

HIGHLANDS METROPOLITAN DISTRICT NO. 2

Financial Statements

Year Ended December 31, 2016

with

Independent Auditor's Report



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*By the Office of the State Auditor at 1:41 pm, Aug 22, 2017*

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Hiratsuka & Associates, L.L.P.  
Certified Public Accountants & Business Advisors

## **INDEPENDENT AUDITOR'S REPORT**

Board of Directors  
Highlands Metropolitan District No. 2  
City and County of Broomfield, Colorado

We have audited the accompanying financial statements of the governmental activities and each major fund of the Highlands Metropolitan District No. 2 (the District), City and County of Broomfield, Colorado, as of and for the year ended December 31, 2016, 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 (U.S. GAAP); 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.

### **Auditor's Responsibility**

Our responsibility is to express an opinion 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 auditor's judgment, 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 opinion.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each major fund of Highlands Metropolitan District No. 2, City and County of Broomfield, Colorado, as of December 31, 2016, and the respective changes in financial position and, where applicable, the respective budgetary comparison for the General Fund for the year then ended in conformity with U.S. GAAP.

### **Required Supplemental Information**

Management has not presented Management's Discussion and Analysis that U.S. GAAP requires 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 (GASB), 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.

U.S. GAAP require that the Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Debt Service Fund on page 17 and Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Capital Projects Fund on page 18 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by GASB, who consider is to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. The Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Debt Service Fund and Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Capital Projects Fund are the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

#### **Other Matters**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Summary of Assessed Valuation, Mill Levy and Property Taxes Collected was presented for the purpose of additional analysis and was not a required part of the basic financial statements. The Summary of Assessed Valuation, Mill Levy and Property Taxes Collected was the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

The Continuing Disclosure Annual Financial Information – Unaudited as listed in the table of contents has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

*Hiratsuka & Associates, LLP*

August 14, 2017  
Wheat Ridge, Colorado

## Highlands Metropolitan District No. 2

### BALANCE SHEET/STATEMENT OF NET POSITION GOVERNMENTAL FUNDS December 31, 2016

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
<b>ASSETS</b>						
Cash and investments	\$ 4,144	\$ -	\$ -	\$ 4,144	\$ -	\$ 4,144
Cash and investments - restricted	-	1,181,038	2,829,402	4,010,440	-	4,010,440
Receivable - County Treasurer	48	159	-	207	-	207
Property taxes receivable	244	2,440	-	2,684	-	2,684
Receivable - other	247	-	-	247	-	247
Accounts receivable - Developer	2,782	-	4,630	7,412	(7,412)	-
Capital assets not being depreciated	-	-	-	-	3,101,707	3,101,707
Total Assets	<u>\$ 7,465</u>	<u>\$ 1,183,637</u>	<u>\$ 2,834,032</u>	<u>\$ 4,025,134</u>	<u>3,094,295</u>	<u>7,119,429</u>
<b>LIABILITIES</b>						
Accounts Payable	\$ 7,221	\$ -	\$ 13,642	\$ 20,863	-	20,863
Accrued interest	-	-	-	-	42,073	42,073
Long-term liabilities:						
Due in more than one year	-	-	-	-	7,655,480	7,655,480
Total Liabilities	<u>7,221</u>	<u>-</u>	<u>13,642</u>	<u>20,863</u>	<u>7,697,553</u>	<u>7,718,416</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Deferred property taxes	244	2,440	-	2,684	-	2,684
Total Deferred Inflows of Resources	<u>244</u>	<u>2,440</u>	<u>-</u>	<u>2,684</u>	<u>-</u>	<u>2,684</u>
<b>FUND BALANCES/NET POSITION</b>						
Fund Balances:						
Nonspendable:						
Restricted:						
Emergencies	662	-	-	662	(662)	-
Debt service	-	1,181,197	-	1,181,197	(1,181,197)	-
Capital projects	-	-	2,820,390	2,820,390	(2,820,390)	-
Committed:						
Assigned:						
Unassigned	(662)	-	-	(662)	662	-
Total Fund Balances	<u>-</u>	<u>1,181,197</u>	<u>2,820,390</u>	<u>4,001,587</u>	<u>(4,001,587)</u>	<u>-</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 7,465</u>	<u>\$ 1,183,637</u>	<u>\$ 2,834,032</u>	<u>\$ 4,025,134</u>		
Net Position:						
Net investment in capital assets					(4,553,773)	(4,553,773)
Restricted for:						
Emergencies					662	662
Debt service					1,139,124	1,139,124
Capital projects					2,820,390	2,820,390
Unrestricted					<u>(8,074)</u>	<u>(8,074)</u>
Total Net Position					<u>\$ (601,671)</u>	<u>\$ (601,671)</u>

