

Highpointe Vista Metropolitan District No. 2

FINANCIAL STATEMENTS AND
REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

December 31, 2016



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REPORT OF INDEPENDENT CERTIFIED
PUBLIC ACCOUNTANTS

Board of Directors
Highpointe Vista Metropolitan District No.2

Report on the Financial Statements

We have audited the accompanying basic financial statements of the governmental activities and the governmental funds of the Highpointe Vista Metropolitan District No. 2 (the "District"), as of and for the year ended December 31, 2016, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on conducting our audit in accordance with auditing standards generally accepted in the United States of America as established by the *American Institute of Certified Public Accountants* ("US GAAS").

We conducted our audit in accordance with US GAAS. Those standards require that we plan and perform our audit to obtain reasonable assurance about whether these financial statements are free of material misstatement.

An audit includes 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 District'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 District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions on the Financial Statements

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the governmental funds of the Highpointe Vista Metropolitan District No. 2, as of December 31, 2016, and the respective changes in financial position thereof, 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

Supplementary Information

Our audit was conducted with the purpose of forming an opinion on the basic financial statements of the Highpointe Vista Metropolitan District No. 2 taken as a whole. The supplementary information on page 22 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information is the responsibility of management of the District and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to our auditing procedures applied in the audit of the financial statements and certain other 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 supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Management's Discussion and Analysis

The Board of Directors has omitted the Management's Discussion and Analysis information 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 part of the basic financial statements, is required by the Government Accounting Standards Board, who considers it to be an essential part of the 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.

Marc, James and Associates, PC

Highlands Ranch, Colorado
July 31, 2017

BASIC FINANCIAL STATEMENTS

Highpointe Vista Metropolitan District No. 2

GOVERNMENTAL FUNDS BALANCE SHEET/STATEMENT OF NET POSITION

December 31, 2016

	General Fund	Debt Service Fund	Total	Adjustments	Statement of Net Position
ASSETS					
Cash and cash equivalents	\$ 9,145	\$ 152,054	\$ 161,199	\$ -	\$ 161,199
Property taxes receivable	156,656	281,981	438,637	-	438,637
Due from developer	67,527	-	67,527	-	67,527
Other receivables	1,985	-	1,985	-	1,985
Bond premium	-	-	-	32,488	32,488
Due from County Treasurer	2,634	-	2,634	-	2,634
Prepaid expenses	6,783	-	6,783	-	6,783
Restricted cash	20,322	-	20,322	-	20,322
Capital assets, net of accumulated depreciation	-	-	-	4,778,069	4,778,069
Total assets	<u>\$ 265,052</u>	<u>\$ 434,035</u>	<u>\$ 699,087</u>	4,810,557	5,509,644
LIABILITIES					
Accounts payable	\$ 29,244	\$ -	\$ 29,244	-	29,244
Accrued interest payable	-	-	-	43,083	43,083
Architectural review deposits	74,652	-	74,652	-	74,652
Other accrued liabilities	4,500	-	4,500	-	4,500
Long-term liabilities					
Due after one year	-	-	-	6,000,000	6,000,000
Total liabilities	108,396	-	108,396	6,043,083	6,151,479
DEFERRED INFLOWS OF RESOURCES					
Property taxes	156,656	281,981	438,637	-	438,637
FUND BALANCE/NET POSITION					
FUND BALANCE					
Assigned	-	152,054	152,054	(152,054)	-
Total fund balance	-	152,054	152,054	(152,054)	-
Total liabilities, deferred inflows of resources and fund balance	<u>\$ 265,052</u>	<u>\$ 434,035</u>	<u>\$ 699,087</u>		
NET POSITION (DEFICIT)					
Unrestricted (deficit)				(1,080,473)	(1,080,473)
Total net deficit				<u>\$(1,080,473)</u>	<u>\$(1,080,473)</u>

