

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

**FINANCIAL STATEMENTS**

**With Independent Auditors' Report**

**December 31, 2016**

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Office of the State Auditor

March 2, 2018

**Talon Pointe Metropolitan District**

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Certified Public Accountants and Business Consultants

## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities and each major fund of Talon Pointe 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 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 9, 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 Metropolitan District**  
**STATEMENT OF NET POSITION**  
**December 31, 2016**

	<u><b>Governmental Activities</b></u>
<b>Assets</b>	
Cash and investments	\$ 13,210
Cash and investments - restricted	282,086
Developer contribution receivable	9,430
Property taxes receivable	29,935
Capital assets, not being depreciated	<u>5,684,888</u>
<b>Total assets</b>	<u><b>6,019,549</b></u>
<b>Liabilities</b>	
Accounts and retainage payable	157,498
Accrued interest payable	3,155,573
Long-term debt:	
Due in less than one year, net of discount	153,002
Due in more than one year, net of discount	<u>8,287,438</u>
<b>Total liabilities</b>	<u><b>11,753,511</b></u>
<b>Deferred Inflow of Resources</b>	
Property tax revenue	<u>29,935</u>
<b>Total deferred inflow of resources</b>	<u><b>29,935</b></u>
<b>Net position (deficit)</b>	
Restricted for:	
Emergencies	400
Debt service	281,483
Unrestricted	<u>(6,045,780)</u>
<b>Total net position (deficit)</b>	<u><u><b>\$ (5,763,897)</b></u></u>

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

**Talon Pointe Metropolitan District**  
**STATEMENT OF ACTIVITIES**  
For the Year Ended December 31, 2016

<b>Functions/Programs:</b>	<b>Program Revenues</b>			<b>Net (Expense)</b>	
	<b>Expenses</b>	<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>	<b>Revenue and Changes in Net Position</b>
<b>Primary government</b>					<b>Governmental Activities</b>
General government	\$ (16,640)	\$ -	\$ 9,430	\$ 8,000	\$ 790
Interest on long-term debt and related costs	(904,042)	-	-	-	(904,042)
Total primary government	\$ (920,682)	\$ -	\$ 9,430	\$ 8,000	(903,252)
		<b>General Revenues:</b>			
					41,269
					3,477
					27
					2,257
					47,030
					(856,222)
					(4,907,675)
					\$ (5,763,897)

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

**Talon Pointe Metropolitan District**

**BALANCE SHEET  
GOVERNMENTAL FUNDS**

**December 31, 2016**

	<b>General</b>	<b>Debt Service</b>	<b>Capital Projects</b>	<b>Total Governmental Funds</b>
<b>Assets</b>				
Cash and investments	\$ 13,210	\$ -	\$ -	\$ 13,210
Cash and investments - restricted	-	282,086	-	282,086
Developer contribution receivable	9,430	-	-	9,430
Due from other funds	-	22,640	-	22,640
Property taxes receivable	8,553	21,382	-	29,935
<b>Total assets</b>	<b>31,193</b>	<b>326,108</b>	<b>-</b>	<b>357,301</b>
<b>Liabilities, Deferred inflows of resources and fund balances</b>				
<b>Liabilities</b>				
Due to other funds	22,640	-	-	22,640
Accounts and retainage payable	108,729	603	48,166	157,498
Bond interest payable	-	158,405	-	158,405
<b>Total liabilities</b>	<b>131,369</b>	<b>159,008</b>	<b>48,166</b>	<b>338,543</b>
<b>Deferred Inflows of Resources</b>				
Property tax revenue	8,553	21,382	-	29,935
<b>Total deferred inflows of resources</b>	<b>8,553</b>	<b>21,382</b>	<b>-</b>	<b>29,935</b>
<b>Fund balance (deficit)</b>				
Restricted for:				
Emergencies	400	-	-	400
Debt service	-	281,483	-	281,483
Unassigned (deficit)	(109,129)	(135,765)	(48,166)	(293,060)
<b>Total fund balance (deficit)</b>	<b>(108,729)</b>	<b>145,718</b>	<b>(48,166)</b>	<b>(11,177)</b>
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<b>\$ 31,193</b>	<b>\$ 326,108</b>	<b>\$ -</b>	

