

**Talon Pointe Coordinating Metropolitan District
Adams County, Colorado**

FINANCIAL STATEMENTS

With Independent Auditors' Report

December 31, 2016

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March 2, 2018

Talon Pointe Coordinating Metropolitan District

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December 31, 2016

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Certified Public Accountants and Business Consultants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Talon Pointe Coordinating Metropolitan District
Adams County, Colorado

We have audited the accompanying financial statements of the governmental activities and each major fund of Talon Pointe Coordinating Metropolitan District (the 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Talon Pointe Coordinating Metropolitan District, as of December 31, 2016, and the respective changes in financial position thereof, and the budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Economic Dependency

The District has not yet established a revenue base sufficient to pay its operational costs and debt commitments. As discussed in Noted 7, the District may be dependent upon the developer of the District's service area to provide cash for such expenditures.

Required Supplementary Information

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statement in an appropriate operation, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information 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 basic 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 basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Danner Higgin & Associates, PC

Lakewood, Colorado
January 31, 2018

BASIC FINANCIAL STATEMENTS

Talon Pointe Coordinating Metropolitan District
STATEMENT OF NET POSITION
December 31, 2016

	Governmental Activities
Assets	
Cash	\$ 416
Total assets	416
 Liabilities	
Accounts payable	128,453
Total liabilities	128,453
 Net position (deficit)	
Unrestricted	(128,037)
Total net position (deficit)	\$ (128,037)

The accompanying Notes to Financial Statements are an integral part of these statements.

Talon Pointe Coordinating Metropolitan District

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2016

	Program Revenues				Net (Expense) Revenue and Changes in Net Position
Functions/Programs:	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Primary government					
General government	\$ 38,239	\$ -	\$ -	\$ -	\$ (38,239)
Total primary government	\$ 38,239	\$ -	\$ -	\$ -	(38,239)
 General Revenues:					
Intergovernmental revenue - Talon Pointe Metro District					11,080
Total general revenues					11,080
Change in net position					(27,159)
Net position (deficit) - beginning					(100,878)
Net position (deficit) - ending					\$ (128,037)

The accompanying Notes to Financial Statements are an integral part of these statements.

Talon Pointe Coordinating Metropolitan District

**BALANCE SHEET
GOVERNMENTAL FUNDS**

December 31, 2016

	General	Capital Projects	Total Governmental Funds
Assets			
Cash	\$ 416	\$ -	\$ 416
Total assets	416	-	416
Liabilities and fund balances			
Liabilities			
Accounts payable	128,453	-	128,453
Total liabilities	128,453	-	128,453
Fund balance (deficit)			
Unassigned (deficit)	(128,037)	-	(128,037)
Total fund balances	(128,037)	-	(128,037)
Total liabilities and fund balances	\$ 416	\$ -	\$ 416

Amounts reported for governmental activities in the Statement of Net Position are the same as above

The accompanying Notes to Financial Statements are an integral part of these statements.

Talon Pointe Coordinating Metropolitan District
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

For the Year Ended December 31, 2016

	<u>General</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
Revenues			
Transfer from Talon Pointe Metro District	\$ 11,080	\$ -	\$ 11,080
Total revenues	<u>11,080</u>	<u>-</u>	<u>11,080</u>
Expenditures			
General government			
Accounting and audit	5,120	-	5,120
District management	13,050	-	13,050
Insurance	3,048	-	3,048
Legal	14,975	-	14,975
Administration costs	2,046	-	2,046
Total expenditures	<u>38,239</u>	<u>-</u>	<u>38,239</u>
Net change in fund balances	(27,159)	-	(27,159)
Fund balances (deficit) - beginning	<u>(100,878)</u>	<u>-</u>	<u>(100,878)</u>
Fund balances (deficit) - ending	<u><u>\$ (128,037)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ (128,037)</u></u>

Amounts reported for governmental activities in the Statement of Activities are the same as above

The accompanying Notes to Financial Statements are an integral part of these statements.