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

Highpointe Vista Metropolitan District No. 2

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

For the Year Ended December 31, 2016

	General Fund	Debt Service Fund	Total	Adjustments	Statement of Activities
Expenditures/Expenses					
Operating					
Accounting and audit	\$ -	\$ -	\$ -	\$ -	\$ -
County Treasurer's fee	7,889	-	7,889	-	7,889
Depreciation	-	-	-	170,280	170,280
Debt service					
Cost of issuance of debt	-	157,045	157,045	-	157,045
Interest	-	56,659	56,659	43,083	99,742
Total expenditures/expenses	7,889	213,704	221,593	213,363	434,956
General Revenue					
Property taxes	394,099	-	394,099	-	394,099
Specific ownership taxes	31,789	-	31,789	-	31,789
Interest	338	-	338	-	338
Total general revenues	426,226	-	426,226	-	426,226
Excess of revenues over (under) expenditures/expenses	418,337	(213,704)	204,633	(213,363)	(8,730)
Other Sources					
Proceeds from of issuance of debt	-	5,967,512	5,967,512	(5,967,512)	-
Transfer of capital assets	-	-	-	4,948,348	4,948,348
Transfer to District No. 1	(418,337)	(5,601,754)	(6,020,091)	-	(6,020,091)
Total other sources and uses	(418,337)	365,758	(52,579)	(1,019,164)	(1,071,743)
Change in Fund Balance/Net Position	-	152,054	152,054	(1,232,527)	(1,080,473)
Fund balance/net position (deficit)					
Beginning of the year	-	-	-	-	-
End of the year	\$ -	\$ 152,054	\$ 152,054	\$ (1,232,527)	\$ (1,080,473)

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

Highpointe Vista 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 Budget	Amended and Final Budget	Actual	Variance
Revenues				
Property taxes	\$ 395,909	\$ 395,909	\$ 394,099	(1,810)
Specific ownership taxes	23,755	24,000	31,789	7,789
Interest	200	400	338	(62)
Total revenues	419,864	420,309	426,226	5,917
Expenditures				
Operating				
County Treasurer's fee	5,939	7,918	7,889	(29)
Total expenditures	5,939	7,918	7,889	(29)
Excess of revenue over expenditures	413,925	412,391	418,337	5,946
Other sources and uses				
Transfer to District No. 1	(413,925)	(412,391)	(418,337)	(5,946)
Change in fund balance	<u>\$ -</u>	<u>\$ -</u>	-	<u>\$ -</u>
Fund Balance				
Beginning of the year			-	
End of the year			<u>\$ -</u>	

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

Highpointe Vista Metropolitan District No. 2

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Highpointe Vista Metropolitan District No.2 (the "District") conform to the accounting principles generally accepted in the United States of America ("US GAAP") as applicable to governmental entities. The following is a summary of the more significant policies consistently applied in the preparation of the basic financial statements of the District.

1. Reporting Entity

The District was formed, in connection with Highpointe Vista Metropolitan District No. 1 ("District No. 1"), pursuant to the Colorado Special District Act, Article 1 of Title 32 of the Colorado Revised Statutes, in November 2005 as a quasi-municipal corporation and a political subdivision of the State of Colorado. The District is governed by a seven-member Board of Directors. The District is located in the Town of Windsor, in Larimer and Weld County, Colorado.

The District was formed to provide financing, construction, operation and maintenance of various infrastructure, landscaping and recreational facilities for a Planned Unit Development referred to as Highpointe Estates (the "Development"). As required by US GAAP, these financial statements present the activities of the District, which is legally separate and financially independent of other state and local government entities. The District has no component units as defined by Governmental Accounting Standards Board ("GASB"), Statement No. 14, *The Reporting Entity* and GASB No. 39, *Determining Whether Certain Organizations are Component Units*.

In 2016, the assets and operations of District No. 1 were transferred to the District.

2. Measurement Focus and Financial Reporting Framework

Government-wide Financial Statements

The government-wide financial statements, the Statement of Net Position and the Statement of Activities, report information on the accrual basis of accounting related to the *governmental-type activities* of the District, which rely to a significant extent on property, specific ownership taxes and charges for services. The Statement of Activities demonstrates the degree to which expenses of the *governmental-type activities* are supported by property, specific ownership taxes and charges for services.

Governmental Fund Financial Statements

The governmental fund financial statements are prepared 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 if the revenues are collectible within the current period or soon thereafter to pay liabilities of the current period. For that purpose, the District considers revenues to be available if they are expected to be collected within 60 days of the end of the current fiscal period.