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

## Highlands Metropolitan District No. 2

### STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES/STATEMENT OF ACTIVITIES GOVERNMENTAL FUNDS

For the Year Ended December 31, 2016

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
<b>EXPENDITURES</b>						
Accounting and audit	\$ 4,027	\$ -	\$ 5,855	\$ 9,882	\$ -	\$ 9,882
Insurance	2,751	-	-	2,751	-	2,751
Legal	17,290	-	21,476	38,766	-	38,766
Capital Expenditures	-	-	38,386	38,386	-	38,386
Miscellaneous expenses	24	-	-	24	-	24
Treasurer's fees	7	22	-	29	-	29
Interest expense	-	-	-	-	100,119	100,119
Landscaping	2,456	-	-	2,456	-	2,456
Capital improvements Acquired	-	-	2,563,657	2,563,657	(2,563,657)	-
Bond Issuance Costs	-	-	365,579	365,579	-	365,579
Bond Interest	-	28,978	-	28,978	42,073	71,051
Repay developer advances	-	-	2,852,357	2,852,357	(2,852,357)	-
Total Expenditures	<u>26,555</u>	<u>29,000</u>	<u>5,847,310</u>	<u>5,902,865</u>	<u>(5,273,822)</u>	<u>629,043</u>
<b>GENERAL REVENUES</b>						
Property taxes	449	1,496	-	1,945	-	1,945
Specific ownership taxes	607	2,023	-	2,630	-	2,630
Interest income	132	1,199	3,785	5,116	-	5,116
Total General Revenues	<u>1,188</u>	<u>4,718</u>	<u>3,785</u>	<u>9,691</u>	<u>-</u>	<u>9,691</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>						
	(25,367)	(24,282)	(5,843,525)	(5,893,174)	5,273,822	(619,352)
<b>OTHER FINANCING SOURCES (USES)</b>						
Bond proceeds 2016A	-	-	5,880,000	5,880,000	(5,880,000)	-
Bond Proceeds 2016B	-	-	1,269,000	1,269,000	(1,269,000)	-
Developer advances	25,367	-	2,617,732	2,643,099	(2,643,099)	-
Transfers (to)/from other Funds	-	1,102,967	(1,102,967)	-	-	-
Development fees	-	102,500	-	102,500	-	102,500
Total Other Financing Sources (Uses)	<u>25,367</u>	<u>1,205,467</u>	<u>8,663,765</u>	<u>9,894,599</u>	<u>(9,792,099)</u>	<u>102,500</u>
<b>NET CHANGES IN FUND BALANCES</b>						
	-	1,181,185	2,820,240	4,001,425	(4,001,425)	
<b>CHANGE IN NET POSITION</b>						
					(516,852)	(516,852)
<b>FUND BALANCES/NET POSITION:</b>						
BEGINNING OF YEAR	-	12	150	162	(84,981)	(84,819)
END OF YEAR	<u>\$ -</u>	<u>\$ 1,181,197</u>	<u>\$ 2,820,390</u>	<u>\$ 4,001,587</u>	<u>\$ (4,603,258)</u>	<u>\$ (601,671)</u>

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

## Highlands Metropolitan District No. 2

### STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND

For the Year Ended December 31, 2016

	Original <u>Budget</u>	Final <u>Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
<b>REVENUES</b>				
Property taxes	\$ 448	\$ 448	\$ 449	\$ 1
Specific ownership taxes	31	31	607	576
Interest Income	-	-	132	132
	<u>479</u>	<u>479</u>	<u>1,188</u>	<u>709</u>
<b>EXPENDITURES</b>				
Accounting and audit	6,750	6,750	4,027	2,723
Election expense	2,000	2,000	-	2,000
Insurance	2,500	2,500	2,751	(251)
Legal	10,000	20,000	17,290	2,710
Landscaping	-	-	2,456	(2,456)
Miscellaneous expenses	1,500	1,500	24	1,476
Treasurer's fees	7	7	7	-
Contingency	1,560	1,560	-	1,560
Emergency reserve	683	683	-	683
	<u>25,000</u>	<u>35,000</u>	<u>26,555</u>	<u>8,445</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	(24,521)	(34,521)	(25,367)	9,154
<b>OTHER FINANCING SOURCES (USES)</b>				
Developer advances	<u>24,521</u>	<u>34,521</u>	<u>25,367</u>	<u>(9,154)</u>
<b>Total Other Financing Sources (Uses)</b>	<u>24,521</u>	<u>34,521</u>	<u>25,367</u>	<u>(9,154)</u>
<b>NET CHANGE IN FUND BALANCE</b>	-	-	-	-
<b>FUND BALANCE:</b>				
BEGINNING OF YEAR	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

