

HAWTHORN METROPOLITAN DISTRICT
Jefferson County, Colorado

FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

YEAR ENDED DECEMBER 31, 2022

**HAWTHORN METROPOLITAN DISTRICT
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YEAR ENDED DECEMBER 31, 2022**

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Dazzio & Associates, PC

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Hawthorn Metropolitan District
Jefferson County, Colorado

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities and each major fund of the Hawthorn Metropolitan District (the 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, and the respective changes in financial position and the respective budgetary comparisons for the General Fund and the Special Revenue 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 our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Required Supplementary Information

Management has 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 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.

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

Other Information

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

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

Duggio & Associates, P.C.

May 31, 2023

BASIC FINANCIAL STATEMENTS

**HAWTHORN METROPOLITAN DISTRICT
STATEMENT OF NET POSITION
DECEMBER 31, 2022**

	Governmental Activities
ASSETS	
Cash and Investments	\$ 138,188
Cash and Investments - Restricted	279,077
Receivable from County Treasurer	3,510
Accounts Receivable	3,608
Prepaid Expenses	450
Property Taxes Receivable	688,364
Capital Assets, Net of Accumulated Depreciation	883,594
Total Assets	<u>1,996,791</u>
DEFERRED OUTFLOWS OF RESOURCES	
Cost of Refunding	710,931
Total Deferred Outflows of Resources	<u>710,931</u>
LIABILITIES	
Accounts Payable	41,703
Accrued Interest Payable	28,087
Noncurrent Liabilities:	
Due Within One Year	90,000
Due in More Than One Year	8,659,413
Total Liabilities	<u>8,819,203</u>
DEFERRED INFLOWS OF RESOURCES	
Property Tax Revenue	688,364
Total Deferred Inflows of Resources	<u>688,364</u>
NET POSITION	
Net Investment in Capital Assets	(340,573)
Restricted for:	
Emergency Reserves	7,800
Debt Service	245,632
Unrestricted	<u>(6,712,704)</u>
Total Net Position	<u><u>\$ (6,799,845)</u></u>

See accompanying Notes to Basic Financial Statements.

**HAWTHORN METROPOLITAN DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2022**

		Program Revenues			Net Revenues (Expenses) and Change in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
	<u>Expenses</u>				
FUNCTIONS/PROGRAMS					
Primary Government:					
Governmental Activities:					
General Government	\$ 318,527	\$ -	\$ -	\$ -	\$ (318,527)
Interest and Related Costs on Long-Term Debt	<u>764,579</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(764,579)</u>
Total Governmental Activities	<u>\$ 1,083,106</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(1,083,106)</u>
GENERAL REVENUES					
Property Taxes					792,419
Specific Ownership Taxes					54,490
Interest Income					<u>6,832</u>
Total General Revenues					<u>853,741</u>
CHANGE IN NET POSITION					(229,365)
Net Position - Beginning of Year					<u>(6,570,480)</u>
NET POSITION - END OF YEAR					<u>\$ (6,799,845)</u>

See accompanying Notes to Basic Financial Statements.

**HAWTHORN METROPOLITAN DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2022**

	General	Debt Service	Total Governmental Funds
ASSETS			
Cash and Investments	\$ 138,188	\$ -	\$ 138,188
Cash and Investments - Restricted	7,800	271,277	279,077
Receivable from County Treasurer	1,068	2,442	3,510
Accounts Receivable	3,608	-	3,608
Prepaid Expenses	450	-	450
Property Taxes Receivable	266,495	421,869	688,364
Total Assets	<u>\$ 417,609</u>	<u>\$ 695,588</u>	<u>\$ 1,113,197</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES			
LIABILITIES			
Accounts Payable	\$ 41,703	\$ -	\$ 41,703
Total Liabilities	41,703	-	41,703
DEFERRED INFLOWS OF RESOURCES			
Deferred Property Tax Revenue	266,495	421,869	688,364
Total Deferred Inflows of Resources	266,495	421,869	688,364
FUND BALANCES			
Nonspendable:			
Prepaid Expenses	450	-	450
Restricted for:			
Emergencies (TABOR)	7,800	-	7,800
Debt Service	-	273,719	273,719
Assigned for:			
Subsequent Year Expenditure	99,851	-	99,851
Unassigned	1,310	-	1,310
Total Fund Balances	<u>109,411</u>	<u>273,719</u>	<u>383,130</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 417,609</u>	<u>\$ 695,588</u>	
Amounts reported for governmental activities in the statement of net position are different because:			
Capital assets are reported as assets on the statement of net position but are recorded as expenditures in the funds.			
Capital Assets, Net of Accumulated Depreciation			883,594
Other long-term assets are not available to pay for current period expenditures and, therefore, are not reported in the funds.			
Cost of Refunding			710,931
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.			
Loan Payable			(8,550,000)
Loan Interest Payable			(28,087)
Developer Advances Payable			(120,000)
Accrued Interest on Developer Advances			(79,413)
Net Position of Governmental Activities			<u>\$ (6,799,845)</u>

See accompanying Notes to Basic Financial Statements.