Highpointe Vista Metropolitan District No. 2

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *continued*

2. Measurement Focus and Financial Reporting Framework - continued

Governmental Funds

The District maintains two individual governmental funds. The governmental funds information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balance for the general fund and the debt service fund, both which are considered to be major funds.

The *General Fund* is the District's primary operating fund. It accounts for all financial resources of the general government, except for 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 governmental funds.

3. Cash and Cash Equivalents

The District considers cash and cash equivalents to include cash on hand, unrestricted demand deposits and money market accounts, as applicable.

4. Fair Value of Financial Instruments

The District's financial instruments include cash, accounts receivable, prepaid expenses and accounts payable. The District estimates that the fair value of these financial instruments as of December 31, 2016, do not differ materially from the aggregate carrying values used in the accompanying financial statements. The carrying amount of these financial instruments approximates the fair value due to the short maturity of these financial instruments.

5. Capital Assets

The District's capital assets which consist of a storm water drainage system, equipment and amenities are reported in the government-wide financial statements. The District's capital assets, as applicable, are recorded at cost, if purchased or constructed. As further discussed in NOTE B, the District's capital assets were conveyed from District No.1 and were transferred and recorded at the net book value as of August 8, 2016.

The District has a capitalization policy of \$5,000. The District's Board of Directors has the option to capitalize certain items less than \$5,000 in certain circumstances. Depreciation is provided in amounts sufficient to relate the cost of depreciable capital assets to operations over the estimated useful lives of the assets. Depreciation is provided under the straight-line method, with estimated original service lives of ten to twenty-five years.

The cost of normal maintenance and repairs that do not add to the value of, or materially extend the life of, the related capital asset, are charged to expense as incurred.

Highpointe Vista Metropolitan District No. 2

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *continued*

6. *Use of Estimates*

The preparation of financial statements in conformity with US GAAP involves the use of District management's estimates that affect the reported amounts of assets and liabilities as of the date of the financial statements, and the reported amounts of revenue and expenses as applicable, during the reporting period. These estimates are based upon District management's best judgment, after considering past events and assumptions about future events. Actual results could differ from those estimates.

District management has estimated the useful lives of the depreciable capital assets of the District.

7. *Restricted Net Position*

The restriction of a portion of the District's net position represents amounts that may not be appropriated or are legally segregated for a specific purpose.

NOTE B – COMBINATION OF THE DISTRICT AND DISTRICT NO. 1

Per a joint resolution of the Board of Directors of the District and District No. 1 on August 8, 2016, District No. 1 conveyed to the District its rights, title and interest in all property, assets, facilities and improvements. In addition District No. 1 assigned to the District all covenant enforcement responsibilities, the contracts for landscape maintenance and clubhouse and pool operation and maintenance.

On December 8, 2016, the District assumed all future operation and maintenance of various infrastructure, landscaping and recreational facilities with the Development. A Petition for Dissolution of District No. 1 was filed in District Court, Larimer County on May 11, 2017 and District No. 1 was officially dissolved in July 2017.

NOTE C – BUDGET INFORMATION

The District's annual budget is prepared on a Non-GAAP basis for the District's General Fund and Debt Service Fund. An annual appropriated budget is adopted at the total fund expenditure level and the annual appropriations lapse at the end of the District's fiscal year.

The District conforms to the following procedures, in accordance with the State of Colorado Revised Statutes, in the establishment of the budgetary information reflected in the accompanying financial statements.

On or before October 15, the District's Manager submits a proposed budget for the subsequent fiscal year to the District's Board of Directors. The budget sets forth all proposed expenditures for administration, operations, maintenance, debt service, and capital projects for the budget year; all anticipated revenues for the budget year; estimated beginning and ending fund balances; actual figures for the prior fiscal year and projected figures through the end of the current year; and a written budget message describing the important features of the budget.

Highpointe Vista Metropolitan District No. 2

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE C – BUDGET INFORMATION - *continued*

Following receipt of the proposed budget, the District publishes notice of the hearing at which the adoption of the proposed budget will be considered, a statement that the proposed budget is available for inspection, and that any interested elector may file objections to the proposed budget prior its adoption. The budget hearing is held at a regular or special Board of Directors' meeting.

