

**HERITAGE HILLS METROPOLITAN DISTRICT**  
**Douglas County, Colorado**

**FINANCIAL STATEMENTS**  
**December 31, 2016**



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## **Independent Auditor's Report**

Board of Directors

### **Heritage Hills Metropolitan District**

#### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and each major fund of Heritage Hills Metropolitan District 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; 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 audits. We conducted our audits 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 from 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 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 respective financial position of the governmental activities and each major fund of the Heritage Hills Metropolitan District as of December 31, 2016, and the respective changes in financial position and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## **Other Matters**

Management has omitted the 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 opinions on the basic financial statements are not affected by this missing information.

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

*L. Paul Goedecke P.C.*

L. Paul Goedecke, P.C.  
May 22, 2016

## **BASIC FINANCIAL STATEMENTS**

**HERITAGE HILLS METROPOLITAN DISTRICT  
STATEMENT OF NET POSITION  
December 31, 2016**

	<b><u>Governmental Activities</u></b>
<b>ASSETS</b>	
Cash and investments	\$ 1,614,654
Cash and investments - Restricted	52,500
Receivable - County Treasurer	12,918
Prepaid expenses	19,486
Property taxes receivable	1,782,754
Capital assets, not being depreciated	4,479,419
Capital assets, net	<u>3,328,864</u>
Total assets	<u>11,290,595</u>
<b>LIABILITIES</b>	
Accounts payable	46,880
Retainage payable	<u>48,875</u>
Total liabilities	<u>95,755</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Property tax revenue	<u>1,782,754</u>
Total deferred inflows of resources	<u>1,782,754</u>
<b>NET POSITION</b>	
Net investment in capital assets	7,808,283
Restricted for:	
Emergency reserves	52,500
Unrestricted	<u>1,551,303</u>
Total net position	<u><u>\$ 9,412,086</u></u>

These financial statements should be read only in connection with  
the accompanying notes to financial statements.

**HERITAGE HILLS METROPOLITAN DISTRICT  
STATEMENT OF ACTIVITIES  
Year Ended December 31, 2016**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Position</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>
Primary government:					
Government activities:					
General government	\$ 1,914,988	\$ -	\$ -	\$ -	\$ (1,914,988)
Interest and related costs on long-term debt	5,769	-	-	-	(5,769)
	<u>\$ 1,920,757</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(1,920,757)</u>
General revenues:					
Property taxes					1,660,000
Specific ownership taxes					152,739
Net investment income					17,373
Other income					6,011
Total general revenues					<u>1,836,123</u>
Change in net position					(84,634)
Net position - Beginning					<u>9,496,720</u>
Net position - Ending					<u>\$ 9,412,086</u>

These financial statements should be read only in connection with  
the accompanying notes to financial statements.

**HERITAGE HILLS METROPOLITAN DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
December 31, 2016**

	<b>General</b>	<b>Debt Service</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>			
Cash and investments	\$ 1,614,654	\$ -	\$ 1,614,654
Cash and investments - Restricted	52,500	-	52,500
Receivable - County Treasurer	12,918	-	12,918
Prepaid expenses	19,486	-	19,486
Property taxes receivable	1,782,754	-	1,782,754
<b>TOTAL ASSETS</b>	<b>\$ 3,482,312</b>	<b>\$ -</b>	<b>\$ 3,482,312</b>
 <b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accounts payable	\$ 46,880	\$ -	\$ 46,880
Retainage	48,875	-	48,875
Total liabilities	95,755	-	95,755
 <b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred property tax revenue	1,782,754	-	1,782,754
Total deferred inflows of resources	1,782,754	-	1,782,754
 <b>FUND BALANCES</b>			
Nonspendable	19,486	-	19,486
Restricted for:			
Emergency reserves	52,500	-	52,500
Assigned:			
Subsequent year's expenditures	667,196	-	667,196
Unassigned	864,621	-	864,621
Total fund balances	1,603,803	-	1,603,803
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<b>\$ 3,482,312</b>	<b>\$ -</b>	

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

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

Capital assets 7,808,283

Long-term liabilities, including bonds payable and accrued bond interest payable, are not due and payable in the current period and, therefore, are not reported in the funds.

Net position of governmental activities **\$ 9,412,086**

These financial statements should be read only in connection with the accompanying notes to financial statements.