HAWTHORN METROPOLITAN DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2022

	General	Debt Service	Total Governmental Funds
REVENUES			
Property Taxes	\$ 241,064	\$ 551,355	\$ 792,419
Specific Ownership Taxes	16,576	37,914	54,490
Interest Income	112	6,720	6,832
Total Revenues	<u>257,752</u>	<u>595,989</u>	<u>853,741</u>
EXPENDITURES			
Current:			
Accounting	28,134	-	28,134
Audit	4,900	-	4,900
County Treasurer's Fees	3,618	8,274	11,892
Covenant Enforcement	318	-	318
Directors' Fees	2,000	-	2,000
District Management	13,437	-	13,437
Dues	554	-	554
Election	2,879	-	2,879
Grounds Cleanup	1,793	-	1,793
Insurance	10,993	-	10,993
Irrigation Repairs	1,647	-	1,647
Landscape Improvements	20,538	-	20,538
Landscape Maintenance Contract	29,055	-	29,055
Legal	51,237	-	51,237
Miscellaneous	2,680	-	2,680
North Table Mountain IGA	16,618	-	16,618
Snow Removal	12,625	-	12,625
Trash Removal	47,389	-	47,389
Water	5,076	-	5,076
Website	564	-	564
Debt Service:			
Bond Interest - Series 2017A	-	145,313	145,313
Loan Interest	-	125,018	125,018
Loan Issue Costs	-	244,400	244,400
Loan Principal	-	165,000	165,000
Paying Agent Fees	-	8,000	8,000
Total Expenditures	<u>256,055</u>	<u>696,005</u>	<u>952,060</u>
EXCESS OF REVENUES OVER (UNDER)			
EXPENDITURES	1,697	(100,016)	(98,319)
OTHER FINANCING SOURCES (USES)			
Loan Issuance	-	8,715,000	8,715,000
Payment to Escrow Agent	-	(8,889,901)	(8,889,901)
Total Other Financing Sources (Uses)	<u>-</u>	<u>(174,901)</u>	<u>(174,901)</u>
NET CHANGE IN FUND BALANCES	1,697	(274,917)	(273,220)
Fund Balances - Beginning of Year	<u>107,714</u>	<u>548,636</u>	<u>656,350</u>
FUND BALANCES - END OF YEAR	<u><u>\$ 109,411</u></u>	<u><u>\$ 273,719</u></u>	<u><u>\$ 383,130</u></u>

See accompanying Notes to Basic Financial Statements.

**HAWTHORN METROPOLITAN DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF THE GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2022**

Net Change in Fund Balances - Governmental Funds \$ (273,220)

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 any cost of any depreciable asset over the estimated useful life of the asset.

Depreciation (62,472)

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

Bond Principal Refunded	7,698,000
Bond Premium Refunded	91,574
Bond Interest Refunded	910,839
Deferred Costs of Bond Refunding	(535,816)
Deferred Costs of Loan Refunding	725,304
Loan Issuance	(8,715,000)
Loan Principal Payment	165,000

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

Amortization of Deferred Cost of Refunding	(14,373)
Accrued Interest on Developer Advances - Change in Liability	(9,600)
Accrued Interest on Bonds - Change in Liability	(181,514)
Accrued Interest on Loans - Change in Liability	(28,087)

Change in Net Position of Governmental Activities \$ (229,365)

**HAWTHORN METROPOLITAN DISTRICT
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL
YEAR ENDED DECEMBER 31, 2022**

	Original and Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Property Taxes	\$ 241,477	\$ 241,064	\$ (413)
Specific Ownership Taxes	16,903	16,576	(327)
Interest Income	100	112	12
Total Revenues	<u>258,480</u>	<u>257,752</u>	<u>(728)</u>
EXPENDITURES			
Current:			
Accounting	28,600	28,134	466
Audit	5,500	4,900	600
County Treasurer's Fees	3,622	3,618	4
Covenant Enforcement	15,000	318	14,682
Design Review	5,000	-	5,000
Directors' Fees	2,000	2,000	-
District Management	18,000	13,437	4,563
Dues	750	554	196
Election	4,000	2,879	1,121
Electricity	250	-	250
Engineering - Underdrain	5,000	-	5,000
Grounds Cleanup	3,500	1,793	1,707
Insurance	12,300	10,993	1,307
Irrigation Repairs	3,000	1,647	1,353
Landscape Improvements	75,000	20,538	54,462
Landscape Maintenance Contract	25,000	29,055	(4,055)
Legal	40,000	51,237	(11,237)
Miscellaneous	2,003	2,680	(677)
North Table Mtn IGA	16,275	16,618	(343)
Postage and Copies	500	-	500
Snow Removal	15,000	12,625	2,375
Social Activities	3,000	-	3,000
Trash Removal	46,200	47,389	(1,189)
Water	5,000	5,076	(76)
Website	500	564	(64)
Total Expenditures	<u>335,000</u>	<u>256,055</u>	<u>78,945</u>
NET CHANGE IN FUND BALANCE	(76,520)	1,697	78,217
Fund Balance - Beginning of Year	<u>129,950</u>	<u>107,714</u>	<u>(22,236)</u>
FUND BALANCE - END OF YEAR	<u><u>\$ 53,430</u></u>	<u><u>\$ 109,411</u></u>	<u><u>\$ 55,981</u></u>

See accompanying Notes to Basic Financial Statements.

**HAWTHORN METROPOLITAN DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE 1 DEFINITION OF REPORTING ENTITY

Hawthorn Metropolitan District (the District), a quasi-municipal corporation and political subdivision of the State of Colorado, was organized by order and decree of the District Court for the County of Jefferson, Colorado on December 5, 2012, and is governed pursuant to provisions of the Colorado Special District Act (Title 32, Article 1, Colorado Revised Statutes). The District was organized as Hawthorn Metropolitan District No. 2, and subsequently on July 8, 2022, pursuant to an order of the District Court for the County of Jefferson, the District's name was changed to Hawthorn Metropolitan District.

