

**BERTHOUD HERITAGE METROPOLITAN  
DISTRICT NO. 1**

**BASIC FINANCIAL STATEMENTS**

**December 31, 2016**



**RECEIVED**

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## **FINANCIAL SECTION**



## JOHN CUTLER & ASSOCIATES

Board of Directors  
Berthoud Heritage Metropolitan District No. 1  
Berthoud, Colorado

### INDEPENDENT AUDITORS' REPORT

#### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Berthoud Heritage Metropolitan District No. 1, 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 Berthoud Heritage Metropolitan District No. 1, as of December 31, 2016, and the respective changes in financial position, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the required budgetary information on page 16 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has not presented the management's discussion and analysis that governmental accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion 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 individual fund schedule listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the individual fund schedule is fairly stated in all material respects in relation to the financial statements as a whole.

*John Luther & Associates, LLC*

September 28, 2017

## **BASIC FINANCIAL STATEMENTS**

BERTHOUD HERITAGE METROPOLITAN DISTRICT NO. 1

STATEMENT OF NET POSITION

As of December 31, 2016

	<u>Governmental Activities</u>
ASSETS	
Cash and Investments	\$ 14,420
Prepaid Expenses	9,297
Accounts Receivable	799,424
Capital Assets, not depreciated	<u>3,615,036</u>
 TOTAL ASSETS	 <u>4,438,177</u>
LIABILITIES	
Accounts Payable	444,562
Due To Other Districts	365,000
Accrued Interest	103,131
Noncurrent Liabilities	
Due within One Year	-
Due in more than One Year	<u>3,877,123</u>
 TOTAL LIABILITIES	 <u>4,789,816</u>
NET POSITION	
Net Investment in Capital Assets	(262,087)
Restricted	174
Unrestricted	<u>(89,726)</u>
 TOTAL NET POSITION	 <u><u>\$ (351,639)</u></u>

The accompanying notes are an integral part of the financial statements.

BERTHOUD HERITAGE METROPOLITAN DISTRICT NO. 1

STATEMENT OF ACTIVITIES  
Year Ended December 31, 2016

<u>FUNCTIONS/PROGRAMS</u>	<u>Expenses</u>	<u>Program Revenues Charges for Services</u>	<u>Net (Expense) Revenues and Changes in Net Position Governmental Activities</u>
<b>PRIMARY GOVERNMENT</b>			
Governmental Activities			
General Government	\$ 137,697	\$ 5,797	\$ (131,900)
Interest on Long-Term Debt	<u>103,762</u>	<u>(17,876)</u>	<u>(121,638)</u>
Total Governmental Activities	<u>\$ 241,459</u>	<u>\$ (12,079)</u>	(253,538)
<b>GENERAL REVENUES</b>			
Transfers To Other Districts			(3,185)
Interest			<u>2</u>
TOTAL GENERAL REVENUES			<u>(3,183)</u>
CHANGE IN NET POSITION			(256,721)
NET POSITION, Beginning			<u>(94,918)</u>
NET POSITION, Ending			<u>\$ (351,639)</u>

The accompanying notes are an integral part of the financial statements.

BERTHOUD HERITAGE METROPOLITAN DISTRICT NO. 1

BALANCE SHEET  
GOVERNMENTAL FUNDS  
As of December 31, 2016

	GENERAL FUND	CAPITAL PROJECTS FUND	TOTAL GOVERNMENTAL FUNDS
ASSETS			
Cash and Investments	\$ 14,420	\$ -	\$ 14,420
Accounts Receivable	14,686	784,738	799,424
Prepaid Expenses	9,297	-	9,297
	<u>38,403</u>	<u>784,738</u>	<u>823,141</u>
TOTAL ASSETS			
LIABILITIES AND FUND EQUITY			
LIABILITIES			
Accounts Payable	\$ 24,824	\$ 419,738	\$ 444,562
Due to Other Districts	-	365,000	365,000
	<u>24,824</u>	<u>784,738</u>	<u>809,562</u>
TOTAL LIABILITIES			
FUND EQUITY			
Fund Balance			
Nonspendable	9,297	-	9,297
Restricted for Emergencies	174	-	174
Unassigned	4,108	-	4,108
	<u>13,579</u>	<u>-</u>	<u>13,579</u>
TOTAL FUND EQUITY			
TOTAL LIABILITIES AND FUND EQUITY			
	<u>\$ 38,403</u>	<u>\$ 784,738</u>	

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

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

3,615,036

Long-term liabilities are not due and payable in the current period and are not reported in the funds. These include developer advances (\$3,877,123), and accrued interest (\$103,131).