Following the budget hearing, the Board of Directors adopts the budget and makes appropriations for the budget year. The District also certifies a mill levy for collection in the budget year. Because the District certifies a mill levy, the adoption of the budget, appropriations and certification of the mill levy must occur on or before December 15. Expenditures in excess of the amounts appropriated for a Fund or transfer of moneys between Funds must be approved by the Board of Directors in the same manner as the adoption of the budget.

For 2016, the budgets of the District's General Fund and the Debt Service Fund were amended. The majority of the changes in the District's Debt Service Fund pertained to the issuance of debt in 2016.

State of Colorado Statutes requires a balanced budget. For 2016, the District's Debt Service Fund budgeted revenues exceeded budgeted expenditures and transfers by \$151,500.

NOTE D – CASH AND INVESTMENTS

The Colorado Public Deposit Protection Act ("PDPA") requires that all units of local government deposit cash in eligible public depositories. State regulators determine the eligibility. Amounts on deposit in excess of the Federal Deposit Insurance Corporation ("FDIC") insurance levels must be collateralized. The eligible collateral is determined by the PDPA. The PDPA allows institutions 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 uninsured public deposits. The market value of the collateral must be equal to 102% of the aggregate uninsured public deposits. The Colorado Division of Banking for banks and savings associations is required by statute to monitor the naming of eligible depositories and reporting of the uninsured deposits and assets maintained in the collateral pools.

As of December 31, 2016, all of the District's funds were held in eligible public depositories.

NOTE E – RESTRICTED CASH

The District is responsible for the accounting and record keeping of the District's Architectural Review Board ("ARB"). The ARB collects architectural review fees and refundable deposits from residents and homebuilders within the District prior to the beginning of various projects. Upon completion of the project and final approval by the ARB, the applicable funds are returned. The architectural review fees and refundable deposits held by the District are reflected as restricted cash with an offsetting deposit liability. As of December 31, 2016, the deposit liability exceeded the restricted cash by \$54,300 as a portion of the architectural review fees and refundable deposits held by District No.1 were used to fund operations of District No. 1.

On March 15, 2017, the architectural review fees and refundable deposits were restored to the restricted cash.

Highpointe Vista Metropolitan District No. 2

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE F – CAPITAL ASSETS

As discussed in NOTE B, effective August 8, 2016, the capital assets previously constructed, operated and maintained by District No. 1 were conveyed to the District. The original cost and accumulated depreciation as of August 8, 2016 and subsequent changes in the District's capital assets for the year ended December 31, 2016 are as follows:

	Balance December 31, 2015	Conveyed/ Additions	Disposals	Balance December 31, 2016
Capital assets				
Infrastructure	\$ -	\$ 2,747,980	\$ -	2,747,980
Equipment	-	69,176	-	69,176
Amenities				
Landscaping	-	2,253,789	-	2,253,789
Pool, clubhouse and other	-	2,799,004	-	2,799,004
Total	-	7,869,949	-	7,869,949
	Balance December 31, 2015	Transferred	2016 Depreciation	Balance December 31, 2016
Accumulated depreciation				
Infrastructure	-	763,034	49,844	812,878
Equipment	-	36,147	2,945	39,092
Amenities				
Landscaping	-	863,623	50,698	914,321
Pool, clubhouse and other	-	1,258,796	66,793	1,325,589
Total	-	2,921,600	170,280	3,091,880
Net capital assets	\$ -	\$ 4,948,349	\$ (170,280)	\$ 4,778,069

Highpointe Vista Metropolitan District No. 2

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE G– LONG - TERM DEBT

Limited Tax General Obligation Refunding Bonds, Series 2016A

On September 7, 2016, the District issued Limited Tax General Obligation Refunding Bonds, Series 2016A, ("Series 2016A Bonds") with a par value of \$4,915,000. The Series 2016A Bonds were issued for the purpose of refinancing the Limited Property Tax Supported Revenue Bonds, Series 2007, issued by District No. 1 in the amount of \$3,375,000 plus accrued interest in the amount of \$732,693 and a portion of the accrued interest associated with the Developer Reimbursement Obligation issued by District No. 1 in the amount of \$616,273. The Series 2016A Bonds were issued at a net discount of \$32,488, resulting in net proceeds of \$4,882,512. The net proceeds less the cost of issuance of the Series 2016A Bonds were transferred to District No. 1.