**HERITAGE HILLS METROPOLITAN DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**Year Ended December 31, 2016**

	<u>General</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>			
Property taxes	\$ 1,571,113	\$ 88,887	\$ 1,660,000
Specific ownership taxes	152,739	-	152,739
Net investment income	17,373	-	17,373
Other income	6,011	-	6,011
Total revenues	<u>1,747,236</u>	<u>88,887</u>	<u>1,836,123</u>
<b>EXPENDITURES</b>			
Current			
Accounting	38,630	-	38,630
Audit	3,000	-	3,000
Consulting engineer	18,386	-	18,386
Directors' fees	4,200	-	4,200
Elections	3,364	-	3,364
County Treasurer's fees	23,585	1,334	24,919
Fence and sign maintenance	11,637	-	11,637
Gated entrance	43,849	-	43,849
Insurance and bonds	16,361	-	16,361
Landscape maintenance	282,515	-	282,515
Legal	44,745	-	44,745
Management	51,249	-	51,249
Capital reserve analysis	401	-	401
Miscellaneous	9,825	-	9,825
Recreational expense	97,703	-	97,703
Seasonal lights	11,807	-	11,807
Snow removal	63,113	-	63,113
Street lighting	24,737	-	24,737
Street maintenance	1,018,097	-	1,018,097
Utilities	85,213	-	85,213
Debt service			
Bond principal	-	85,000	85,000
Bond interest	-	4,675	4,675
Paying agent fees	-	150	150
Total expenditures	<u>1,852,417</u>	<u>91,159</u>	<u>1,943,576</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(105,181)</u>	<u>(2,272)</u>	<u>(107,453)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in (out)	86	(86)	-
Total other financing sources (uses)	<u>86</u>	<u>(86)</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCES</b>	(105,095)	(2,358)	(107,453)
<b>FUND BALANCES - BEGINNING OF YEAR</b>	<u>1,708,898</u>	<u>2,358</u>	<u>1,711,256</u>
<b>FUND BALANCES - END OF YEAR</b>	<u>\$ 1,603,803</u>	<u>\$ -</u>	<u>\$ 1,603,803</u>

These financial statements should be read only in connection with  
the accompanying notes to financial statements.

**HERITAGE HILLS METROPOLITAN DISTRICT  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
Year Ended December 31, 2016**

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

Net change in fund balance - Total governmental funds	\$ (107,453)
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Governmental funds report capital outlays as expenditures. In the statement of activities, capital outlay is not reported as an expenditure. However, the statement of activities will report as depreciation expense the allocation of the cost of any depreciable asset over the estimated useful life of the asset.

Capital outlay	84,957
Depreciation expense	(147,528)

The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets.

Bond principal	85,000
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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 the fund financial statements.

Accrued interest on bonds - Change in liability	390
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Changes in net position of governmental activities	\$ (84,634)
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These financial statements should be read only in connection with  
the accompanying notes to financial statements.

**HERITAGE HILLS METROPOLITAN DISTRICT  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES - BUDGET AND ACTUAL  
Year Ended December 31, 2016**

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
<b>REVENUES</b>			
Property taxes	\$ 1,571,251	\$ 1,571,113	\$ (138)
Specific ownership taxes	149,410	152,739	3,329
Net investment income	2,800	17,373	14,573
Other income	25,000	6,011	(18,989)
Total revenues	<u>1,748,461</u>	<u>1,747,236</u>	<u>(1,225)</u>
<b>EXPENDITURES</b>			
Current			
Accounting	40,000	38,630	1,370
Audit	3,500	3,000	500
Consulting engineer	73,000	18,386	54,614
County Treasurer's fees	23,569	23,585	(16)
Directors' fees	5,000	4,200	800
Elections	25,000	3,364	21,636
Fence and sign maintenance	10,000	11,637	(1,637)
Gated entrance	48,700	43,849	4,851
Insurance and bonds	15,170	16,361	(1,191)
Landscape maintenance	502,650	282,515	220,135
Legal	50,000	44,745	5,255
Management	40,000	51,249	(11,249)
Capital reserve analysis	-	401	(401)
Miscellaneous	10,000	9,825	175
Recreational expense	122,000	97,703	24,297
Seasonal lights	18,000	11,807	6,193
Snow removal	125,000	63,113	61,887
Street lighting	30,000	24,737	5,263
Street maintenance	663,000	1,018,097	(355,097)
Utilities	100,000	85,213	14,787
Contingency	34,788	-	34,788
Total expenditures	<u>1,939,377</u>	<u>1,852,417</u>	<u>86,960</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(190,916)</u>	<u>(105,181)</u>	<u>85,735</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in (out)	-	86	86
Total other financing sources (uses)	<u>-</u>	<u>86</u>	<u>86</u>
<b>EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES</b>	<u>(190,916)</u>	<u>(105,095)</u>	<u>85,821</u>
<b>FUND BALANCES - BEGINNING OF YEAR</b>	1,664,500	1,708,898	44,398
<b>FUND BALANCES - END OF YEAR</b>	<u>\$ 1,473,584</u>	<u>\$ 1,603,803</u>	<u>\$ 130,219</u>

These financial statements should be read only in connection with  
the accompanying notes to financial statements.