## HIGHLANDS METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements  
December 31, 2016

### Note 1: Summary of Significant Accounting Policies

The accounting policies of the Highlands Metropolitan District No. 2 (“District”), located in the City and County of Broomfield, Colorado (“Broomfield”), conform to the accounting principles generally accepted in the United States of America (“GAAP”) as applicable to governmental units.

The Governmental Accounting Standards Board (“GASB”) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant policies consistently applied in the preparation of financial statements.

#### Definition of Reporting Entity

The District was organized in June 2008, as a quasi-municipal organization established under the State of Colorado Special District Act. The District was organized concurrently with Highlands Metropolitan District No. 1 (“District No. 1”), and is responsible for providing a portion of the funding for certain residential public capital improvements, facilities and operational requirements. District No. 1 was established to manage the construction and operations of public commercial and residential facilities and improvements in addition to providing part of the funding for capital improvements and for operations. On July 26, 2016 Broomfield approved an Amended and Restated Service Plan for the District, pursuant to this revised service plan the District will no longer be managed by District No. 1 and shall be responsible for implanting its own financing plan. The District’s primary revenues are property taxes. The District is governed by an elected Board of Directors.

As required by GAAP, these financial statements present the activities of the District, which is legally separate and financially independent of other state and local governments. The District follows the GASB pronouncements which provide guidance for determining which governmental activities, organizations and functions should be included within the financial reporting entity. GASB sets 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 pronouncements also require including a possible component unit if it would be misleading to exclude it.

The District is not financially accountable for any other organization. The District has no component units as defined by the GASB.

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

## HIGHLANDS METROPOLITAN DISTRICT NO. 2

### Notes to Financial Statements December 31, 2016

#### Basis of Presentation

The accompanying financial statements are presented per GASB Statement No. 34 - Special Purpose Governments.

The government-wide financial statements (i.e. the governmental funds balance sheet/statement of net position and the governmental funds statement of revenues, expenditures, and changes in fund balances/statement of activities) report information on all of the governmental activities of the District. The statement of net position reports all financial and capital resources of the District. The difference between the (a) assets and deferred outflows of resources and the (b) liabilities and deferred inflows of resources of the District is reported as net position. The statement of activities demonstrates the degree to which expenditures/expenses of the governmental funds are supported by general revenues. For the most part, the effect of interfund activity has been removed from these statements.

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*.

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 the related cash flows. Property taxes are recognized as revenues in the year for which they are collected.

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 material sources of revenue subject to accrual are property taxes and interest. Expenditures, other than interest on long-term obligations, are recorded when the liability is incurred or the long-term obligation is paid.

## HIGHLANDS METROPOLITAN DISTRICT NO. 2

### Notes to Financial Statements December 31, 2016

The District reports the following major governmental funds:

General Fund - The General Fund is the general operating fund of the District. It is used to account for all financial resources not accounted for and reported in another fund.

Debt Service Fund – The Debt Service Fund is used to account for all financial resources that are restricted, committed or assigned to expenditures for principal, interest and other debt related costs.

Capital Projects Fund – The Capital Projects Fund is used to account for all financial resources that are restricted, committed or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other assets.

#### Budgetary Accounting

Budgets are adopted on a non-GAAP basis for the governmental funds. In accordance with the State Budget Law of Colorado, the District's Board of Directors holds public hearings in the fall of each year to approve the budget and appropriate the funds for the ensuing year. 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 appropriation is at the total fund expenditures level and lapses at year end.

During 2016, the District amended its total appropriations in the in the General Fund from \$25,000 to \$35,000 primarily due to the additional legal associated with amending the Service Plan; in the Debt Service Fund from \$1,612 to \$29,000 for the payment of interest on the 2016 bond issue, and in the Capital Projects Fund from \$3,600,000 to \$7,069,030 primarily as a result of the repayment to for advances related to capital improvements.