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

Long-term assets are not available to pay for current period expenditures and, therefore, are not reported in the funds:

Capital assets 5,684,888

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

Bonds payable (8,000,000)

Letter of credit payable (500,000)

Developer advance payable (157,831)

Bond discount, net of accumulated amortization 86,132

Accrued interest payable (2,865,909)

Net assets (deficit) of governmental activities **\$ (5,763,897)**

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

**Talon Pointe Metropolitan District**  
**STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS**  
**For the Year Ended December 31, 2016**

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
<b>Revenues</b>				
Property taxes	\$ 11,789	\$ 29,480	\$ -	\$ 41,269
Specific ownership taxes	-	3,477	-	3,477
System development fees	-	8,000	-	8,000
Developer contribution	9,430	-	-	9,430
Miscellaneous income	257	2,000	-	2,257
Interest income	2	25	-	27
<b>Total revenues</b>	<u>21,478</u>	<u>42,982</u>	<u>-</u>	<u>64,460</u>
<b>Expenditures</b>				
General government				
Accounting and audit	4,966	-	-	4,966
Miscellaneous & administrative	594	-	-	594
Transfer to Talon Pointe Coordinating District	11,080	-	-	11,080
Debt service				
Interest and other related costs	-	3,378	-	3,378
<b>Total expenditures</b>	<u>16,640</u>	<u>3,378</u>	<u>-</u>	<u>20,018</u>
<b>Excess of revenue over (under) expenditures</b>	<u>4,838</u>	<u>39,604</u>	<u>-</u>	<u>44,442</u>
<b>Other financing sources (uses)</b>				
Transfers from other funds	39,426	34,944	-	74,370
Transfers to other funds	(34,944)	(39,426)	-	(74,370)
<b>Total other financing sources (uses)</b>	<u>4,482</u>	<u>(4,482)</u>	<u>-</u>	<u>-</u>
<b>Net change in fund balances</b>	9,320	35,122	-	44,442
<b>Fund balances (deficit) - beginning (restated)</b>	<u>(118,049)</u>	<u>110,596</u>	<u>(48,166)</u>	<u>(55,619)</u>
<b>Fund balances (deficit) - ending</b>	<u>\$ (108,729)</u>	<u>\$ 145,718</u>	<u>\$ (48,166)</u>	<u>\$ (11,177)</u>

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

**Talon Pointe Metropolitan District**  
**RECONCILIATION OF THE STATEMENT OF REVENUES,**  
**EXPENDITURES, AND CHANGES IN FUND BALANCES OF**  
**GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

**For the Year Ended December 31, 2016**

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

Net change in fund balances - total governmental funds	\$ 44,442
<p>The issuance of long-term debt provides current financial resources to governmental funds while the repayment of the principal consumes current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.</p>	
Accrued interest - change	(895,835)
Amortization of bond discount	<u>(4,829)</u>
Change in net position of governmental activities	<u><u>\$ (856,222)</u></u>

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

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

**For the Year Ended December 31, 2016**

	<b>Original and Final Budget</b>	<b>Actual</b>	<b>Variance with Final Budget - Positive (Negative)</b>
<b>REVENUES</b>			
Property taxes	\$ 11,789	\$ 11,789	\$ -
Developer contribution	-	9,430	9,430
Miscellaneous income	-	259	259
<b>Total revenues</b>	<b>11,789</b>	<b>21,478</b>	<b>9,689</b>
<b>EXPENDITURES</b>			
General government			
Accounting and audit	-	4,966	(4,966)
Transfers to other governments	14,029	11,080	2,949
Miscellaneous	-	594	(594)
<b>Total expenditures</b>	<b>14,029</b>	<b>16,640</b>	<b>(2,611)</b>
<b>Excess of revenues over (under) expenditures</b>	<b>(2,240)</b>	<b>4,838</b>	<b>7,078</b>
<b>Other financing sources (uses)</b>			
Transfer from other funds	-	39,426	39,426
Transfer to other funds	-	(34,944)	(34,944)
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>4,482</b>	<b>4,482</b>
<b>Net change in fund balance</b>	<b>(2,240)</b>	<b>9,320</b>	<b>11,560</b>
<b>Fund balance (deficit)- beginning</b>	<b>(125,977)</b>	<b>(118,049)</b>	<b>7,928</b>
<b>Fund balance (deficit) - ending</b>	<b>\$ (128,217)</b>	<b>\$ (108,729)</b>	<b>\$ 19,488</b>

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

**Talon Pointe 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 August 10, 2007, 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.