Talon Pointe Coordinating Metropolitan District
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND

For the Year Ended December 31, 2016

	Original and Final Budget	Actual	Variance with Final Budget - Positive (Negative)
REVENUES			
Transfer from Talon Pointe Metro District	\$ 11,789	\$ 11,080	\$ (709)
Developer advance	2,711	-	(2,711)
Total revenues	<u>14,500</u>	<u>11,080</u>	<u>(3,420)</u>
EXPENDITURES			
General government			
Accounting and audit	-	5,120	(5,120)
District management	12,000	13,050	(1,050)
Insurance	500	3,048	(2,548)
Legal	2,000	14,975	(12,975)
Administration costs	-	2,046	(2,046)
Total expenditures	<u>14,500</u>	<u>38,239</u>	<u>(23,739)</u>
Net change in fund balance	-	(27,159)	(27,159)
Fund balance (deficit)- beginning	<u>1,529</u>	<u>(100,878)</u>	<u>(102,407)</u>
Fund balance (deficit) - ending	<u>\$ 1,529</u>	<u>\$ (128,037)</u>	<u>\$ (129,566)</u>

The accompanying Notes to the Financial Statements are an integral part of these statements.

Talon Pointe Coordinating Metropolitan District

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016

Note 1 – Reporting entity

The District, a quasi-municipal corporation and political subdivision of the State of Colorado, was organized on February 20, 2014, and is governed pursuant to the provisions of the Colorado Special District Act (Title 32, Article 1, Colorado Revised Statutes). The District's service area is located in Adams County, Colorado. The District was established to provide for the planning, design, acquisition, construction, installation, relocation and redevelopment of public Improvements.

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 (i.e., the statement of net position and the statement of activities) report information on all of the activities of the District. The effect of interfund activity has been removed from these statements. Governmental activities are normally supported by taxes and intergovernmental revenues.

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments 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

Talon Pointe Coordinating Metropolitan District

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2016

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 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 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 for those required to be accounted for in another fund.

The capital projects fund is used to account for financial resources to be used for the purchase, construction, operation, and maintenance of capital equipment and facilities.

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

Property taxes are recognized as revenues in the year for which they are levied. Grants are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Interest associated with the current fiscal period is considered to be susceptible to accrual and so has been recognized as revenues of the current fiscal period. 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, generally are recorded when a liability is incurred or the long-term obligation is paid.

Talon Pointe Coordinating Metropolitan District

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2016

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Property taxes

Property taxes are levied 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 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 and December. The County Treasurer remits the taxes collected monthly to the District.

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

Fund Equity (Deficit)

Fund balances are categorized to make the nature and extent of the constraints placed on the District's fund balances transparent. In the fund financial statements the following classifications describe the relative strength of the spending constraints.

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

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

Committed fund balance – The portion of fund balance constrained for specific purposes according to limitations imposed by the District's highest level of decision making authority, the Board of Directors prior to the end of the current fiscal year. 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

Talon Pointe Coordinating Metropolitan District

**NOTES TO FINANCIAL STATEMENTS
(continued)**

December 31, 2016

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 above criteria.

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

The general fund reported a negative fund balance of \$128,037 at December 31, 2016. The District did not budget to eliminate the general fund's 2015 deficit (\$100,877) during 2016, which may be a violation of Colorado local government budget law.

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 total appropriation can only be modified upon completion of notification and publication requirements. The budget includes each fund on its basis of accounting.

The District's general fund actual expenditures during 2016 exceeded its budgeted expenditures, which may be a violation of Colorado local government budget law.

Note 3 – Cash and investments

Cash and investments are reflected on the December 31, 2016 Statement of net position as follows:

Cash	\$ 416
Total cash	<u>\$ 416</u>

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

Deposits with financial institutions	\$ 416
Total cash	<u>\$ 416</u>

Talon Pointe Coordinating Metropolitan District

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2016

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. As of December 31, 2016, the federal insurance limit was \$250,000. The eligible collateral is determined by the PDPA. PDPA allows the institution to create a single collateral pool for all public funds. The pool for all the uninsured public deposits as a group is to be maintained by another institution or held in trust. The market value of the collateral must be at least equal to 102% of the aggregate uninsured deposits.