The District was established to provide financing for the operations and maintenance and design, acquisition, installation, construction and completion of public improvements and services, including water, sanitation/storm sewer, streets, park and recreation, transportation, mosquito control, safety protection, fire protection, television relay and translation, and security. The District provides covenant control and was organized in conjunction with Hawthorn Metropolitan District No. 1 (District No. 1), which previously served as the Operating District, and was dissolved pursuant to an Order for Dissolution, issued on September 10, 2021.

On December 7, 2015, District No. 1 approved, and the District accepted, the assignment of any of District No. 1's rights, duties, and obligations under the Covenants and Restrictions of Hawthorn which have been recorded and filed with the County Clerk and Recorder.

The District is not authorized to plan for, design, acquire, construct, install, relocate, redevelop, finance, operate, or maintain fire protection facilities or services, unless such facilities and services are provided as part of an intergovernmental agreement with the County.

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

The District 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 operations and administrative functions are contracted.

**HAWTHORN METROPOLITAN DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Government-Wide and Fund Financial Statements

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

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

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

**HAWTHORN METROPOLITAN DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation
(Continued)**

The District reports the following major governmental funds:

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

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

Budgets

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

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

Pooled Cash and Investments

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

Property Taxes

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

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

**HAWTHORN METROPOLITAN DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets

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

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

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable. Depreciation expense has been computed using the straight-line method over the estimated economic useful lives:

Structures	20 Years
Landscaping	20 Years
Parks and Recreation	20 Years

Amortization

In the government-wide financial statements, bond premiums are deferred and amortized over the life of the bonds using the effective interest method.

In the fund financial statements, governmental fund types recognize bond premiums, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

Deferred Inflows/Outflows of Resources

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net assets that applies to a future period and so will not be recognized as an outflow of resources (expense) until that time. The District has one item that qualifies for reporting in this category. Accordingly, the item, cost of refunding, is deferred and recognized as an outflow of resources in the period that the amount is incurred.

**HAWTHORN METROPOLITAN DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Inflows/Outflows of Resources (Continued)

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

Equity

Net Position

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

Fund Balance

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

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

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

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

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

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

**HAWTHORN METROPOLITAN DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Equity (Continued)

Fund Balance (Continued)

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

NOTE 3 CASH AND INVESTMENTS

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

Statement of Net Position:

Cash and Investments	\$ 138,188
Cash and Investments - Restricted	279,077
Total Cash and Investments	<u>\$ 417,265</u>

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

Deposits with Financial Institutions	\$ 145,988
Investments	271,277
Total Cash and Investments	<u>\$ 417,265</u>

Deposits with Financial Institutions

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

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

At December 31, 2022, the District's cash deposits had a bank balance and carrying balance of \$145,988.

Investments

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

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

**HAWTHORN METROPOLITAN DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE 3 CASH AND INVESTMENTS (CONTINUED)

Investments (Continued)

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

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

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

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

<u>Investment</u>	<u>Maturity</u>	<u>Amount</u>
Morgan Stanley Liquid Government Money Market Funds	Weighted-Average 6 Days	<u>\$ 271,277</u>

Fair Value Measurement

The District categorizes its fair value measurements within the fair value hierarchy established by the generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are the 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 the following recurring fair value measurements as of December 31, 2022:

Level 1 Inputs

Morgan Stanley Institutional Liquidity Funds

At December 31, 2022, all of District's funds held in trust accounts at United Missouri Bank were invested in the Morgan Stanley Institutional Liquidity Funds Treasury Portfolio that are valued using quoted market prices in active markets for identical assets. This portfolio is managed by Morgan Stanley and each share is equal in value to \$1.00. The fund is AAAM rated by Standard and Poor's and invests in a process that seeks to select maturities based on the shape of the money market yield curve and on expectations as to future shifts in the level and shape of the curve, taking into consideration such factors as current short-term interest rates, Federal Reserve policy regarding interest rates, and U.S. economic activity. The average maturity of the underlying securities is 6 days.

**HAWTHORN METROPOLITAN DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE 4 CAPITAL ASSETS

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

	Balance - December 31, 2021	Increases	Decreases	Balance - December 31, 2022
General Government Activities				
Capital Assets, Being				
Depreciated:				
Structures	\$ 187,200	\$ -	\$ -	\$ 187,200
Landscaping	623,091	-	-	623,091
Parks and Recreation	439,144	-	-	439,144
Total Capital Assets, Being				
Depreciated	1,249,435	-	-	1,249,435
Less Accumulated Depreciation for:				
Structures	(46,800)	(9,360)	-	(56,160)
Landscaping	(146,784)	(31,155)	-	(177,939)
Parks and Recreation	(109,785)	(21,957)	-	(131,742)
Total Accumulated				
Depreciation	(303,369)	(62,472)	-	(365,841)
Total Capital Assets, Being				
Depreciated, Net	946,066	(62,472)	-	883,594
Capital Assets, Net	<u>\$ 946,066</u>	<u>\$ (62,472)</u>	<u>\$ -</u>	<u>\$ 883,594</u>

At December 31, 2022, depreciation expense was charged to the general government function of the District in the amount of \$62,472.