The Series 2016A Bonds have a final maturity of December 1, 2046, and shall bear interest at a rate of 6.2% calculated on the basis of a 360-day year of twelve 30-day months, payable to the extent Pledged Revenues, as defined in the Senior Trust Indenture, are available semiannually on each June 1 and December 1, commencing on December 1, 2016.

Principal payments are due beginning annually on December 1, 2018.

The Series 2016A Bonds are subject to redemption prior to maturity at the option of the District, as a whole or in integral multiples of \$1,000, beginning on December 1, 2021, and on any date thereafter, upon payment of par, accrued interest and redemption premium equal to a percentage of the principal amount so redeemed, as follows:

<u>Date of Redemption</u>	<u>Redemption Premium</u>
December 1, 2021 to November 30, 2022	3.00%
December 1, 2022 to November 30, 2023	2.00
December 1, 2024 to November 30, 2024	1.00
December 1, 2024 and thereafter	0.00

Subordinated Limited Tax General Obligation Refunding Bonds, Series 2016B

On September 7, 2016, the District issued Subordinate Limited Tax General Obligation Refunding Bonds, Series 2016B, ("Series 2016B Bonds") in the amount of \$1,085,000. The Series 2016B Bonds were issued for the purpose of refinancing a portion of the outstanding principal of Developer Reimbursement Obligation issued by District No. 1.

The Series 2016B Bonds have a maturity of December 15, 2046, and shall bear interest at a rate of 5% calculated on the basis of a 360-day year of twelve 30-day months, payable to the extent of Subordinate Pledged Revenues, as defined in the Subordinate Trust Indenture, are available annually on each December 15, commencing on December 15, 2016. The December 15, 2016 interest payment was not made. The failure of the District to pay the principal of or interest on the Series 2016B Bonds when due, does not constitute an Event of Default. As of December 31, 2016, there exists accrued and unpaid interest in the amount of \$22,604.

Highpointe Vista Metropolitan District No. 2

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE G – LONG - TERM DEBT - *continued*

Subordinated Limited Tax General Obligation Refunding Bonds, Series 2016A - continued

The Series 2016B Bonds are subject to mandatory redemption in part by lot on December 15 of each year commencing December 15, 2017, to the extent of moneys on deposit, if any, 45 days prior to the applicable Mandatory Redemption Date, at a redemption price equal to the principal amount thereof, plus accrued interest. As the amount and timing of any redemption, if any, are not determinable, the entire outstanding amount is considered to be due on the maturity date of December 15, 2046.

The Series 2016B Bonds are subject to redemption prior to maturity at the option of the District, as a whole or in integral multiples of \$1,000, beginning on December 15, 2021, and on any date thereafter, upon payment of par, accrued interest and redemption premium equal to a percentage of the principal amount so redeemed, as follows:

<u>Date of Redemption</u>	<u>Redemption Premium</u>
December 1, 2021 to November 30, 2022	3.00%
December 1, 2022 to November 30, 2023	2.00
December 1, 2024 to November 30, 2024	1.00
December 1, 2024 and thereafter	0.00

Under the terms of the Subordinate Trust Indenture in the event that any amount of principal or interest on the Series 2016B Bonds remains unpaid after the application of all Subordinate Pledged Revenue available; on December 15, 2056, shall be deemed discharged.

Covenants and Agreements

Under the terms of the Senior Trust Indenture, the District is required to have an annual audit of its financial records to be performed by a Certified Public Accountant completed within reasonable efforts no later than 210 days after the end of the calendar year.