On June 24, 2014 an agreement was entered into with Talon Pointe Coordinating Metropolitan District (TPCMD), whereby the District will now act as the financing district and TPCMD will act as the operating district (See Note 8).

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.

**Talon Pointe Metropolitan District**  
**NOTES TO FINANCIAL STATEMENTS**  
**(continued)**

**December 31, 2016**

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 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 debt service fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

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.

**Talon Pointe Metropolitan District**  
**NOTES TO FINANCIAL STATEMENTS**  
**(continued)**

**December 31, 2016**

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.

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.

**Investments**

Investments for the District are reported at fair value.

**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 measurable. The deferred property tax revenues are recorded as revenue in the year they are available or collected.

**Capital assets**

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable governmental activities column of the government-wide financial statements. Capital assets are defined by the District as those assets with a cost of \$5,000 or greater. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

**Talon Pointe Metropolitan District**  
**NOTES TO FINANCIAL STATEMENTS**  
**(continued)**

**December 31, 2016**

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

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements for which the District retains title are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable. Interest incurred during the construction phase of capital assets is not included as part of the capitalized value of the assets constructed.

All capital assets as of December 31, 2016 are considered construction in progress and no depreciation expense has been computed.

**Long-term obligations**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position.

In the fund financial statements, the face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**Bond issue costs and original issue discount**

In the government-wide financial statements, bond discounts are deferred and amortized over the life of the bonds using the effective interest method. Bond issuance costs are expensed as incurred.

In the fund financial statements, bond discounts and issuance costs are recognized during the current period. The face amount of debt issued is reported as other financing sources. Discounts on such debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**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.

**Talon Pointe Metropolitan District**  
**NOTES TO FINANCIAL STATEMENTS**  
**(continued)**

**December 31, 2016**

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 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 and capital projects fund reported negative fund balances of \$108,729 and \$48,166 respectively, at December 31, 2016. The District did not budget to eliminate deficits 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.

During 2016, the District's actual expenditures exceeded budgeted expenditures in the general fund due to transfers to the debt service fund in excess of budgeted amounts.

**Talon Pointe Metropolitan District**  
**NOTES TO THE FINANCIAL STATEMENTS**

**December 31, 2016**

**Note 3 – Cash and investments**

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

Cash and investments	\$ 13,210
Cash and investments - restricted	282,086
Total cash and investments	\$ 295,296

Cash and investments as of December 31, 2015 consist of the following:

Deposits with financial institutions	\$ 13,210
Investments	282,086
Total cash and investments	\$ 295,296

**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.

At December 31, 2016, the District's cash deposits had a bank balance of \$13,210 and a carrying balance of \$13,210.

**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.

**Talon Pointe Metropolitan District**  
**NOTES TO FINANCIAL STATEMENTS**  
**(continued)**

**December 31, 2016**

**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
- Guaranteed investment contracts
- Local government investment pools

**Fair Value Measurement and Application - GASB72**

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 CSAFE which record their investments at amortized cost.

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

<u>Investment</u>	<u>Maturity</u>	
Fidelity Treasury Fund	Weighted average under 60 days	<u>\$ 282,086</u>

**Talon Pointe Metropolitan District**  
**NOTES TO FINANCIAL STATEMENTS**  
(continued)

**December 31, 2016**

**Fidelity Treasury Fund**

The debt service money that is included in the trust accounts at United Missouri Bank is invested in the Fidelity Treasury Fund. This portfolio is a money market mutual fund which invests primarily in short-term U.S. Treasury securities and includes repurchase agreements collateralized by U.S. Treasury securities. The Fund is rated AAAM by Standard & Poor's.

**Cash and investments - restricted**

As of December 31, 2016, \$282,086 was restricted to pay past and future debt related costs.