(3,980,254)

Net position of governmental activities

\$ (351,639)

The accompanying notes are an integral part of the financial statements.

BERTHOUD HERITAGE METROPOLITAN DISTRICT NO. 1

STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
Year Ended December 31, 2016

	GENERAL FUND	CAPITAL PROJECTS FUND	TOTAL GOVERNMENTAL FUNDS
REVENUES			
Charges for Services	\$ 5,797	\$ -	\$ 5,797
Interest	2	-	2
	<u>5,799</u>	<u>-</u>	<u>5,799</u>
TOTAL REVENUES			
EXPENDITURES			
Current			
General Government	137,697	-	137,697
Capital Outlay	-	3,615,036	3,615,036
Debt Service			
Principal	91,016	-	91,016
Interest	7,217	-	7,217
	<u>235,930</u>	<u>3,615,036</u>	<u>3,850,966</u>
TOTAL EXPENDITURES			
EXCESS OF REVENUES OVER (UNDER) EXPENSES	<u>(230,131)</u>	<u>(3,615,036)</u>	<u>(3,845,167)</u>
OTHER FINANCING SOURCES (USES)			
Transfer to Other Districts	(3,185)	-	(3,185)
Proceeds from Developer Advances	244,211	3,615,036	3,859,247
	<u>241,026</u>	<u>3,615,036</u>	<u>3,856,062</u>
TOTAL OTHER FINANCING SOURCES (USES)			
NET CHANGE IN FUND BALANCES	10,895	-	10,895
FUND BALANCES, Beginning	<u>2,684</u>	<u>-</u>	<u>2,684</u>
FUND BALANCES, Ending	<u>\$ 13,579</u>	<u>\$ -</u>	<u>\$ 13,579</u>

The accompanying notes are an integral part of the financial statements.

BERTHOUD HERITAGE METROPOLITAN DISTRICT NO. 1

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
Year Ended December 31, 2016

Amounts Reported for Governmental Activities in the Statement of Activities  
are Different Because:

Net Changes in Fund Balances - Total Governmental Funds	\$ 10,895
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	3,615,036
Debt proceeds are reported as financing sources in the governmental funds and increase fund balance. In the government-wide financial statements, however, issuing debt increases long-term liabilities in the statement of net position and does not effect the statement of activities.	(3,877,123)
Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This amount includes payment of developer advances \$91,016 and change in accrued interest in the amount of (\$96,545).	<u>(5,529)</u>
Change in Net Position of Governmental Activities	<u>\$ (256,721)</u>

The accompanying notes are an integral part of the financial statements.

BERTHOUD HERITAGE METROPOLITAN DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Berthoud Heritage Metropolitan District No. 1 (“District”) was formed to provide public services and improvements for the District and surrounding area within its boundaries. The District is governed by a five-member Board of Directors (the “Board”) elected by the constituents.

The accounting policies of the District conform to generally accepted accounting principles (“GAAP”) as applicable to governments. The following is a summary of the more significant policies.

**Reporting Entity**

In accordance with governmental accounting standards, the District has considered the possibility of inclusion of additional entities in its financial statements.

The definition of the reporting entity is based primarily on financial accountability. The District is financially accountable for organizations that make up its legal entity. It is also financially accountable for legally separate organizations if District officials appoint a voting majority of the organization’s governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the District. The District may also be financially accountable for organizations that are fiscally dependent upon it.

Based on the application of these criteria, the District does not include additional organizations in its reporting entity.

**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 nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of the given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*. Major individual governmental funds are reported as separate columns in the fund financial statements.

BERTHOUD HERITAGE METROPOLITAN DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**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 the liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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 collected 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.

Service fees, grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have 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 generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

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

In the fund financial statements, 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 District, except those required to be accounted for in another fund.

The *Capital Projects Fund* accounts for the acquisition and construction of capital assets.

BERTHOUD HERITAGE METROPOLITAN DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**Capital Assets**

Capital assets, which include property and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated acquisition value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Property and equipment of the District is depreciated using the straight line method over the estimated useful lives between fifteen and thirty years.

**Long-Term Obligations**

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the governmental activities fund type statement of net assets.

The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on 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.

**Property Taxes**

Property taxes are levied on December 15 and attach as an enforceable lien on property on January 1. Taxes are payable in full on April 30 or in two installments on February 28 and June 15. The County Treasurer's office collects property taxes and remits to the District on a monthly basis.

Assessed Property Taxes are first submitted to the Berthoud Heritage Metropolitan Districts Nos 2 through 9 and subsequently are forwarded to the District as a payment for administrative and other services.