**HERITAGE HILLS METROPOLITAN DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2016**

**NOTE 1 - DEFINITION OF REPORTING ENTITY**

Heritage Hills Metropolitan District (District), a quasi-municipal corporation and political subdivision of the State of Colorado, was organized by order and decree of the District Court in Douglas County on July 12, 1996, and is governed pursuant to provisions of the Colorado Special District Act (Title 32, Article 1, Colorado Revised Statutes). The District's service area is located in Douglas County, Colorado. The District was established for the purpose of providing facilities including public street improvements, storm sewer facilities, and park and recreation facilities, in addition to operating and maintaining such facilities, or transferring them to other political subdivisions for operations and maintenance. Furthermore, the District was formed for the purpose of operating and maintaining streets owned by the Heritage Hills Homeowners Association, Inc., as well as District-owned recreational facilities.

In August 2001, platted areas of property within the District were annexed into the City of Lone Tree (City). Under the annexation agreement, the City will provide trash collection and police protection services for residents within the District. The City does not assess a property tax.

In December 2001, a four acre parcel intended for residential use was excluded from the District. A one-time "financial impact" payment along with related exclusion fees was paid by the property owner based on the projected revenue loss over a 40 year period as a result of the exclusion. The parcel will continue to be subject to the debt service mill levy related to bonds outstanding as of the date of exclusion.

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.

**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 the activities of the District. The effect of interfund activity has been removed from these statements. Governmental activities are normally supported by taxes.

**HERITAGE HILLS METROPOLITAN DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

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 and specific ownership taxes. All other revenue items are considered to be measurable and available only when cash is received by the District. Expenditures, other than interest on long-term obligations, are recorded when the liability is incurred or the long-term obligation is due.

The District reports the following major governmental funds:

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

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

**HERITAGE HILLS METROPOLITAN DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Budgets**

In accordance with the State Budget Law, the District's Board of Directors holds public hearings in the fall each year to approve the budget and appropriate the funds for the ensuing year. The appropriation is at the total fund expenditures 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.

**Pooled Cash and Investments**

The District follows the practice of pooling cash and investments of all funds to maximize interest 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.

Investments are carried at fair value.

**Property Taxes**

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

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

**Capital Assets**

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

**HERITAGE HILLS METROPOLITAN DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2016**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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:

Buildings and building improvements	30-50 years
Parks and recreation	5-50 years
Storm drainage	40 years

**Deferred Inflows of Resources**

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element, *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 government has only one item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, *property tax revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

**Equity**

***Net Position***

For government-wide presentation purposes when both restricted and unrestricted resources are available for use, it is the government'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.

**HERITAGE HILLS METROPOLITAN DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2016**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

- *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.

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, 2016, are classified in the accompanying financial statements as follows:

Statement of net position:

Cash and investments	\$ 1,614,654
Cash and investments - Restricted	<u>52,500</u>
Total cash and investments	<u>\$ 1,667,154</u>

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

Deposits with financial institutions	\$ 18,697
Investments	<u>1,648,457</u>
Total cash and investments	<u>\$ 1,667,154</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.

**HERITAGE HILLS METROPOLITAN DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**

**NOTE 3 - CASH AND INVESTMENTS (CONTINUED)**

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

At December 31, 2016, the District's cash deposits had a bank balance of \$773,270 and a carrying balance of \$18,697.

**Investments**

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

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

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

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

- . Obligations of the United States, certain U.S. government agency securities and securities of the World Bank
- . Certain international agency securities
- . 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

**Fair Value Measurement and Application**

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; and Level 3 inputs are significant unobservable inputs. Investments not measured at fair value and not categorized include governmental money market funds (PFM Funds Governmental Select series); money market funds (generally held by Bank Trust Departments in their role as paying agent or trustee); and COLOTRUST which record their investments at amortized cost.

**HERITAGE HILLS METROPOLITAN DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2016**

**NOTE 3 - CASH AND INVESTMENTS (CONTINUED)**

The District had invested in COLOTRUST, an external investment pool that records its investments at fair value and measures fair value using Level 2 inputs.