**Note 4 – Capital assets**

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

	Balance at December 31, 2016	Increases	Decreases	Balance at December 31, 2016
Construction in progress	\$ 5,684,888	\$ -	\$ -	\$ 5,684,888

**Note 5 – Long-term obligations**

The District's outstanding long-term obligations at December 31, 2016, were as follows:

	Balance at December 31, 2015	Additions	Reductions	Balance at December 31, 2016	Due Within One Year
2008 GO bonds principal	\$ 8,000,000	\$ -	\$ -	\$ 8,000,000	\$ -
2008 GO bonds unpaid interest	2,101,333	895,835	-	2,997,168	2,997,168
2011 Subordinate GO bonds	-	-	-	-	-
Bond discount	(90,964)	-	4,829	(86,135)	(4,829)
Letter of credit	500,000	-	-	500,000	-
Developer advance	157,831	-	-	157,831	157,831
Developer advance interest	27,149	-	-	27,149	-
	<u>\$ 10,695,349</u>	<u>\$ 895,835</u>	<u>\$ 4,829</u>	<u>\$ 11,596,013</u>	<u>\$ 3,150,170</u>

The detail of the District's long-term obligations is as follows:

**Talon Pointe Metropolitan District**  
**NOTES TO FINANCIAL STATEMENTS**  
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**December 31, 2016**

**\$8,000,000 General Obligation (Limited Tax Convertible to Unlimited Tax) Bonds, Series 2008**, issued on March 1, 2008 in the original amount of \$8,000,000. The bonds are term bonds due December 1, 2039, with annual mandatory sinking fund principal payments due on each December 1, beginning December 1, 2018. Interest at the rate of 8.0% is payable semiannually on each June 1 and December 1. The bonds are subject to redemption prior to maturity, at the option of the District, on December 1, 2017, and on any date thereafter, upon payment of par and accrued interest, without redemption premium.

The Conversion Date of the bonds is the date that the ratio derived by dividing the District's currently outstanding general obligation debt by the assessed valuation of all taxable property of the District is equal to or less than 50%.

The Bonds are secured by amounts held by the Trustee in the Reserve Fund and the Surplus Fund. Prior to the Conversion Date, Pledged Revenue that is not needed in any year to pay debt service on the bonds or to restore the Reserve Fund to the Required Reserve amount of \$800,000, will be deposited to and held in the Surplus Fund, up to the Maximum Surplus Amount of \$800,000. The Surplus Fund terminates on the Conversion Date and any monies therein will be applied to any legal purpose of the District.

The bonds are further secured by a Letter of Credit with a bank in the amount of \$500,000. The Letter of Credit automatically renews annually and terminates when building permits have been issued for 200 residential dwelling units in the District. During 2013, the Trustee drew \$158,406 to fund shortages for interest payments, thereby drawing the full \$500,000 available. The Trustee has informed the District that the June 1, 2014, December 31, 2014, June 1, 2015, December 1, 2015, June 1, 2016 and December 1, 2016 interest payments have not been remitted to bondholders, as the Trustee is waiting for additional direction from the bondholder due to a shortage in available funds to make the required interest payments. The 2013 draw of \$158,406 is held as restricted investments in the District's trust account, and is recorded as a current liability in the debt service fund financial statements.

Under the Debt Service Guaranty Agreement (Guaranty Agreement), Osborne Holding Corporation and Gene A. Osborne guarantee any scheduled payment of principal and interest on the bonds after all the trust funds have been depleted and the Letter of Credit is fully exhausted. This obligation terminates on the Conversion Date. As of the date of the auditor's report, the bondholders have not made a demand under the Guaranty Agreement. As of the date of the auditor's report, the District is not able to determine if Osborne Holding Corporation is in a financial position to fulfill the Guaranty Agreement, were such a demand to be made by the bondholders.

The Bonds are payable solely from Pledged Revenue consisting of monies derived by the District from the following sources, net of any collection costs: (1) the Required Mill Levy; (2) the Development Fees in excess of the initial \$62,500 received; (3) the portion of the Specific Ownership Tax attributable to the imposition of the Required Mill

**Talon Pointe Metropolitan District**  
**NOTES TO FINANCIAL STATEMENTS**  
**(continued)**

**December 31, 2016**

Levy, (4) draws on the Letter of Credit, (5) amounts payable under the Debt Service Guaranty Agreement, and (6) any other legally available monies which the District determines to be treated as Pledged Revenue.