BERTHOUD HERITAGE METROPOLITAN DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**Net Position**

The government-wide financial statements, utilize a net position presentation. Net position is categorized as investment in capital assets, restricted, and unrestricted.

*Net Investment in Capital Assets* includes the District's capital assets (net of accumulated depreciation) reduced by the outstanding balances of bonds that are attributable to the acquisition, construction, or improvement of those assets.

*Restricted Net Position* includes assets that have third-party (statutory, bond covenant, or granting agency) limitations on their use. The District typically uses restricted assets first, as appropriate opportunities arise, but reserves the right to selectively defer the use until a future project.

*Unrestricted Net Position* typically includes unrestricted liquid assets. The Board has the authority to revisit or alter this designation.

**Fund Balance Classification**

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- Nonspendable – This classification includes amounts that cannot be spent because they are either not in a spendable form (such as inventories and prepaid amounts) or are legally or contractually required to be maintained intact. The District reports prepaid items as nonspendable for the year ended December 31, 2016.
- Restricted – This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. The District has classified Emergency Reserves as being restricted because their use is restricted by State Statute for declared emergencies.

BERTHOUD HERITAGE METROPOLITAN DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**Fund Balance Classification** (Continued)

- Committed – This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Board of Directors. These amounts cannot be used for any other purpose unless the Board of Directors removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The District did not have any committed resources as of December 31, 2016.
- Unassigned – This classification includes the residual fund balance for the General Fund. The Unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

The District would typically use restricted fund balances first, followed by committed resources, and then assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources.

**NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**Budgets and Budgetary Accounting**

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

- On or before October 15th, District Management submits to the Board a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.

BERTHOUD HERITAGE METROPOLITAN DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2016

**NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**(Continued)

**Budgets and Budgetary Accounting** (Continued)

- Public hearings are conducted to obtain taxpayer comments.
- Prior to December 31, the budget is legally enacted through passage of a resolution.
- District Management is authorized to transfer budgeted amounts between departments within any fund. However, any revisions that alter the total expenditures of any fund must be approved by the Board.
- Budgets are legally adopted for all funds of the District on a basis consistent with GAAP.
- Budgeted amounts in the financial statements are as originally adopted or as amended by the Board. All appropriations lapse at year end.

**NOTE 3: CASH AND INVESTMENTS**

**Deposits**

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. 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 regulations.

At December 31, 2016, State regulatory commissioners have indicated that all financial institutions holding deposits for the District are eligible public depositories.

Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral as determined by the PDPA. PDPA allows the financial institution to create a single collateral pool for all public funds held. The pool is to be maintained by another institution, or held in trust for all the uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the uninsured deposits.

The District has no policy regarding custodial credit risk for deposits.

At December 31, 2016, the District had deposits with financial institutions with a carrying amount of \$14,420. The bank balances with the financial institutions were \$49,067, all of which was covered by federal depository insurance.

BERTHOUD HERITAGE METROPOLITAN DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2016

**NOTE 4: CAPITAL ASSETS**

Capital assets activity for the year ended December 31, 2016, is summarized below:

	<u>Balances</u> <u>12/31/15</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balances</u> <u>12/31/16</u>
<b>Governmental Activities</b>				
Capital Assets, not depreciated				
Infrastructure in progress	\$ _____ -	\$ 3,615,036	\$ _____ -	\$ 3,615,036
Total Capital Assets, not depreciated	_____ -	3,615,036	_____ -	3,615,036
Governmental Activities, Capital Assets, Net	<u>\$ _____ -</u>	<u>\$ 3,615,036</u>	<u>\$ _____ -</u>	<u>\$ 3,615,036</u>

**NOTE 5: LONG-TERM DEBT**

Following is a summary of long-term debt transactions for the governmental activities for the year ended December 31, 2016.

	<u>Balance</u> <u>12/31/15</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>12/31/16</u>	<u>Due In</u> <u>One Year</u>
Developer Advance, Capital \$	-	\$ 3,615,036	\$ -	\$ 3,615,036	\$ -
Developer Advance Operating	-	262,087	-	262,087	-
2015 Developer Note	91,016	-	91,016	-	-
Accrued Interest	<u>6,586</u>	<u>103,762</u>	<u>7,217</u>	<u>103,131</u>	<u>-</u>
<b>Total</b>	<u>\$ 97,602</u>	<u>\$ 3,980,885</u>	<u>\$ 98,233</u>	<u>\$ 3,980,254</u>	<u>\$ -</u>

**Developer Advance, Capital**

On May 6, 2008, the District entered into a promissory note and loan agreement with Chris Frye (Individual), Jon Turner (Individual), Turner-Frye Minerals (Assigned Revenues), Hillside Commercial, Inc., Heron Lakes Investments, LLC (“Developer”), North Windsor Holdings, LLC, Windsor Farm Investments, LLC, Windshire Group Development, Inc., and Colorado Metro District, LLC. in order to finance improvements within the District boundaries. Wherein the Developer agreed to loan the District up to \$90,000,000 initially for capital costs related to public infrastructure. The Note calls for interest at 2% plus the Federal Reserve Bank Prime Rate. This loan matured on December 31, 2016 and may be renewed on an annual basis.