#### Assets, Liabilities and Net Position

##### Fair Value of Financial Instruments

The District's financial instruments include cash and cash equivalents, accounts receivable and accounts payable. The District estimates that the fair value of all financial instruments at December 31, 2016, does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying balance sheet. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

##### Deposits and Investments

The District's cash and cash equivalents are considered to be cash on hand and short-term investments with maturities of three months or less from the date of acquisition. Investments for the government are reported at fair value.

## HIGHLANDS METROPOLITAN DISTRICT NO. 2

### Notes to Financial Statements December 31, 2016

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 minimum number of bank accounts. 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.

#### Estimates

The preparation of these financial statements in conformity with GAAP requires the District management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

#### Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District does not have any items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position 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 that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has one item that qualify for reporting in this category. Deferred property taxes are deferred and recognized as an inflow of resources in the period that the amounts become available.

#### Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items), are reported in the applicable governmental activities columns in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the assets 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 using the straight-line method. Depreciation on property that will remain assets of the District is reported on the Statement of Activities as a current charge. Improvements that will be conveyed to other governmental entities are classified as construction in progress and are not depreciated. Land and certain landscaping improvements are not depreciated. No depreciation expense was recognized during 2016.

## HIGHLANDS METROPOLITAN DISTRICT NO. 2

### Notes to Financial Statements December 31, 2016

#### 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 30 or if in equal installments, at the taxpayers' election, in February and June. Delinquent taxpayers are notified in July or August and the sales of the resultant tax liens on delinquent properties are generally 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 in the year they are levied and measurable since they are not normally available nor are they budgeted as a resource until the subsequent year. The deferred property taxes are recorded as revenue in the subsequent year when they are available or collected.

#### Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities.

#### Fund Equity

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

#### Nonspendable Fund Balance

Nonspendable fund balance includes amounts that cannot be spent because they are either not spendable in form (such as inventory or prepaids) or are legally or contractually required to be maintained intact.

#### Restricted Fund Balance

The restricted fund balance includes amounts restricted for a specific purpose by external parties such as grantors, bondholders, constitutional provisions or enabling legislation.

The restricted fund balance in the General Fund represents Emergency Reserves that have been provided as required by Article X, Section 20 of the Constitution of the State of Colorado. A total of \$662 of the General Fund balance has been restricted in compliance with this requirement.

## HIGHLANDS METROPOLITAN DISTRICT NO. 2

### Notes to Financial Statements December 31, 2016

The restricted fund balance in the Debt Service Fund in the amount of \$1,181,197 is restricted for the payment of the debt service costs associated with the Series 2016A Bonds, (see Note 4).

The restricted fund balance in the Capital Projects Fund in the amount of \$2,820,390 is restricted for the payment of the costs for capital improvements within the District.

#### Committed Fund Balance

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

#### Assigned Fund Balance

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

#### Unassigned Fund Balance

Unassigned fund balance includes amounts that are available for any purpose. Positive amounts are reported only in the General Fund, all funds can report negative amounts.

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

#### Net Position

Net Position represents the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources. The District reports three categories of net position, as follows:

Net investment in capital assets – consists of net capital assets, reduced by outstanding balances of any related debt obligations and deferred inflows of resources attributable to the acquisition, construction, or improvement of those assets and increased by balances of deferred outflows or resources related to those assets.

Restricted net position – net position is considered restricted if their use is constrained to a particular purpose. Restrictions are imposed by external organizations such as federal or state laws. Restricted net position is reduced by liabilities and deferred inflows of resources related to the restricted assets.

Unrestricted net position – consists of all other net position that does not meet the definition of the above two components and is available for general use by the District.

HIGHLANDS METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements  
December 31, 2016

When an expense is incurred for purposes for which both restricted and unrestricted net position are available, the District will use the most restrictive net position first.

Note 2: Cash and Investments

As of December 31, 2016, cash and investments are classified in the accompanying financial statements as follows:

Statement of Net Position:

Cash and investments	\$ 4,144
Cash and investments - Restricted	<u>4,010,440</u>
Total	\$ <u>4,014,584</u>

Cash and investments as of December 31, 2016 consist of the following:

Deposits with financial institutions	\$ 1,923
Investments - COLOTRUST	<u>4,012,661</u>
	\$ <u>4,014,584</u>

Deposits

Custodial Credit Risk

The Colorado Public Deposit Protection Act ("PDPA"), requires that all units of local government deposit cash in eligible public depositories. State regulators determine eligibility. 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 is to be maintained by another institution, or held in trust for all the uninsured public deposits as a group. 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 reporting of the uninsured deposits and assets maintained in the collateral pools.

