors are employed by, are owners of, or are consultants to the developer, and may have a conflict of interest in dealing with the District.

Districts No. 1-3 will build the infrastructure. The roads and related infrastructure will be donated to Elbert County. The water and sanitation infrastructure will be donated to the Independence Water and Sanitation District. The developer of the infrastructure which constitutes the District is Craft Bandera Acquisition Company, LLC and Craft Companies, LLC. During this year, the District received advances from the Developer totaling \$13,000. At December 31, 2019, the District owed the Developer \$13,000 and accrued interest of \$378.

INDEPENDENCE METROPOLITAN DISTRICT NO. 3
NOTES TO FINANCIAL STATEMENTS

NOTE 10 – ACCOUNTING PRONOUNCEMENTS

During the year ended December 31, 2019 the District implemented the following GASB statements.

Governmental Accounting Standards Board Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). It establishes criteria for determining the timing and pattern of the recognition of a liability and a corresponding deferred outflow of resources for AROs and also requires disclosure of information about the nature of a government's AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. As a result of implementing this statement, the District recorded no additional transactions related to AROs.

Governmental Accounting Standards Board Statement No. 84 *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This statement changes the definition of fiduciary activities, providing more refined guidance on how to determine if activity is fiduciary in nature and therefore should be reported as such. The statement defines types of fiduciary funds, eliminating Agency Funds and replacing them with Custodial Funds. Under this guidance, all fiduciary funds will now report a net position and a statement of changes in that net position. As a result of implementing this statement, the District recorded no additional transactions related to fiduciary activities.

Governmental Accounting Standards Board Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. The objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements and also clarify which liabilities governments should include when disclosing information related to debt. The impact of statement can be seen in change in Note 3 Long-Term Obligations.

Governmental Accounting Standards Board Statement No. 90, *Majority Equity Interests - An Amendment of GASB Statement No. 14 and No. 61*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit. The implementation of this statement by the District did not result in any additional component units being included in the reporting entity.

SUPPLEMENTARY INFORMATION

INDEPENDENCE METROPOLITAN DISTRICT NO. 3
CAPITAL PROJECTS FUND – SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
DECEMBER 31, 2019

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues				
Investment income	\$ -	\$ 250,000	\$ 264,128	\$ 14,128
Total revenues	<u>-</u>	<u>250,000</u>	<u>264,128</u>	<u>14,128</u>
Expenditures				
Current:				
Bank charges	-	22,000	21,866	134
Debt service:				
Bond cost of issuance	-	304,022	946,822	(642,800)
Total expenditures	<u>-</u>	<u>326,022</u>	<u>968,688</u>	<u>(642,666)</u>
Excess of revenues over (under) expenditures	-	(76,022)	(704,560)	(628,538)
Other Financing Sources (Uses)				
Bond proceeds Series 2019A	22,165,170	25,279,100	25,795,000	515,900
Bond proceeds Series 2019B	-	4,103,100	4,230,000	126,900
Transfer to debt service fund	-	(6,397,683)	(6,397,683)	-
Transfer to District #1 capital projects fund	-	(15,000,000)	(11,875,700)	3,124,300
Total other financing sources (uses)	<u>22,165,170</u>	<u>7,984,517</u>	<u>11,751,617</u>	<u>3,767,100</u>
Net change in fund balance	<u>\$ 22,165,170</u>	<u>\$ 7,908,495</u>	11,047,057	<u>\$ 3,138,562</u>
Fund balances, beginning of year			<u>-</u>	
Fund balances, end of year			<u>\$ 11,047,057</u>	

INDEPENDENCE METROPOLITAN DISTRICT NO. 3
DEBT SERVICE FUND – SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
DECEMBER 31, 2019

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues				
Investment income	\$ -	\$ 80,000	\$ 100,492	\$ 20,492
Total revenues	<u>-</u>	<u>80,000</u>	<u>100,492</u>	<u>20,492</u>
Expenditures				
Current:				
Bank charges	-	7,500	8,323	(823)
Debt service:				
Interest expense	-	1,150,923	1,150,923	-
Total expenditures	<u>-</u>	<u>1,158,423</u>	<u>1,159,246</u>	<u>(823)</u>
Excess of revenues over (under) expenditures	-	(1,078,423)	(1,058,754)	19,669
Other Financing Sources (Uses)				
Transfer in from capital projects fund	-	6,397,683	6,397,683	-
Total other financing sources (uses)	<u>-</u>	<u>6,397,683</u>	<u>6,397,683</u>	<u>-</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 5,319,260</u>	5,338,929	<u>\$ 19,669</u>
Fund balances, beginning of year			<u>-</u>	
Fund balances, end of year			<u>\$ 5,338,929</u>	