Changes in Long-Term Debt

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

	<u>December 31, 2015</u>	<u>Additions</u>	<u>Payments</u>	<u>December 31, 2016</u>	<u>Due within One Year</u>
2016A Bonds	\$ -	\$ 4,915,000	\$ -	\$ 4,915,000	\$ -
2016B Bonds	-	1,085,000	-	1,085,000	-
	<u>\$ -</u>	<u>\$ 6,000,000</u>	<u>\$ -</u>	<u>\$ 6,000,000</u>	<u>\$ -</u>

Highpointe Vista Metropolitan District No. 2

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE G – LONG - TERM DEBT – *continued*

Future Minimum Required Principal Redemptions

The future minimum required principal redemptions for the 2016A Bonds as of December 31, 2016 are as follows:

<u>Year Ended December 31</u>	
2017	\$ -
2018	30,000
2019	45,000
2020	55,000
2021	60,000
2022-2026	410,000
2027-2031	605,000
2032-2036	870,000
2037-2041	1,200,000
2042-2046	<u>1,640,000</u>
Total	<u>\$ 4,915,000</u>

Debt Issuance Authorization

In November 2005, the qualified electors of the District approved the issuance of indebtedness and the imposition of taxes for the repayment thereof up to \$6,750,000. The District determined that the portion of the principal amount of the Series 2016A Bonds that is in excess of (i) the original principal amount of the debt issued by District No. 1 (\$3,375,000) and (ii) the principal amount of the Developer Reimbursement Obligation being paid from proceeds of the Series 2016A Bonds (\$0, since the remaining net proceeds of the Series 2016A Bonds was only applied to pay accrued interest on this obligation), which excess amount is \$1,540,000, shall be allocated to the electoral authorization for refundings. Pursuant to Article X, Section 20 of the Colorado Constitution and Section 11-56-107, C.R.S., voter approval was not required for the remainder portion of the principal amount of the Series 2016A Bonds and for the principal amount of the Series 2016B Bonds (which refinanced the equivalent principal amount of District debt consisting of the obligations of the District under the 2007 Pledge Agreement with District No. 1 to provide for the payment of the Developer Reimbursement Obligation), which constitutes a refunding at a lower interest rate of the obligations of the District under the 2007 Pledge Agreement to provide for payment on the District No. 1's debt and the Developer Reimbursement Obligation.

As of December 31, 2016, the District had \$5,210,000 remaining in electoral authorization for debt refundings.

In the future, the District may issue a portion or all of the remaining authorized, but unissued general obligation debt for purposes of providing public improvements to support development as it occurs within the District's service area. However, the amount and timing of any debt issuances, if any, are not determinable.

Highpointe Vista Metropolitan District No. 2

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE H – FUND BALANCE/NET POSITION

Fund Balance

The District utilizes the fund balance presentation as required under GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Fund balances are categorized as non-spendable, restricted, committed, assigned or unassigned.

Non-spendable – represents amounts that cannot be spent because they are either in non-spendable form or legally required to remain intact,

Restricted – represents amounts with external constraints placed on the use of these resources or imposed by enabling legislation,

Committed – represents amounts that can only be used for specific purposes imposed by a formal action of the District’s highest level of decision-making authority, the District’s Board of Directors. Committed resources cannot be used for any other purpose unless the District’s Board of Directors removes or changes the specific use by the same type of action used to commit those amounts, either by resolution or by ordinance,

Assigned – represents amounts that the District intends to use for specific purposes as expressed by the District’s Board of Directors or a District official delegated the authority to assign amounts,

Unassigned – represents the residual classification for the general fund or deficit balances in other funds, as applicable.

Amounts are considered to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) amounts are available. Unrestricted amounts are considered to have been spent when an expenditure is incurred for purposes for which amounts in any of these unrestricted fund balances classifications could be used.

As of December 31, 2016, the District’s Debt Service fund balance consisted of the following:

Fund balances:	
Assigned	\$ <u>152,054</u>
Total fund balance	\$ <u>152,054</u>

Highpointe Vista Metropolitan District No. 2

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE H – FUND BALANCE/NET POSITION - *continued*

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.

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

NOTE I – RELATED PARTY AGREEMENT

Intergovernmental Agreement (“IGA”) with District No. 1

The District had an IGA with District No 1, under which the District levied and collected property taxes on the residential lots and homes located within Highpointe Estates and remitted the property tax revenue, net of the County Treasurer's fees to District No. 1. The entire mill levy was transferred to District No.1 to fund administrative and operating costs and to pay the annual debt service requirements to the extent moneys were available. Additional sources of revenue received and available to the District were also transferred to the District, including specific ownership taxes and interest earnings. For the year ended December 31, 2016, the District transferred \$418,337 to District No.1. With the combination and subsequent dissolution of District No.1, the IGA has been terminated.