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

Custodial credit risk - deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District has not adopted a deposit policy for custodial credit risk. As of December 31, 2016, the District's bank balance and carrying balance were federally insured.

Investments

The District has not adopted a formal investment policy but follows state statutes regarding investments. Colorado revised statutes limit investment maturities to five years or less unless formally approved by the District.

The District primarily limits its investments to local government investment pools, which are believed to have minimal credit risk, minimal interest rate risk and no foreign currency risk. Additionally, the District is not subject to concentration risk disclosure requirements or subject to custodial credit risk for investments that are in the possession of another party.

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

- Obligations of the United States and certain U.S. government agency securities
- Certain international agency securities
- General obligation and revenue bonds of U.S. local government entities
- Bankers' acceptances of certain banks
- Commercial paper
- Written repurchase agreements and certain reverse repurchase agreements collateralized by certain authorized securities
- Certain money market funds

Talon Pointe Coordinating Metropolitan District

**NOTES TO FINANCIAL STATEMENTS
(continued)**

December 31, 2016

- Guaranteed investment contracts
- Local government investment pools

As of December 31, 2016, the District had no investments.

Note 4 – Net position (deficit)

The District reports net position consisting of one component – unrestricted.

The District had an unrestricted deficit of \$128,037 as of December 31, 2016.

Note 5 – Related parties

Certain members of the Board of Directors of the District are employees, owners or otherwise associated with the Developer and/or its affiliates and may have conflicts of interest with respect to certain transactions which come before the Board. During 2016, the District paid or accrued \$13,050 in district management fees to an entity related to the Developer.

Note 6 – Agreements

Intergovernmental Agreement – City of Thornton

On March 18, 2014 the District entered into an agreement with the City of Thornton, pursuant to the Service Plan, whereby the District will finance and construct public improvements which are necessary to provide municipal services within the District's boundaries as set forth in the Service Plan. Upon completion of the improvements, the District is planning to convey the improvements to other governmental entities. Upon acceptance, the government or agency is responsible for ownership, operation, maintenance, and repair of such improvements. Debt service on the cost of the improvements will be funded in part through a mill levy on taxable property.

Intergovernmental Agreement – Talon Pointe Metropolitan District

On June 24, 2014 the District entered into an agreement with Talon Pointe Metropolitan District (TPMD) whereby the District will act as the operating district, and will use the property taxes transferred from TPMD to fund the operational costs of the Districts. TPMD will act as the financing district collecting property taxes and coordinating debt service payments and financing activities. TPMD will transfer property taxes collected for operations to TPCMD.

Note 7 – Economic dependency

The District has not yet established a revenue base sufficient to pay the District's operational costs. Until an independent revenue base is established, continuation of operations in the District will be dependent upon funding by the Developer.

Talon Pointe Coordinating Metropolitan District

**NOTES TO FINANCIAL STATEMENTS
(continued)**

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; injuries to employees; or acts of God.

The District is a member of the Colorado Special District Property and Liability Pool (the Pool) as of December 31, 2016. The Pool is an organization created by intergovernmental agreement to provide property, liability, public officials' liability, boiler and machinery, and workers compensation coverage to its members. Settled claims have not exceeded this coverage in any of the past three fiscal years.

The District pays annual premiums to the Pool for liability, property 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.

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 interpretation of how to calculate Fiscal Year Spending limits, will require judicial interpretation.

SUPPLEMENTAL INFORMATION

Talon Pointe Coordinating Metropolitan District
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -
CAPITAL PROJECTS FUND

For the Year Ended December 31, 2016

	Original and Final Budget	Actual	Variance with Final Budget - Positive (Negative)
REVENUES			
Developer advance	\$ -	\$ -	\$ -
Total revenues	<u>-</u>	<u>-</u>	<u>-</u>
EXPENDITURES			
Capital outlay	-	-	-
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	-	-	-
Fund balance (deficit)- beginning	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance (deficit) - ending	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>