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

<b>Investment</b>	<b>Maturity</b>	<b>Fair Value</b>
Colorado Local Government Liquid Asset Trust (COLOTRUST)	Weighted average under 60 days	<u>\$ 1,648,457</u>

**COLOTRUST**

The District invested in the Colorado Local Government Liquid Asset Trust (COLOTRUST) (the Trust), an investment vehicle established for local government entities in Colorado to pool surplus funds. The State Securities Commissioner administers and enforces all State statutes governing the Trust. The Trust operates similarly to a money market fund and each share is equal in value to \$1.00. The Trust offers shares in two portfolios, COLOTRUST PRIME and COLOTRUST PLUS+. Both portfolios may invest in U.S. Treasury securities and repurchase agreements collateralized by U.S. Treasury securities. COLOTRUST PLUS+ may also invest in certain obligations of U.S. government agencies, highest rated commercial paper and any security allowed under CRS 24-75-601. A designated custodial bank serves as custodian for the Trust's portfolios pursuant to a custodian agreement. The custodian acts as safekeeping agent for the Trust's investment portfolios and provides services as the depository in connection with direct investments and withdrawals. The custodian's internal records segregate investments owned by the Trust. COLOTRUST is rated AAAM by Standard & Poor's.

**HERITAGE HILLS METROPOLITAN DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2016**

**NOTE 4 - CAPITAL ASSETS**

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

	<u>Balance at December 31, 2015</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at December 31, 2016</u>
<b>Governmental Activities</b>				
Capital assets, not being depreciated:				
Land	\$ 3,067,000	\$ -	\$ -	\$ 3,067,000
Construction in progress	1,327,462	84,957	-	1,412,419
Total capital assets, not being depreciated	<u>4,394,462</u>	<u>84,957</u>	<u>-</u>	<u>4,479,419</u>
Capital assets, being depreciated:				
Buildings and building improvements	796,857	-	-	796,857
Parks and recreation	3,269,324	-	-	3,269,324
Storm drainage	1,510,116	-	-	1,510,116
	<u>5,576,297</u>	<u>-</u>	<u>-</u>	<u>5,576,297</u>
Less accumulated depreciation for:				
Buildings and building improvements	(372,029)	(24,321)	-	(396,350)
Parks and recreation	(1,180,680)	(85,454)	-	(1,266,134)
Storm drainage	(547,196)	(37,753)	-	(584,949)
Total accumulated depreciation	<u>(2,099,905)</u>	<u>(147,528)</u>	<u>-</u>	<u>(2,247,433)</u>
Total capital assets, being depreciated, net	<u>3,476,392</u>	<u>(147,528)</u>	<u>-</u>	<u>3,328,864</u>
Governmental activities capital assets, net	<u>\$ 7,870,854</u>	<u>\$ (62,571)</u>	<u>\$ -</u>	<u>\$ 7,808,283</u>

Depreciation expense of \$147,528 for the year ended December 31, 2016, was charged to general government activities.

**HERITAGE HILLS METROPOLITAN DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2016**

**NOTE 5 - LONG-TERM OBLIGATIONS**

The following is an analysis of changes in general long-term obligations for the year ended December 31, 2016:

	<u>Balance at December 31, 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at December 31, 2016</u>	<u>Due Within One Year</u>
Series 2003 G.O. Refunding Bonds	\$ 85,000	\$ -	\$ 85,000	\$ -	\$ -

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

**Series 2003 Bonds**

On April 24, 2003, the District issued \$2,975,000 in General Obligation Refunding Bonds (Bonds) dated April 15, 2003, for the refunding of the Series 1997 and the Series 1999 Bonds. The Bonds consist of serial bonds in the original amount of \$1,195,000 and are due annually in various amounts through 2011; with interest from 2.00% to 3.55%, payable semiannually on June 1 and December 1, and term bonds in the original amount of \$1,780,000, due December 1, 2016, with interest at 5.50% paid semiannually on June 1 and December 1. The term bonds are subject to mandatory sinking fund redemption commencing on December 1, 2012, and on each December 1 thereafter in increasing amounts annually prior to the maturity of the bonds. Additionally, the term bonds are subject to redemption prior to maturity, at the option of the District, beginning December 1, 2013, and on any date thereafter, with various premium rates ranging from 0.0% to 2.0%. The principal and interest of these bonds are insured as to repayment by XL Capital Assurance Inc.

The District paid off the Series 2003 Bonds in full during 2016.