The District follows state statutes for deposits. As of December 31, 2016, none of the District's deposits were exposed to custodial credit risk.

Investments

Investment Valuation

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 the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

## HIGHLANDS METROPOLITAN DISTRICT NO. 2

### Notes to Financial Statements December 31, 2016

The District has the following recurring fair value measurements as of December 31, 2016:

An external investment pool that records its investments at fair value. The investment in COLOTRUST is categorized as a Level 2 Investment.

#### Credit Risk

The District has not adopted a formal investment policy; however the District follows state statutes regarding investments. Colorado statutes specify the types of investments meeting defined rating and risk criteria in which local governments may invest. These investments include obligations of the United States and certain U.S. Government agency entities, certain money market funds, guaranteed investment contracts, and local government investment pools.

#### Custodial and Concentration of Credit Risk

None of the District's investments are subject to custodial or concentration of credit risk.

#### Interest Rate Risk

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

As of December 31, 2016, the District had the following investment:

#### COLOTRUST

The local government investment pool, Colorado Local Government Liquid Asset Trust ("COLOTRUST") is rated AAAM by Standard & Poor's and the maturity is weighted average under 60 days a Level 2 investment under the fair value hierarchy. COLOTRUST is an investment trust/joint ventures 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 with each share maintaining a value of \$1.00. The Trust offers shares in two portfolios, COLOTRUST PRIME and COLOTRUST PLUS+. Both investments consist of U.S. Treasury bills and notes 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. Designated custodian banks provide safekeeping and depository services to the trusts. Substantially all securities owned by the trust is held by the Federal Reserve Bank in the accounts maintained for the custodian banks. The custodians' internal records identify the investments owned by COLOTRUST. At December 31, 2016, the District had \$4,012,661 invested in COLOTRUST PRIME.

HIGHLANDS METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements  
December 31, 2016

Note 3: Capital Assets

An analysis of the changes in capital assets for the year ended December 31, 2016 follows:

<u>Governmental Type Activities:</u>	<u>Balance 1/1/2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12/31/2016</u>
<u>Capital assets not being depreciated:</u>				
Construction in progress	\$ 538,050	\$ 2,563,657	\$ -	\$ 3,101,707
Total capital assets not being depreciated	<u>538,050</u>	<u>2,563,657</u>	<u>-</u>	<u>3,101,707</u>
Government type assets, net	<u>\$ 538,050</u>	<u>\$ 2,563,657</u>	<u>\$ -</u>	<u>\$ 3,101,707</u>

Upon completion and acceptance, all fixed assets except for landscaping and drainage facilities, open space and park and recreation improvements are expected to be conveyed by the District to other local governments. The District will not be responsible for maintenance of the improvements conveyed to other entities.

Note 4: Long Term Debt

A description of the long-term obligations as of December 31, 2016, is as follows:

\$5,880,000 Limited Tax (Convertible to Unlimited Tax) General Obligation Bonds, Series 2016A and \$1,269,000 Subordinate Limited Tax General Obligation Bonds, Series 2016B

On October 26, 2016, the District issued \$5,880,000 of Limited Tax (Convertible to Unlimited Tax) General Obligation Bonds, Series 2016A (“Series 2016A Bonds”), and \$1,269,000 of Subordinate Limited Tax General Obligation Bonds, Series 2016B (“Series 2016B Bonds”). The Series 2016A Bonds bear interest 5.125%, payable semiannually on June 1 and December 1, commencing December 1, 2016, and mature on December 1, 2046. The Series 2016B Bonds bear interest at 7.5%, are payable to the extent of available Subordinate Pledged Revenue, are payable on December 15, commencing December 15, 2016 and mature on December 15, 2046. The Series 2016A Bonds were issued for the purpose of paying a portion of the Project Costs, paying capitalized interest on the Series 2016A Bonds, funding the Senior Reserve Fund, and paying the issuance costs of the Series 2016A Bonds. The Series 2016B Bonds were issued for the purpose of paying additional Project Costs and paying the issuance costs of the Series 2016B Bonds.