NOTE 5 LONG-TERM OBLIGATIONS

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

	Balance - December 31, 2021	Additions	Retirements	Balance - December 31, 2022	Due Within One Year
Bonds Payable:					
G.O. Bonds - Series 2017A	\$ 5,950,000	\$ -	\$ 5,950,000	\$ -	\$ -
G.O. Bonds - Series 2017B	820,000	-	820,000	-	-
G.O. Bonds - Series 2017C	928,000	-	928,000	-	-
G.O. Loan - Series 2022	-	8,715,000	165,000	8,550,000	90,000
Accrued and Unpaid Interest - 2017B	268,415	75,493	343,908	-	-
Accrued and Unpaid Interest - 2017C	436,691	130,240	566,931	-	-
Bond Premium	91,574	-	91,574	-	-
Total Bonds Payable	8,494,680	8,920,733	8,865,413	8,550,000	90,000
Other Debts:					
Developer Advances	120,000	-	-	120,000	-
Accrued Interest - Developer Advances	69,813	9,600	-	79,413	-
Total Long-Term Obligations	<u>\$ 8,684,493</u>	<u>\$ 8,930,333</u>	<u>\$ 8,865,413</u>	<u>\$ 8,749,413</u>	<u>\$ 90,000</u>

**HAWTHORN METROPOLITAN DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE 5 LONG-TERM OBLIGATIONS (CONTINUED)

\$6,210,000 Series 2017A General Obligation (Limited Tax Convertible to Unlimited Tax) Refunding Bonds

\$820,000 Series 2017B Subordinate Limited Tax General Obligation Refunding and Improvement Bonds

\$928,000 Series 2017C Limited Tax Junior Lien Subordinate General Obligation Bonds

On December 14, 2017, the District issued its \$6,210,000 General Obligation Refunding Bonds, Series 2017A (2017A Bonds), its \$820,000 Subordinate Limited Tax General Obligation Refunding and Improvement Bonds, Series 2017B (2017B Bonds) and its \$928,000 Limited Tax Junior Lien Subordinate General Obligation Bonds (2017C Bonds). The proceeds from the sale of the 2017A Bonds were applied to refunding the Series 2014 and Series 2015 Bonds of the District and paying the costs of issuing the 2017 Bonds. The proceeds from the sale of the 2017B Bonds were applied to refunding the remainder of the Series 2015 Bonds, reimbursing Developer advances related to public improvements for the District and paying the costs of issuing the 2017B Bonds. The proceeds from the sale of the 2017C Bonds were used to reimburse Developer advances related to public improvements for the District and paying certain costs of issuing the 2017C Bonds.

Concurrently with the refunding of the Series 2014 and Series 2015 bonds, the Developer forgave \$3,186,259 in outstanding obligations. Restrictions on the monies restricted for interest payments and the reserve account pertaining to the defeased bonds were removed under the new refunding. The defeased bonds are not considered a liability of the District since sufficient funds in the amount of \$6,685,765 were deposited with a trustee and invested in U.S. government securities for the purpose of paying the principal and interest of the defeased bonds until the call date, at which point the bonds will be repaid in their entirety from the remaining funds in the escrow account. The Series 2014 Bonds were redeemed on December 1, 2019. The Series 2015 Bonds were redeemed on December 15, 2019.

The 2017A Bonds bear interest at 4.5% and 5.0%, payable semi-annually on June 1 and December 1, beginning on June 1, 2018. Annual mandatory sinking fund principal payments are due on December 1, beginning on December 1, 2018. The 2017A Bonds mature on December 1, 2032 and December 1, 2047.

The 2017A Bonds are also secured by the amounts on deposit in the Surplus Fund. Prior to the date upon which the Debt to Assessed Ratio is equal to 50% or less, 2017A Pledged Revenue that is not needed to pay debt service on the Senior Bonds in any year will be deposited to and held in the Surplus Fund, up to the Maximum Surplus Amount of \$621,000. Pursuant to the 2017A Indenture, the Surplus Fund will be terminated when the Debt to Assessed Ratio is equal to or less than 50% (if ever) and, any monies therein applied to any legal purpose of the District. Under the 2017B Indenture, any amounts in the Surplus Fund upon termination of such funds are pledged to the payment of the 2017B Bonds.

**HAWTHORN METROPOLITAN DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE 5 LONG-TERM OBLIGATIONS (CONTINUED)

\$6,210,000 Series 2017A General Obligation (Limited Tax Convertible to Unlimited Tax) Refunding Bonds

\$820,000 Series 2017B Subordinate Limited Tax General Obligation Refunding and Improvement Bonds

\$928,000 Series 2017C Limited Tax Junior Lien Subordinate General Obligation Bonds (Continued)

The 2017A Senior 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 (and if in part in such order of maturities as the District shall determine and by lot within maturities), on December 1, 2022, and on any date thereafter, upon payment of par, accrued interest, and a redemption premium equal to a percentage of the principal amount so redeemed, as follows:

<u>Date of Redemption</u>	<u>Redemption Premium</u>
December 1, 2022 to November 30, 2023	3.00 %
December 1, 2023 to November 30, 2024	2.00
December 1, 2024 to November 30, 2025	1.00
December 1, 2025 and Thereafter	-

The 2017B Bonds bear interest at 7.25% per annum, are payable annually from Subordinate Pledged Revenue, if any, on December 15, beginning on December 15, 2018, and mature on December 15, 2047. The 2017B Bonds are structured as cash flow bonds meaning that there are no scheduled payments of principal prior to the final maturity date. Unpaid interest on the 2017B Bonds compounds annually on each December 15. All of the 2017B Bonds and interest thereon will be deemed to be paid, satisfied, and discharged on December 15, 2057, regardless of the amount of principal and interest paid on the 2017B Bonds prior to such Subordinate Termination Date.