At December 31, 2016, the District had issued all authorized indebtedness for use for street improvements, storm drainage and retention ponds, and recreational centers.

**HERITAGE HILLS METROPOLITAN DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2016**

**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 asset consists of capital assets, net of accumulated depreciation and reduced by the outstanding balance of bonds that are attributable to the acquisition, construction, or improvement of those assets. As of December 31, 2016, the District had net investment in capital assets calculated as follows:

	<b>Governmental Activities</b>
Net investment in capital assets:	
Capital assets, net	\$ 7,808,283
Current portion of outstanding long-term obligations	-
Net investment in capital assets	\$ 7,808,283

Restricted net position includes assets that are restricted for use either externally imposed by creditors, grantors, contributors, or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislations. The District had a restricted net position as of December 31, 2016, as follows:

Restricted net position	
Emergencies (see Note 9)	\$ 52,500
	\$ 52,500

The District's unrestricted net position as of December 31, 2016, totaled \$1,551,303.

**NOTE 7 - AGREEMENTS AND COMMITMENTS**

On December 23, 1996, the District entered into a contract with Heritage Hills Homeowners Association to provide maintenance of streets within the District, all of which are owned by Heritage Hills Homeowners Association. The following street maintenance costs were incurred for the year ended December 31, 2016:

Snow removal	\$ 63,113
Street maintenance	1,018,097
	\$1,081,210

**HERITAGE HILLS METROPOLITAN DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**

**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; 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 the past fiscal year.

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

**NOTE 9 - TAX, SPENDING AND DEBT LIMITATIONS**

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

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

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

In May 1996, the District voters passed an election question to increase property taxes \$454,330 annually, without limitation of rate, to pay the District's operations maintenance and other expenses.

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.

This information is an integral part of the accompanying financial statements.

## **SUPPLEMENTARY INFORMATION**

**HERITAGE HILLS METROPOLITAN DISTRICT  
DEBT SERVICE FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES - BUDGET AND ACTUAL  
Year Ended December 31, 2016**

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
<b>REVENUES</b>			
Property taxes	\$ 88,894	\$ 88,887	\$ (7)
Total revenues	<u>88,894</u>	<u>88,887</u>	<u>(7)</u>
<b>EXPENDITURES</b>			
Bond principal	85,000	85,000	-
Bond interest	4,675	4,675	-
County Treasurer's fees	1,333	1,334	(1)
Paying agent fees	150	150	-
Contingency	98	-	98
Total expenditures	<u>91,256</u>	<u>91,159</u>	<u>97</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	(2,362)	(2,272)	90
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in (out)	-	(86)	(86)
Total other financing sources (uses)	<u>-</u>	<u>(86)</u>	<u>(86)</u>
<b>EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES</b>	(2,362)	(2,358)	4
<b>FUND BALANCES - BEGINNING OF YEAR</b>	<u>2,362</u>	<u>2,358</u>	<u>(4)</u>
<b>FUND BALANCES - END OF YEAR</b>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

**HERITAGE HILLS METROPOLITAN DISTRICT  
FIVE YEAR SUMMARY OF ASSESSED VALUATION,  
MILL LEVY AND PROPERTY TAXES COLLECTED  
December 31, 2016**

<u>Year Ended December 31,</u>	<u>Prior Year Assessed Valuation for Current Year Property Tax Levy Note</u>	<u>Mills Levied</u>		<u>Property Taxes</u>		<u>Percentage Collected to Levied</u>
		<u>General</u>	<u>Debt Service</u>	<u>Levied</u>	<u>Collected</u>	
2012	\$ 33,742,380	28.600	11.400	\$ 1,349,690	\$ 1,349,687	99.99%
2013	\$ 35,421,330	28.600	11.400	\$ 1,391,833	\$ 1,391,833	100.00%
2014	\$ 38,158,201	29.250	10.750	\$ 1,500,739	\$ 1,500,468	99.98%
2015	\$ 39,061,300	29.250	10.750	\$ 1,536,864	\$ 1,536,867	100.00%
2016	\$ 44,896,330	35.584 (1)	1.980	\$ 1,660,145	\$ 1,660,000	99.99%
Estimated for year ending December 31, 2017	\$ 45,711,660	39.000 (2)	0.000	\$ 1,782,754		

**NOTE:**

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

- (1) The 2016 General Fund mill levy included 2.436 mills related to a temporary mill levy reduction.
- (2) The 2017 General Fund mill levy includes 1.000 mills related to a temporary mill levy reduction.