## HIGHLANDS METROPOLITAN DISTRICT NO. 2

### Notes to Financial Statements December 31, 2016

The Series 2016A Bonds are secured by Property Taxes derived from the Senior Required Mill Levy, including such amounts payable to the District by BURA pursuant to the Cooperation Agreement (described below) all Specific Ownership Tax Revenues as the result of the Senior Required Mill Levy, all Capital Fees, and any other legally available moneys as determined by the District in its absolute discretion. The Series 2016B Bonds are secured by Property Taxes derived from the Subordinate Required Mill Levy, all Specific Ownership Tax Revenues as the result of the Subordinate Required Mill Levy, all Subordinate Capital Fees Revenue, any amounts in the Senior Surplus Fund upon the termination of such fund, and any other legally available moneys as determined by the District at its absolute discretion and credited to the Subordinate Bond Fund.

#### Cooperation Agreement

On September 13, 2016 the District entered into a Cooperation Agreement with Broomfield Urban Renewal Authority (“BURA”) whereby BURA agreed to transfer the property taxes revenues as a result of the District’s mill levy on the increment assessed valuation to the District, less a 1.5% fee. The Cooperation Agreement terminates on April 27, 2029. The District is in the North Park West Urban Renewal Project – Broomfield Urban Renewal Authority (“NPWURP”). On April 27, 2004, (“BURA”) authorized the Urban Renewal Plan for the NPWURP which terminates on April 27, 2029. After April 27, 2029, it is projected that the District will be entitled to receive the full amount of property taxes resulting from its mill levies imposed on the total assessed value of the District.

#### Funding and Reimbursement Agreement

The District is party to a Funding and Reimbursement Agreement with Vista Highlands, LLC, (“Owner”) dated April 20, 2015, pursuant to which Vista agreed to advance certain funds to the District to finance the District’s operation, administrative and maintenance expenses. The District’s obligations under this agreement are subject to annual appropriation by the District.

#### Vista Infrastructure Acquisition and Reimbursement Agreement

On October 12, 2015, the District entered into an Amended and Restated Infrastructure Acquisition and Reimbursement Agreement (“RIARA”) with an effective date of August 19, 2008 with Owner whereby Owner agrees to construct and convey or cause to be constructed or conveyed certain public improvements to the District or Broomfield, and the District agreed to reimburse Owner for the costs of such improvements as verified by a District engineer and subject to additional requirements. The District agreed to reimburse Owner the cost of such improvements plus interest at 8% per annum.

HIGHLANDS METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements  
December 31, 2016

The following is an analysis of changes in long-term debt for the period ending December 31, 2016:

	Balance 1/1/2016	Additions	Deletions	Balance 12/31/2016	Current Portion
Series 2016A Bonds	\$ -	\$5,880,000	\$ -	\$5,880,000	\$ -
Series 2016B Bonds	-	1,269,000		1,269,000	-
Developer Reimbursement - Capital	542,023	2,622,362	2,689,957	474,428	-
Developer Reimbursement - Operations	14,631	14,373	-	29,004	-
Interest on Developer Reimbursement Operations	511	1,446	-	1,957	-
Interest on Developer Reimbursement Capital	64,818	98,380	162,400	798	-
	<u>\$ 621,983</u>	<u>\$9,885,561</u>	<u>\$2,852,357</u>	<u>\$7,655,187</u>	<u>\$ -</u>

The following is a summary of the annual long-term debt principal and interest requirements for the Series 2016 A Bonds, due to the uncertainty in the timing of the repayment of the Series 2016B Bonds no summary of the principal and interest payments is available.

	Principal	Interest	Total
2017	\$ -	\$ 301,350	\$ 301,350
2018	-	301,350	301,350
2019	-	301,350	301,350
2020	-	301,350	301,350
2021	35,000	301,350	336,350
2022-2026	445,000	1,456,013	1,901,013
2027-2031	680,000	1,319,431	1,999,431
2032-2036	980,000	1,116,225	2,096,225
2037-2041	1,380,000	825,894	2,205,894
2042-2046	2,360,000	422,813	2,782,813
	<u>\$ 5,880,000</u>	<u>\$ 6,647,125</u>	<u>\$ 12,527,125</u>

Debt Authorization

As of December 31, 2016, the District had remaining voted debt authorization of approximately \$6,151,000. The District has not budgeted to issue any debt in 2017. According to the District's Service Plan, the District cannot issue debt in excess of \$18,000,000.

Note 5: Related Party

All of the Board of Directors are employees, owners or are otherwise associated with the Owner and may have conflicts of interest in dealing with the District. Management believes that all potential conflicts, if any, have been disclosed to the Board.