The 2017B Subordinate 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 (and if in part in such order of maturities as the District shall determine and by lot within maturities), on December 15, 2022, and on any date thereafter, upon payment of par, accrued interest, and a redemption premium equal to a percentage of the principal amount so redeemed, as follows:

<u>Date of Redemption</u>	<u>Redemption Premium</u>
December 15, 2022 to December 14, 2023	3.00 %
December 15, 2023 to December 14, 2024	2.00
December 15, 2024 to December 14, 2025	1.00
December 15, 2025 and Thereafter	-

**HAWTHORN METROPOLITAN DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE 5 LONG-TERM OBLIGATIONS (CONTINUED)

\$6,210,000 Series 2017A General Obligation (Limited Tax Convertible to Unlimited Tax) Refunding Bonds

\$820,000 Series 2017B Subordinate Limited Tax General Obligation Refunding and Improvement Bonds

\$928,000 Series 2017C Limited Tax Junior Lien Subordinate General Obligation Bonds (Continued)

The 2017C Bonds bear interest at the rate of 10.00% per annum, and are payable annually from Junior Subordinate Pledged Revenue, if any available, on each December 15, commencing on the first December 15 occurring after the 2017B Bonds have been paid in full or are no longer outstanding, and mature on December 15, 2051. The 2017C Bonds are structured as cash flow bonds meaning that there are no scheduled payments of principal prior to the final maturity date. Unpaid interest on the 2017C Bonds compounds annually on each December 15. All of the 2017C Bonds and interest thereon will be deemed to be paid, satisfied, and discharged on December 15, 2057, regardless of the amount of principal and interest paid on the 2017C Bonds prior to such Termination Date.

The 2017C Subordinate 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 (and if in part in such order of maturities as the District shall determine and by lot within maturities), on December 15, 2022, and on any date thereafter, upon payment of par, accrued interest, and a redemption premium equal to a percentage of the principal amount so redeemed, as follows:

<u>Date of Redemption</u>	<u>Redemption Premium</u>
December 15, 2022 to December 14, 2023	3.00 %
December 15, 2023 to December 14, 2024	2.00
December 15, 2024 to December 14, 2025	1.00
December 15, 2025 and Thereafter	-

In the government-wide statements, the purchase price of the Series 2017A bonds included a premium in the amount of \$113,094, which has been deferred and is being amortized over the life of the new debt.

Proceeds from the issuance of the Series 2022 General Obligation Refunding Loan (discussion follows) were placed in an irrevocable trust under an escrow agreement. The funds were used to pay the outstanding principal and interest on the Series 2017A Bonds on December 1, 2022, and the Series 2017B Bonds and Series 2017C Bonds on December 15, 2022.

**HAWTHORN METROPOLITAN DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE 5 LONG-TERM OBLIGATIONS (CONTINUED)

\$8,715,000 Series 2022 General Obligation Refunding Loan

On August 3, 2022, the District issued its \$8,715,000 General Obligation Refunding Loan, Series 2022 (the Loan) maturing on December 1, 2052. The Loan was issued for the following purposes: to refund and pay \$5,950,000 of the outstanding portion of the District's General Obligation (Limited Tax Convertible to Unlimited Tax) Refunding Bonds, Series 2017A; to refund and pay \$820,000 of the outstanding portion of the District's Subordinate Limited Tax General Refunding and Improvement Bonds, Series 2017B; to refund and pay \$928,000 of the outstanding portion of the District's Limited Tax Junior Lien Subordinate General Refunding, Series 2017C; and to pay for issuance costs of the Loan. The District refunded the Series 2017A, 2017B and 2017C Bonds, having interest rates ranging from 4.500% to 10.000%, with the Series 2022 Loan, having an average interest rate of 3.919%, to reduce its total debt services payments over the next 31 years by \$1,986,253 and to obtain an economic gain of \$1,785,103. The Loan is not subject to acceleration. The Loan does not have any unused lines of credit. No assets have been pledged as collateral on the Loan.

In the event that any amount of principal of or interest on the Loan (or any other outstanding Annual Debt Requirements) remains unpaid after the application of all Pledged Revenue available therefor on December 1, 2057, the Loan, the Note and any lien of the Loan Agreement and the Note securing payment thereof shall be deemed discharged, the estate and rights thereby granted shall cease, terminate, and be void, and the Loan Agreement and the Note shall terminate.

Subject to the Maximum Interest Rate, unless the Default Rate applies, the unpaid principal balance of the Loan will bear interest at the applicable Base Rate. The Base Rate on the Loan was 4.928% per annum until the Tax-Exempt Reissuance Date occurred on September 16, 2022 and 3.942% per annum thereafter.

The Default Rate means a rate of interest equal to the lesser of the Wall Street Journal Prime Rate in effect as of the date of any Material Event of Default, as indicated in the applicable Default Rate Notice, plus 4.00%; or 18.00%.