Required Mill Levy means an ad valorem mill levy imposed upon all taxable property of the District each year in an amount sufficient to pay the principal and interest on the Bonds as the same become due and payable and to replenish the Reserve Fund. Prior to the Conversion Date, the maximum Required Mill Levy is 50 mills and if the amount in the Surplus Fund is less than the Maximum Surplus Amount of \$800,000, the minimum Required Mill Levy is 30 mills. Such maximum and minimum mill levies are subject to adjustment for changes in the method of calculating assessed value after January 1, 2004. As of December 31, 2016, the adjusted maximum and minimum mill levies are 50 and 20 mills for debt service and operations, respectively. For collection year 2016, the District levied 50 mills for debt service.

**Taxable Subordinate Limited Tax General Obligation Bonds, Series 2011** issued June 1, 2011, in the aggregate principal amount of \$12,000,000, with interest at 15%, for the purpose of acquiring public infrastructure improvements. The District pledges revenue proceeds from a Required Mill Levy of 50 mills. The Series 2011 bonds are subordinate to the Series 2008 Bonds. Principal is due from time to time in amounts equal to accepted District Eligible Costs pursuant to the Infrastructure Acquisition and Reimbursement Agreement (note 8). Interest payments are due each December 15. The District did not accept any costs related to this obligation during 2016.

The District's long-term obligations, excluding developer advances and repayment of letter of credit draws, are expected to mature as follows:

Year	Principal	Interest	Total
2017	\$ -	\$ 2,997,168	\$ 2,997,168
2018	10,000	640,000	650,000
2019	40,000	639,200	679,200
2020	50,000	636,000	686,000
2021	85,000	632,000	717,000
2022-2026	605,000	3,085,600	3,690,600
2027-2031	1,405,000	2,788,400	4,193,400
2032-2036	2,715,000	2,134,000	4,849,000
2037-2039	3,090,000	852,400	3,942,400
	<u>\$ 8,000,000</u>	<u>\$ 14,404,768</u>	<u>\$ 22,404,768</u>

No principal payments have been received from the 2011 subordinate bonds; accordingly no repayment is included in this schedule.

**Talon Pointe Metropolitan District**  
**NOTES TO FINANCIAL STATEMENTS**  
**(continued)**

**December 31, 2016**

**Debt authorization**

At an election held in 2007, the District's voters authorized the issuance of general obligation debt in the amount of \$146,000,000 for the following purposes, in the following amounts (see Note 12):

	Principle authorized	Allocation to 2007 and 2011 bonds	Amount remaining
Streets	\$ 20,000,000	\$ 3,140,000	\$ 16,860,000
Safety Protection	2,000,000	--	2,000,000
Parks and Recreation	20,000,000	3,277,000	16,723,000
Water	20,000,000	1,583,000	18,417,000
Sanitation	20,000,000	--	20,000,000
Security Services and Improvements	500,000	--	500,000
Public Transportation	500,000	--	500,000
Television Relay and Translation	500,000	--	500,000
Mosquito Control	500,000	--	500,000
Operations and Maintenance	2,000,000	--	2,000,000
Intergovernmental Agreements	20,000,000	--	20,000,000
Private Party Agreements	20,000,000	12,000,000	8,000,000
Refunding	20,000,000	--	20,000,000
<b>Total</b>	<b>\$ 146,000,000</b>	<b>\$ 20,000,000</b>	<b>\$ 126,000,000</b>

The District's Service Plan limits the amount of bonds that the District has the authority to issue to \$20,000,000, to be partially repaid with funds from a mill levy imposed on taxable property.

**Note 6 – Net position (deficit)**

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

As of December 31, 2016, all of the District's capital assets are expected to be conveyed to other governments, and are therefore not included in a calculation of net investment in capital assets.

Restricted assets include net positions that are restricted for use either externally imposed by creditors, grantors, contributors, or laws of other governments, or imposed by law through constitutional provisions or enabling legislation. At December 31, 2016 the District's governmental activities had \$281,483 in net position restricted for debt service and \$400 restricted for emergency reserves (Note 11).

**Talon Pointe Metropolitan District**  
**NOTES TO FINANCIAL STATEMENTS**  
**(continued)**

**December 31, 2016**

The District had an unrestricted deficit of \$5,763,897 as of December 31, 2016.