BERTHOUD HERITAGE METROPOLITAN DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016

**NOTE 5: LONG-TERM DEBT** (Continued)

**Developer Advance, Operating**

On May 6, 2008, the District entered into a promissory note and loan agreement with Chris Frye (Individual), Jon Turner (Individual), Turner-Frye Minerals (Assigned Revenues), Hillside Commercial, Inc., Heron Lakes Investments, LLC (“Developer”), North Windsor Holdings, LLC, Windsor Farm Investments, LLC, Windshire Group Development, Inc., and Colorado Metro District, LLC. in order to finance improvements within the District boundaries. Wherein the Developer agreed to loan the District up to \$500,000 initially for operational and maintenance costs. The Note calls for interest at 2% plus the Federal Reserve Bank Prime Rate. This loan matured on December 31, 2016 and may be renewed on an annual basis.

The promissory notes were issued in accordance with the Amended and Restated Funding and Reimbursement Agreement (“Funding and Reimbursement Agreement”), and that certain District Facilities Construction and Service Agreement (“Construction Agreement”) effective December 31, 2016, under which the Developer agreed to loan the District up to \$90,000,000 for capital costs related to public infrastructure.

The Funding and Reimbursement Agreement also specifies that the District will reimburse the Developer from legally available resources of the District, including fees, rates, and taxes.

The Construction Agreement provides for funds to be loaned to the Districts in one or a series of installments and shall be available to the District through December 31, 2036 as may be amended pursuant to an annual review and annual appropriations of the District. The Funding and Reimbursement Agreement provides for funds to be loaned to the District in one or a series of installments and shall be available to the District through December 31, 2036.

The Developer also provided preliminary financing for these improvements with the understanding that the District would eventually repay the Developer and acquire the improvements with the proceeds of General Obligations Bonds, revenue bonds, promissory notes or other indebtedness of the Districts which will be issued by the District.

**NOTE 6: RELATED PARTIES**

The Developers of the property which constitutes the District are Heron Lakes Investments, LLC. All of the members of the Board are employees, owners or are otherwise associated with the Developers, and have disclosed any potential conflicts of interest in taking action on matters brought before the Board. The District currently is indebted to the Developer for public improvements costs certified as constructed and acquired by the District as of December 31, 2016 in the amount of \$3,877,123 and accrued interest on the outstanding debt in the amount of \$103,131.

BERTHOUD HERITAGE METROPOLITAN DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016

**NOTE 6: RELATED PARTIES** (Continued)

Assignment of Royalties

On September 15, 2015, two District board members entered into an agreement with the District to assign rents, production payments, streams of revenue related to royalty interest owned by the board members to the District. The assignment will terminate once the value of the assignment reaches \$5,000,000, or September 15, 2020. The assignment may also terminate upon recordation of a reassignment of royalty interest provided in the advance and reimbursement agreement. The funds received under the terms of the assignment are recorded as developer advances in the District's financial statements and are used for public infrastructure funding. For the year ended December 31, 2016, the District received and used \$1,310,489 under the terms of the assignment.

**NOTE 7: RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts, thefts of, damage to, and destruction of assets, injuries to employees, and natural disasters. The District participates in the Colorado Special Districts Property and Liability Pool ("Pool"). The Pool insures property and liability exposures through contributions made by member districts. The District does not maintain an equity interest in the self-insurance pool.

The District funds pool contributions, outside insurance purchases, deductible, and uninsured losses through the General Fund. Settled claims have not exceeded this coverage in any of the past three fiscal years.

**NOTE 8: DEBT AUTHORIZATION**

On May 6, 2008, a majority of the qualified electors of the District authorized the issuance of general indebtedness as follows:

- An amount not to exceed \$522,000,000 at an interest rate not to exceed 12% per annum, for providing public improvements; and
- An amount not to exceed \$527,800,000 at an interest rate not to exceed 12% per annum, for IGA purposes.

The District's Service Plan includes a debt authorization of \$90,000,000.