The maximum Net Effective Interest Rate that the District is authorized to pay with respect to the Loan is the Maximum Rate of 18.000%, and the Loan shall not bear interest at a rate in any particular Interest Period that would cause the Net Effective Interest Rate on the Loan, calculated as of the end of such Interest Period, to exceed the Maximum Rate. If the Applicable Interest Rate with respect to any portion of the Loan is in excess of the amount actually paid by the District as a result of the Maximum Rate the difference between the amount of interest that would have been payable on such portion of the Loan had it accrued interest at the Applicable Interest Rate and the actual interest paid by the District on such portion of the Loan (the "Interest Differential") shall remain an obligation of the District. If at any time there is an Interest Differential owed to the Bank, any reduction in interest rate that would result from the application of the Maximum Rate to the Applicable Interest Rate shall not reduce the rate of interest below the Maximum Rate until the total amount due has been paid to the Bank as if the Applicable Interest Rate had at all times been utilized.

**HAWTHORN METROPOLITAN DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE 5 LONG-TERM OBLIGATIONS (CONTINUED)

\$8,715,000 Series 2022 General Obligation Refunding Loan (Continued)

On and after the Interest Reset Date of December 1, 2042 for the period commencing with the Interest Reset Date to the date upon which such portion of the Loan has been paid in full, the Base Rate on such portion of the Loan shall be the greater of: (A) the sum of the 10-Year U.S. Treasury Rate plus 175 basis points, multiplied by 80%, or (B) 3.75%. For purposes of estimating the Schedule of Debt Service Requirements to Maturity and calculating the net present value saving of the issuance a Base Rate of 3.75% is assumed on and after the Interest Reset Date

The Loan is secured by and payable from the Pledged Revenues consisting of monies derived by the district from the following sources, net of any collection costs: (1) all property tax revenues from the Required Mill Levy, (2) the portion of the Specific Ownership Tax which is collected as a result of the imposition of the Required Mill Levy, and (3) any other legally available moneys which the Board determines in its sole discretion to apply 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 Loan as the same become due and payable. The District is required to levy an ad valorem tax to pay the principal of, and interest on, the Loan without limitation as to rate and in an amount sufficient to pay the Loan when due. For collection year 2022, the District levied 55.663 mills for Debt Service.

The Required Mill Levy means, prior to the first date on which the Debt to Assessed Ratio is 50% or less, an ad valorem mill levy (a mill being equal to 1/10 of 1 cent) imposed upon all taxable property of the District each year in an amount necessary to generate Property Tax Revenues sufficient, when combined with moneys then held in the Loan Payment Fund and the Pledged Revenue Fund, to pay the Annual Debt Requirements for the next Fiscal Year, but not in excess of 50 mills; provided however, that if, on or after January 1, 2012, there were or are any changes in the method of calculating assessed valuation, or any constitutionally mandated tax credit, cut, or abatement was or is changed by law, the maximum mill levy of 50 mills provided herein will be increased or decreased to reflect such changes, such increases or decreases to be determined by the Board in good faith (such determination to be binding and final) so that to the extent possible, the actual tax revenues generated by the mill levy, as adjusted, are neither diminished nor enhanced as a result of such changes (for purposes of the foregoing, a change in the ratio of actual valuation to assessed valuation shall be deemed to be a change in the method of calculating assessed valuation).

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After the first date on which the Debt to Assessed Ratio is 50% or less, the Required Mill Levy means, an ad valorem mill levy imposed upon all taxable property of the District each year in an amount necessary (without limitation as to rate) to generate Property Tax Revenues sufficient, when combined with moneys then held in the Loan Payment Fund and the Pledged Revenue Fund, to pay the Annual Debt Requirements for the next Fiscal Year.

**HAWTHORN METROPOLITAN DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE 5 LONG-TERM OBLIGATIONS (CONTINUED)

\$8,715,000 Series 2022 General Obligation Refunding Loan (Continued)

The occurrence of any one or more of the following events or conditions will constitute an event of default unless remedied.

- (a) failure or refusal to impose the Required Mill Levy or to apply the Pledged Revenue as required by the Loan Agreement;
- (b) failure to observe or perform any of the covenants, agreements or conditions of the Loan agreement or other Financing Documents, and the District fails to remedy the same within 30 days after the bank has provided the District provided notice thereof; failure to pay the principal, interest, or other amount payable to the Bank when due; the pledge of the Pledged Revenue or any other security interest created under the loan agreement or under the Custodial Agreement fails to be fully enforceable with the priority required;
- (c) failure to pay principal of or interest when due on the Loan and continuance of such default beyond any grace period;
- (d) the pledge of the Pledged Revenue or any other security interest created under the Loan Agreement or under the Custodial Agreement fails to be fully enforceable with the priority required under the respective agreement;
- (e) commencement of any case, proceeding, or other action relating to bankruptcy, insolvency, reorganization, or relief of debtors;
- (f) the Loan Agreement, the Custodial Agreement, or any other Financing Document, or any material provision of those, ceases to be valid and binding on the District or is declared null and void, or the validity or enforceability thereof is contested by the District (unless being contested by the District in good faith), or the District denies it has any or further liability under any such document to which it is a party;
- (g) any funds or investments on deposit in, or otherwise to the credit of, any of the funds or accounts established under the Loan Agreement or under the Custodial Agreement shall become subject to any writ, judgment, warrant, attachment, execution, or similar process

The Loan is not subject to acceleration, thus acceleration is not an available remedy for an event of default.