## HIGHLANDS METROPOLITAN DISTRICT NO. 2

### Notes to Financial Statements December 31, 2016

Note 6: Tax, Spending and Debt Limitations

Article X, Section 20 of the Colorado Constitution, commonly known as the Taxpayer 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.

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.

In 2008 a majority of the District’s electors authorized the District to collect and spend or retain in a reserve all currently levied taxes and fees of the District without regard to any limitations under Article X, Section 20 of the Colorado Constitution.

Note 7: Risk Management

Except as provided in the Colorado Governmental Immunity Act, 24-10-101, et seq., CRS, the District may be exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets; errors or omissions; injuries to agents; and natural disasters. The District has elected to participate in the Colorado Special Districts Property and Liability Pool (“Pool”) which is an organization created by intergovernmental agreement to provide common liability and casualty insurance coverage to its members at a cost that is considered economically appropriate. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

The District pays annual premiums to the Pool for auto, public officials’ liability, and property and general liability coverage. In the event aggregated losses incurred by the Pool exceed its amounts recoverable from reinsurance contracts and its accumulated reserves, the District may be called upon to make additional contributions to the Pool on the basis proportionate to other 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.

HIGHLANDS METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements  
December 31, 2016

Note 8: Reconciliation of Government-Wide Financial Statements and Fund Financial Statements

The Governmental Funds Balance Sheet/Statement of Net Position includes an adjustments column. The adjustments have the following elements:

- 1) capital improvements used in government activities are not financial resources and, therefore are not reported in the funds; and
- 2) long-term liabilities such as notes payable and accrued interest payable are not due and payable in the current period and, therefore, are not in the funds.

The Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances/Statement of Activities includes an adjustments column. The adjustments have the following elements:

- 1) governmental funds report capital outlays as expenditures, however, in the statement of activities, the costs of those assets are held as construction in process pending transfer to other governmental entities or depreciated over their useful lives;
- 2) governmental funds report interest expense on the modified accrual basis; however, interest expense is reported on the full accrual method on the Statement of Activities; and,
- 3) governmental funds report developer advances and/or note proceeds as revenue.

SUPPLEMENTAL INFORMATION

## Highlands Metropolitan District No. 2

### SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - DEBT SERVICE FUND

For the Year Ended December 31, 2016

	Original <u>Budget</u>	Original & Final <u>Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
<b>REVENUES</b>				
Property taxes	\$ 1,494	\$ 1,496	\$ 1,496	\$ -
Specific ownership taxes	969	1,800	2,023	223
Interest income	-	-	1,199	1,199
	<u>2,463</u>	<u>3,296</u>	<u>4,718</u>	<u>1,422</u>
<b>EXPENDITURES</b>				
Bond interest	-	28,978	28,978	-
Repay developer advances	1,590	-	-	-
Treasurer's fees	22	22	22	-
	<u>1,612</u>	<u>29,000</u>	<u>29,000</u>	<u>-</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>				
	851	(25,704)	(24,282)	1,422
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers (to)/from other Funds	-	1,102,967	1,102,967	-
Development fees	62,500	82,500	102,500	20,000
	<u>62,500</u>	<u>1,185,467</u>	<u>1,205,467</u>	<u>20,000</u>
<b>NET CHANGE IN FUND BALANCE</b>				
	63,351	1,159,763	1,181,185	21,422
<b>FUND BALANCE:</b>				
BEGINNING OF YEAR	<u>13</u>	<u>12</u>	<u>12</u>	<u>-</u>
END OF YEAR	<u>\$ 63,364</u>	<u>\$ 1,159,775</u>	<u>\$ 1,181,197</u>	<u>\$ 21,422</u>