BERTHOUD HERITAGE METROPOLITAN DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016

**NOTE 8: DEBT AUTHORIZATION** (Continued)

As of December 31, 2016, the amount of debt authorized but unissued was \$90,000,000. The District intends to issue over time a part or all 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. Irrespective of the voted authorizations, the District's service plan establishes a limit of \$90,000,000.

**NOTE 9: COMMITMENTS AND CONTINGENCIES**

TABOR Amendment ("Amendment") - Colorado voters passed an amendment to the State Constitution, Article X, Section 20, which has several limitations, including revenue raising, spending abilities, and other specific requirements of state and local government. The Amendment is complex and subject to judicial interpretation. The District believes it is in compliance with the requirements of the Amendment.

The District has established an emergency reserve, representing 3% of qualifying expenditures, as required by the Amendment. At December 31, 2016, the emergency reserve of \$174 was recorded in the General Fund.

**NOTE 10: DEFICIT NET POSITION**

As of December 31, 2016, the District had a government-wide net position deficit of \$351,639. This deficit was created as the District used funding from the Developer to construct capital assets. The District expect to eliminate the deficit net position as the District pays down its debt.

**NOTE 11: SUBSEQUENT EVENTS**

The District has evaluated subsequent events through September 28, 2017, the date which the financial statements were available to be issued. There were no material subsequent events that required recognition or additional disclosure.

**REQUIRED SUPPLEMENTAL INFORMATION**

BERTHOUD HERITAGE METROPOLITAN DISTRICT NO. 1

GENERAL FUND  
 BUDGETARY COMPARISON SCHEDULE  
 Year Ended December 31, 2016

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE Positive (Negative)
REVENUES				
Service Fees	\$ 5,678	\$ 5,678	\$ 5,797	\$ 119
Other	-	-	2	2
TOTAL REVENUES	<u>5,678</u>	<u>5,678</u>	<u>5,799</u>	<u>121</u>
EXPENDITURES				
Current				
General Government				
Accounting and Administration	10,000	25,000	24,593	407
District Management	18,000	53,000	48,109	4,891
District Engineer	1,500	1,500	-	1,500
Elections	5,000	5,000	1,083	3,917
Insurance	900	5,900	2,794	3,106
Legal Expenses	25,000	50,000	59,253	(9,253)
Office, Dues and Other	500	500	1,865	(1,365)
Debt Service				
Principal	-	98,233	91,016	7,217
Interest	-	-	-	-
Contingency	2,500	2,500	7,217	(4,717)
TOTAL EXPENDITURES	<u>63,400</u>	<u>241,633</u>	<u>235,930</u>	<u>5,703</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(57,722)</u>	<u>(235,955)</u>	<u>(230,131)</u>	<u>5,824</u>
OTHER FINANCING SOURCES (USES)				
Transfer to Other Districts	-	(5,000)	(3,185)	1,815
Developer Advances	57,722	240,955	244,211	3,256
TOTAL OTHER FINANCING SOURCES (USES)	<u>57,722</u>	<u>235,955</u>	<u>241,026</u>	<u>5,071</u>
NET CHANGE IN FUND BALANCE	-	-	10,895	10,895
FUND BALANCE, Beginning, Restated	<u>4,991</u>	<u>676</u>	<u>2,684</u>	<u>2,008</u>
FUND BALANCE, Ending	<u>\$ 4,991</u>	<u>\$ 676</u>	<u>\$ 13,579</u>	<u>\$ 12,903</u>

See the accompanying independent auditors' report.

**INDIVIDUAL FUND SCHEDULES**

BERTHOUD HERITAGE METROPOLITAN DISTRICT NO. 1

CAPITAL PROJECTS FUND  
 BUDGETARY COMPARISON SCHEDULE  
 Year Ended December 31, 2016

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE Positive (Negative)
REVENUES				
Other	\$ -	\$ -	\$ -	\$ -
TOTAL REVENUES	-	-	-	-
EXPENDITURES				
Current				
Capital Outlay	2,500,000	3,927,818	3,615,036	312,782
TOTAL EXPENDITURES	2,500,000	3,927,818	3,615,036	312,782
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(2,500,000)	(3,927,818)	(3,615,036)	312,782
OTHER FINANCING SOURCES				
Transfers In	-	-	-	-
Transfer to District 9	-	-	-	-
Proceeds from Developer Advances	2,500,000	3,927,818	3,615,036	(312,782)
TOTAL OTHER FINANCING SOURCES	2,500,000	3,927,818	3,615,036	(312,782)
NET CHANGE IN FUND BALANCE	-	-	-	-
FUND BALANCE, Beginning	-	-	-	-
FUND BALANCE, Ending	\$ -	\$ -	\$ -	\$ -

See the accompanying independent auditors' report.