**HAWTHORN METROPOLITAN DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE 5 LONG-TERM OBLIGATIONS (CONTINUED)

\$8,715,000 Series 2022 General Obligation Refunding Loan (Continued)

The District's Series 2022 Loan will mature as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 90,000	\$ 337,041	\$ 427,041
2024	115,000	333,493	448,493
2025	120,000	328,960	448,960
2026	130,000	324,230	454,230
2027	140,000	319,105	459,105
2028-2032	870,000	1,503,676	2,373,676
2033-2037	1,175,000	1,309,138	2,484,138
2038-2042	1,555,000	1,048,178	2,603,178
2043-2047	1,925,000	680,062	2,605,062
2048-2052	2,430,000	281,250	2,711,250
Total	<u>\$ 8,550,000</u>	<u>\$ 6,465,133</u>	<u>\$ 15,015,133</u>

Debt Authorization

At December 31, 2022, the District had authorized but unissued general obligation indebtedness in the following amounts for the following purposes:

	<u>Authorized November 6, 2012 Election</u>	<u>Series 2014 Authorization Used</u>	<u>Series 2015 Authorization Used</u>	<u>Series 2017 Authorization Used</u>	<u>Series 2022 Authorization Used</u>	<u>Remaining at December 31, 2022</u>
Streets	\$ 30,000,000	\$ 1,328,745	\$ 613,000	\$ 501,000	\$ -	\$ 27,557,255
Parks and Recreation	30,000,000	122,231	56,000	46,000	-	29,775,769
Water	30,000,000	548,248	253,000	207,000	-	28,991,752
Sanitation/Storm Sewer	30,000,000	2,130,776	983,000	804,000	-	26,082,224
Transportation	30,000,000	-	-	-	-	30,000,000
Mosquito Control	30,000,000	-	-	-	-	30,000,000
Safety Protection	30,000,000	-	-	-	-	30,000,000
Fire Protection	30,000,000	-	-	-	-	30,000,000
Television & Relay	30,000,000	-	-	-	-	30,000,000
Security	30,000,000	-	-	-	-	30,000,000
Operations & Maintenance	30,000,000	-	-	-	-	30,000,000
Refunding of Debt	30,000,000	-	-	6,400,000	8,715,000	14,885,000
Governmental IGA's	30,000,000	-	-	-	-	30,000,000
Private IGA's	30,000,000	-	-	-	-	30,000,000
Total	<u>\$ 420,000,000</u>	<u>\$ 4,130,000</u>	<u>\$ 1,905,000</u>	<u>\$ 7,958,000</u>	<u>\$ 8,715,000</u>	<u>\$ 397,292,000</u>

Pursuant to the Service Plan, the total debt that the District shall be permitted to issue shall not exceed \$10,000,000, exclusive of refundings. Additionally, the Maximum Debt Mill Levy is 50.000 mills, subject to adjustment for changes in the residential assessment rate occurring after January 1, 2012. For the portion of any aggregate Debt which is equal to or less than fifty percent (50%) of the District's assessed valuation, either on the date of issuance or at any time thereafter, the mill levy to be imposed to repay such portion of Debt shall not be subject to the Maximum Debt Mill Levy and, as a result, the mill levy may be such amount as is necessary to pay the Debt service on such Debt, without limitation of rate.

In the future, the District may issue a portion or all of the remaining authorized but unissued general obligation debt for purposes of providing public improvements to support development as it occurs within the District's service area.

**HAWTHORN METROPOLITAN DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE 6 NET POSITION

The District has net position consisting of three components – net investment in capital assets, restricted, and unrestricted.

Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. As of December 31, 2022, the District had net investment in capital assets calculated as follows:

Net Investment in Capital Assets:

Capital Assets, Net	\$ 883,594
Outstanding Long-Term Debt Applicable to Capital Assets	<u>(1,224,167)</u>
Net Investment in Capital Assets	<u><u>\$ (340,573)</u></u>

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

Restricted Net Assets:

Emergency Reserves	\$ 7,800
Debt Service	<u>245,632</u>
Total Restricted Net Assets	<u><u>\$ 253,432</u></u>

The District has a deficit in unrestricted net position. This deficit amount is a result of the District being responsible for the repayment of debt issued for public improvements, the majority of which were conveyed to other governmental entities, and the repayment of Developer advances and accrued interest on those advances.

**HAWTHORN METROPOLITAN DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE 7 DISTRICT AGREEMENTS

Funding and Reimbursement Agreement

On December 7, 2015, the District and Golden Peaks, LLC entered into a Funding and Reimbursement Agreement for operations and maintenance. This agreement entirely replaced the previously disclosed agreement dated December 10, 2012, between District No. 1 and Golden Peaks (Prior Funding Agreement). The District acknowledged the Prior Funding Agreement for the purpose of providing funding for payment obligations set forth in the Prior Funding Agreement. Golden Peaks agrees to loan up to \$500,000 to the District through December 31, 2017, and the District agrees to reimburse Golden Peaks on an annual appropriations basis at a rate of 8% per annum. Pursuant to the Prior Funding Agreement, Golden Peaks loaned \$80,000 to the Districts, which has been assumed by the District under this Agreement. The District has agreed to reimburse the prior advances to Golden Peaks in addition to any future advances.