**Note 7 – 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.

**Note 8 – Agreements**

**Intergovernmental Agreement – City of Thornton**

On September 12, 2006, as amended April 12, 2007, April 24, 2007, and August 10, 2007 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 Coordinating Metropolitan District**

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

**Funding and Reimbursement Agreement**

In 2010 the District entered into the Funding and Reimbursement Agreement with ELG Development, LLC (the Developer), whereby the District agreed to reimburse the Developer for District operating costs incurred by the Developer, including interest at prime plus 2%. The Agreement renews annually.

**Infrastructure Acquisition and Reimbursement Agreement**

In 2010 the District entered into the Infrastructure Acquisition and Reimbursement Agreement with ELG Development, LLC (the Developer), whereby the District agrees to reimburse the Developer for "District Eligible Costs" (Costs) for public infrastructure improvements constructed by the Developer on behalf of the District. Reimbursement is subject to the receipt by the District of a Cost Certification and an Engineer's Certification that verifies that all improvements are fit for their intended purpose and

**Talon Pointe Metropolitan District**  
**NOTES TO FINANCIAL STATEMENTS**  
**(continued)**

**December 31, 2016**

were constructed in accordance with their design. The District will issue an acceptance letter to the Developer, and the Developer will issue a Bill of Sale to the District. Amounts owing to the Developer under this agreement bear interest at 8% from the date of acceptance to the date of reimbursement. The maximum amount to be acquired and reimbursed under this agreement is \$12,000,000.

**Note 9 – Economic dependency**

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

**Note 10 – Transfers between funds**

The District transferred \$39,426 from the Debt Service Fund to the General Fund, for the purpose of paying operating expenses, and \$34,944 from the General Fund to the Debt Service Fund in repayment of such transfers.

**Note 11 – 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 12 – 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

**Talon Pointe Metropolitan District**  
**NOTES TO FINANCIAL STATEMENTS**  
**(continued)**

**December 31, 2016**

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 Metropolitan District**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -**  
**DEBT SERVICE FUND**

**For the Year Ended December 31, 2016**

	<b>Original and Final Budget</b>	<b>Actual</b>	<b>Variance with Final Budget - Positive (Negative)</b>
<b>REVENUES</b>			
Property taxes	\$ 35,072	\$ 29,480	\$ (5,592)
Specific ownership taxes	3,000	3,477	477
Development fees	200,000	8,000	(192,000)
Interest and other income	75	2,025	1,950
Letter of credit fees	50,000	-	(50,000)
<b>Total revenues</b>	<u>288,147</u>	<u>42,982</u>	<u>(245,165)</u>
<b>EXPENDITURES</b>			
Interest	238,147	-	238,147
Trustee fees	-	3,378	(3,378)
<b>Total expenditures</b>	<u>238,147</u>	<u>3,378</u>	<u>234,769</u>
<b>Excess of revenues (under) expenditures</b>	<u>50,000</u>	<u>39,604</u>	<u>(10,396)</u>
<b>Other financing sources (uses)</b>			
Transfer to other funds	-	34,944	34,944
Transfer to other funds	(50,000)	(39,426)	10,574
<b>Total other financing sources (uses)</b>	<u>(50,000)</u>	<u>(4,482)</u>	<u>45,518</u>
<b>Net change in fund balance</b>	-	35,122	(35,122)
<b>Fund balance - beginning</b>	<u>(1,109,235)</u>	<u>269,001</u>	<u>1,378,236</u>
<b>Fund balance - ending</b>	<u>\$ (1,109,235)</u>	<u>\$ 304,123</u>	<u>\$ 1,413,358</u>

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

For the Year Ended December 31, 2016

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
<b>REVENUES</b>			
<b>Total revenues</b>	\$ -	\$ -	\$ -
<b>EXPENDITURES</b>			
<b>Total expenditures</b>	-	-	-
<b>Excess of revenues (under)</b>			
<b>expenditures</b>	-	-	-
<b>Other financing sources (uses)</b>			
Transfer from other funds	-	-	-
<b>Total other financing sources (uses)</b>	-	-	-
<b>Net change in fund balance</b>	-	-	-
<b>Fund balance (deficit)- beginning</b>	(48,166)	(48,166)	-
<b>Fund balance (deficit) - ending</b>	<u>\$ (48,166)</u>	<u>\$ (48,166)</u>	<u>\$ -</u>