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

## Highlands Metropolitan District No. 2

### SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - CAPITAL PROJECTS FUND

For the Year Ended December 31, 2016

	Original <u>Budget</u>	Final <u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
<b>REVENUES</b>				
Interest income	\$ -	\$ -	\$ 3,785	\$ 3,785
Total Revenues	<u>-</u>	<u>-</u>	<u>3,785</u>	<u>3,785</u>
<b>EXPENDITURES</b>				
Capital Expenditures	3,600,000	-	38,386	(38,386)
Legal	-	35,000	21,476	13,524
Accounting	-	2,500	5,855	(3,355)
Bond Issuance Costs	-	400,000	365,579	34,421
Capital improvements Acquired	-	5,528,563	2,563,657	2,964,906
Repay developer advances	-	-	2,852,357	(2,852,357)
Total Expenditures	<u>3,600,000</u>	<u>5,966,063</u>	<u>5,847,310</u>	<u>112,549</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>				
	(3,600,000)	(5,966,063)	(5,843,525)	116,334
<b>OTHER FINANCING SOURCES (USES)</b>				
Developer advances	-	39,880	2,617,732	2,577,852
Bond Proceeds 2016A	3,600,000	5,800,000	5,880,000	80,000
Bond Proceeds 2016B	-	1,229,000	1,269,000	40,000
Transfers (to)/from other Funds	-	1,102,967	(1,102,967)	(2,205,934)
Total Other Financing Sources (Uses)	<u>3,600,000</u>	<u>8,171,847</u>	<u>8,663,765</u>	<u>491,918</u>
<b>NET CHANGE IN FUND BALANCE</b>	-	2,205,784	2,820,240	608,252
<b>FUND BALANCE:</b>				
BEGINNING OF YEAR	-	150	150	-
END OF YEAR	<u>\$ -</u>	<u>\$ 2,205,934</u>	<u>\$ 2,820,390</u>	<u>\$ 608,252</u>

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

## Highlands Metropolitan District No. 2

### SUMMARY OF ASSESSED VALUATION, MILL LEVY AND PROPERTY TAXES COLLECTED

December 31, 2016

<u>Year Ended December 31,</u>	<b>Prior Year Assessed Valuation for Current Year Property Tax Levy</b>	<u>Mills Levied</u>		<u>Total Property Tax</u>		<u>Percent Collected to Levied</u>
		<u>General Fund</u>	<u>Debt Service</u>	<u>Levied</u>	<u>Collected</u>	
2012	\$ 72	0.000	0.000	\$ -	\$ -	0.00%
2013	\$ 52	0.000	0.000	\$ -	\$ -	0.00%
2014	\$ 114	15.000	35.000	\$ 6	\$ 5	87.72%
2015	\$ 184	15.000	35.000	\$ 9	\$ 6	65.22%
2016	\$ 29,884	5.000	50.000	\$ 1,644	\$ 1,945	118.34%
Estimated for year ending December 31, 2017	\$ 48,805	5.000	50.000	\$ 2,684		

**NOTE**

Property taxes collected in any one year include collection of delinquent property taxes levied and/or abatements or valuations in prior years. Information received from the County Treasurer does not permit identification of specific year assessment.

CONTINUING DISCLOSURE ANNUAL FINANCIAL INFORMATION - UNAUDITED

## Highlands Metropolitan District No. 2

### TEN LARGEST OWNERS OF TAXABLE PROPERTY WITHIN THE DISTRICT

December 31, 2016

UNAUDITED

<u>Taxpayer Name</u>	<u>2016 Assessed Valuation</u>	<u>Percentage of Total Assessed Valuation</u>
Melody Homes Inc.	\$ 1,172,930	95.90%
Private Homeowner #1	17,650	1.44%
Private Homeowner #2	12,180	1.00%
Private Homeowner #3	9,780	0.80%
Private Homeowner #4	9,240	0.76%
Meritage Homes of Colorado Inc.	860	0.07%
Vista Highlands, LLC	370	0.03%
Total	<u>\$ 1,223,010</u>	<u>100.00%</u>

#### NOTE

Assessed Valuations were obtained from the City and County of Broomfield Assessor's Office

## Highlands Metropolitan District No. 2

ASSESSED VALUATION OF CLASSES  
OF PROPERTY IN THE DISTRICT  
December 31, 2016  
UNAUDITED

<u>Class</u>	<u>Assessed Valuation</u>	<u>Percent of Assessed Valuation</u>
Vacant land	\$ 1,164,830	95.24%
Residential	56,960	4.66%
Agricultural	1,220	0.10%
Total	<u>\$ 1,223,010</u>	<u>100.00%</u>

### NOTE

Assessed Valuations were obtained from the City and County of Broomfield Assessor's Office.

**Highlands Metropolitan District No. 2**

**OVERLAPPING DEBT & SELECTED DEBT RATIOS OF THE DISTRICT**

December 31, 2016

UNAUDITED

Direct debt	\$	<u>7,149,000</u>
2016 Assessed Valuation	\$	1,223,010
Ratio of Direct Debt to		584.54%
2016 Statutory Actual Value	\$	4,733,230
Direct Debt to 2016 Statutory Actual Value		151.04%