On December 7, 2015, the District and the Developer (Hawthorn Development, Inc.) entered into a Funding and Reimbursement Agreement for operations and maintenance. This agreement states that the District does not presently have financial resources to provide funding for payment of its operations and maintenance costs that are projected to be incurred prior to the anticipated availability of funds, and that the Developer is willing to loan funds to the District for such costs. Specifically, the Developer agrees to loan up to \$500,000 to the District through December 31, 2017, and the District agrees to reimburse the Developer on an annual appropriations basis at a rate of 8% per annum. Total principal unpaid as of December 31, 2022 totaled \$120,000. Accrued interest unpaid as of December 31, 2022 totaled \$79,413.

NOTE 8 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, workers compensation, 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.

**HAWTHORN METROPOLITAN DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE 9 TAX, SPENDING, AND DEBT LIMITATIONS

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

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

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

On November 6, 2012, the District's voters approved for an annual increase in taxes of \$5,000,000 for general operations and maintenance without limitation of rate. This election question allowed the District to collect and spend the additional revenue without regard to any spending, revenue raising, or other limitations contained within TABOR.

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.

SUPPLEMENTARY INFORMATION

**HAWTHORN METROPOLITAN DISTRICT
DEBT SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL
YEAR ENDED DECEMBER 31, 2022**

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES				
Property Taxes	\$ 552,300	\$ 552,300	\$ 551,355	\$ (945)
Specific Ownership Taxes	38,661	38,661	37,914	(747)
Interest Income	650	650	6,720	6,070
Other Income	-	371,225	-	(371,225)
Total Revenues	591,611	962,836	595,989	(366,847)
EXPENDITURES				
Bond Interest - Series 2017A	290,625	145,313	145,313	-
Bond Interest - Series 2017B	100,000	-	-	-
Bond Principal - Series 2017A	85,000	-	-	-
Contingency	8,090	371,225	-	371,225
County Treasurer's Fees	8,285	8,285	8,274	11
Loan Interest	-	180,000	125,018	54,982
Loan Issue Costs	-	244,042	244,400	(358)
Loan Principal	-	140,236	165,000	(24,764)
Paying Agent Fees	8,000	8,000	8,000	-
Total Expenditures	500,000	1,097,101	696,005	401,096
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	91,611	(134,265)	(100,016)	34,249
OTHER FINANCING SOURCES (USES)				
Loan Issuance	-	8,755,000	8,715,000	(40,000)
Payment to Escrow Agent	-	(8,902,899)	(8,889,901)	12,998
Total Other Financing Sources (Uses)	-	(147,899)	(174,901)	(27,002)
NET CHANGE IN FUND BALANCE	91,611	(282,164)	(274,917)	7,247
Fund Balance - Beginning of Year	541,614	548,636	548,636	-
FUND BALANCE - END OF YEAR	<u>\$ 633,225</u>	<u>\$ 266,472</u>	<u>\$ 273,719</u>	<u>\$ 7,247</u>

OTHER INFORMATION

**HAWTHORN METROPOLITAN DISTRICT
SCHEDULE OF DEBT SERVICE REQUIREMENTS TO MATURITY
DECEMBER 31, 2022**

\$8,715,000 General Obligation Refunding Loan
Series 2022, Dated August 3, 2022
Interest Rate 3.942% to 4.928%
Payable June 1 and December 1
Principal Due December 1

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 90,000	\$ 337,041	\$ 427,041
2024	115,000	333,493	448,493
2025	120,000	328,960	448,960
2026	130,000	324,230	454,230
2027	140,000	319,105	459,105
2028	155,000	313,586	468,586
2029	160,000	307,476	467,476
2030	175,000	301,169	476,169
2031	180,000	294,270	474,270
2032	200,000	287,175	487,175
2033	205,000	279,291	484,291
2034	225,000	271,210	496,210
2035	235,000	262,340	497,340
2036	250,000	253,076	503,076
2037	260,000	243,221	503,221
2038	280,000	232,972	512,972
2039	295,000	221,935	516,935
2040	315,000	210,306	525,306
2041	325,000	197,888	522,888
2042	340,000	185,077	525,077
2043	340,000	163,312	503,312
2044	365,000	150,562	515,562
2045	390,000	136,875	526,875
2046	405,000	122,250	527,250
2047	425,000	107,063	532,063
2048	445,000	91,125	536,125
2049	465,000	74,437	539,437
2050	485,000	57,000	542,000
2051	505,000	38,813	543,813
2052	530,000	19,875	549,875
Total	<u>\$ 8,550,000</u>	<u>\$ 6,465,133</u>	<u>\$ 15,015,133</u>

**HAWTHORN METROPOLITAN DISTRICT
SCHEDULE OF ASSESSED VALUATION, MILL LEVY, AND PROPERTY TAXES COLLECTED
DECEMBER 31, 2022**

Year Ended December 31,	Prior Year Assessed Valuation for Current Year Property Tax Levy	Mills Levied		Total Property Taxes		Percentage Collected to Levied
		General	Debt Service	Levied	Collected	
2018	\$ 7,676,385	20.241	55.277	\$ 579,706	\$ 579,706	100.00 %
2019	7,856,472	20.241	55.277	593,305	591,875	99.76
2020	8,987,316	20.382	55.663	683,440	683,441	100.00
2021	8,987,286	20.382	55.663	683,438	683,135	99.96
2022	9,922,210	24.337	55.663	793,777	792,419	99.83
Estimated for the Year Ending December 31, 2023	\$ 9,833,770	27.100	42.900	\$ 688,364		

NOTE: Property taxes collected in any one year include collection of delinquent property taxes assessed in prior years, as well as reductions for property tax refunds or abatements. Information received from the County Treasurer does not permit identification of specific year of assessment.