NOTE J – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets and natural disasters. These risks are covered by commercial insurance purchased from independent insurance brokers. Settled claims have not exceeded this commercial coverage in any of the past three years.

Highpointe Vista Metropolitan District No. 2

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE K – 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 and debt limitations which apply to the State of Colorado and all local governments.

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 calculation of the fiscal year spending limits may require judicial interpretation.

NOTE L – COMMITMENTS

District Management

The District outsources the management of the District which includes overall management, accounting and administrative services. The service contract renews annually each year on January 1, unless notice of non-renewal is provided by either party as described in the service contract. Under the service contract, the District is required to make monthly payments of \$4,000 for a total annual compensation of \$48,000.

Landscape Maintenance

The District has a service contract for landscape maintenance subject to annual appropriation by the District. Under the service contract, the District is required to make 24 semi-monthly payments of \$2,708 for a total annual compensation of \$65,000 for landscape maintenance. The service contract may be terminated by either party upon provision of written notice.

NOTE M – MANAGEMENT'S EVALUATION OF SUBSEQUENT EVENTS

The preparation of the District's financial statements and accompanying footnotes in conformity with generally accepted accounting principles requires management of the District to evaluate transactions and events subsequent to the balance sheet date involving the District. Management has evaluated the subsequent transactions and events of the District through July 31, 2017, which is the date the financial statements and accompanying footnotes were available for issuance.

Highpointe Vista Metropolitan District No. 2

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE N – RECONCILIATION OF GOVERNMENT-WIDE AND GOVERNMENTAL FUND
FINANCIAL STATEMENTS

The Governmental Funds Balance Sheet/Statement of Net Position includes an adjustments column which reconciles the differences between the government-wide and fund financial statements as follows:

Capital assets, net of accumulated depreciation, reflected in the Statement of Net Position are not financial resources in the governmental funds and accordingly are not reported in the governmental funds, \$ 4,778,069

Long-term liabilities are not due and payable in the current period and, therefore, are not reflected in the governmental funds, 6,000,000

The net discount associated with the issuance of the 2016A Bonds, reflected in the Statement of Net Position is not a financial resource in the governmental funds and accordingly is not reported in the governmental funds, 32,488

Interest is recognized in the governmental funds as paid, therefore accrued interest is only recognized on the Statement of Net Position. 43,083

The Statements of Governmental Funds Revenues, Expenditures and Changes in Fund Balance/Statement of Net Activities includes an adjustment column which reconciles the differences between the government-wide and fund financial statements as follows:

The net proceeds from the issuance of debt by the District are reflected as revenue in the governmental funds; however the net proceeds are not reflected in the Statement of Activities, \$ 5,967,512

Depreciation expense on capital assets is reported in the Statement of Activities. However, it does not use current financial resources, as such, depreciation expense is not recorded as an expenditure in the governmental funds, 180,586

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the costs of those capital assets are capitalized. As such, the transfer of the capital assets, net of accumulated, from District No. 1 is only reflected in the Statement of Activities, 4,948,348

Interest is recognized in the governmental funds as paid. For the Statement of Activities interest expense is recognized as incurred. 43,083

SUPPLEMENTARY INFORMATION

Highpointe Vista Metropolitan District No. 2

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

Year Ended December 31, 2016

	Original Budget	Amended and Final Budget	Actual	Variance
Expenditures				
Debt service				
Cost of issuance of debt	-	157,045	157,045	-
Interest	-	56,659	56,659	-
Total expenditures	-	213,704	213,704	-
Other sources and uses				
Proceeds from issuance of debt	-	6,000,000	5,967,512	32,488
Transfer to District No. 1 - net	-	(5,634,796)	(5,601,754)	(33,042)
Total other sources and uses	-	365,204	365,758	(554)
Change in fund balance	<u>\$ -</u>	<u>\$ 151,500</u>	152,054	<u>\$ (554)</u>
Fund Balance				
Beginning of the year			-	
End of the year			<u>\$ 152,054</u>	