

**HERITAGE RIDGE METROPOLITAN DISTRICT**

**BASIC FINANCIAL STATEMENTS**

**December 31, 2016**



**RECEIVED**

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## **FINANCIAL SECTION**



# JOHN CUTLER & ASSOCIATES

Board of Directors  
Heritage Ridge Metropolitan District  
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 Heritage Ridge Metropolitan District, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express 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 Heritage Ridge Metropolitan District, 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 budgetary comparison information on page 17 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 schedules are 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 schedules are fairly stated in all material respects in relation to the financial statements as a whole.

*John Cutler & Associates, LLC*

July 27, 2017

## **BASIC FINANCIAL STATEMENTS**

HERITAGE RIDGE METROPOLITAN DISTRICT

STATEMENT OF NET POSITION

As of December 31, 2016

	<u>Governmental Activities</u>
ASSETS	
Cash and Investments	\$ 292,905
Accounts Receivable	32,782
Developer Advances Receivable	954,337
Prepaid Expenses	3,082
Capital Assets, not depreciated	<u>2,093,329</u>
 TOTAL ASSETS	 <u>3,376,435</u>
LIABILITIES	
Accounts Payable	1,269,479
Retainage Payable	75,358
Accrued Interest	20,631
Unearned Revenues	2,551
Noncurrent Liabilities	
Due within One Year	2,111,819
Due in More Than One Year	<u>-</u>
 TOTAL LIABILITIES	 <u>3,479,838</u>
NET POSITION	
Net Investment in Capital Assets	(18,490)
Restricted for Emergencies	7,000
Unrestricted	<u>(91,913)</u>
 TOTAL NET POSITION	 <u>\$ (103,403)</u>

See the accompanying independent auditors' report.

HERITAGE RIDGE METROPOLITAN DISTRICT

STATEMENT OF ACTIVITIES  
Year Ended December 31, 2016

FUNCTIONS/PROGRAMS	Expenses	Program Revenues		Net (Expense) Revenues and Changes in Net Position Governmental Activities
		Capital Grants and Contributions	Charges for Services	
PRIMARY GOVERNMENT				
<b>Governmental Activities</b>				
General Government	\$ 89,522	\$ -	\$ 6,750	\$ (82,772)
Interest on Long-Term Debt	20,631		-	(20,631)
Total Governmental Activities	<u>\$ 110,153</u>	<u>\$ -</u>	<u>\$ 6,750</u>	(103,403)
GENERAL REVENUES				
Interest				-
TOTAL GENERAL REVENUES				<u>-</u>
CHANGE IN NET POSITION				(103,403)
NET POSITION, Beginning				<u>-</u>
NET POSITION, Ending				<u>\$ (103,403)</u>

See the accompanying independent auditors' report.

HERITAGE RIDGE METROPOLITAN DISTRICT

BALANCE SHEET  
GOVERNMENTAL FUNDS  
As of December 31, 2016

	General Fund	Capital Projects Fund	Debt Service Fund	Total Governmental Funds
<b>ASSETS</b>				
Cash and Investments	\$ 14,119	\$ 278,261	\$ 525	\$ 292,905
Accounts Receivable	30,693	-	2,089	32,782
Developer Advance Receivable	-	954,337	-	954,337
Prepaid Expenses	3,082	-	-	3,082
<b>TOTAL ASSETS</b>	<b>\$ 47,894</b>	<b>\$ 1,232,598</b>	<b>\$ 2,614</b>	<b>\$ 1,283,106</b>
<b>LIABILITIES AND FUND EQUITY</b>				
<b>LIABILITIES</b>				
Accounts Payable	\$ 37,288	\$ 1,232,191		\$ 1,269,479
Unearned Revenues	465	-	2,086	2,551
Retainage Payable	-	75,358	-	75,358
<b>TOTAL LIABILITIES</b>	<b>37,753</b>	<b>1,307,549</b>	<b>2,086</b>	<b>1,347,388</b>
<b>FUND EQUITY</b>				
Fund Balance				
Nonspendable	3,082	-	-	3,082
Restricted for Emergencies	7,000	-	-	7,000
Restricted for Debt Service and Capital Projects	-	(74,951)	528	(74,423)
Unassigned	59	-	-	59
<b>TOTAL FUND EQUITY</b>	<b>10,141</b>	<b>(74,951)</b>	<b>528</b>	<b>(64,282)</b>
<b>TOTAL LIABILITIES FUND EQUITY</b>	<b>\$ 47,894</b>	<b>\$ 1,232,598</b>	<b>\$ 2,614</b>	

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

Capital Assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 2,093,329

Long-term liabilities are not due and payable in the current period and are not reported in the funds. These include developer advances (\$2,111,819) plus accrued interest (\$20,631). (2,132,450)

Net Position of governmental activities \$ (103,403)

See the accompanying independent auditors' report.

HERITAGE RIDGE METROPOLITAN DISTRICT

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

	General Fund	Capital Projects Fund	Debt Service Fund	Total Governmental Funds
REVENUES				
Property Taxes	\$ 109	\$ -	\$ 489	\$ 598
Specific Ownership Tax	9	-	39	48
Interest and Other Income	6,094	-	-	6,094
 TOTAL REVENUES	 6,212	 -	 528	 6,740
EXPENDITURES				
Current				
General Government	89,512	-	-	89,512
Capital Outlay	-	2,093,329	-	2,093,329
 TOTAL EXPENDITURES	 89,512	 2,093,329	 -	 2,182,841
 EXCESS OF REVENUES (UNDER) EXPENSES	 (83,300)	 (2,093,329)	 528	 (2,176,101)
OTHER FINANCING SOURCES				
Proceeds from Developer Advances	93,441	2,018,378	-	2,111,819
 TOTAL OTHER FINANCING SOURCES	 93,441	 2,018,378	 -	 2,111,819
 NET CHANGE IN FUND BALANCES	 10,141	 (74,951)	 528	 (64,282)
FUND BALANCES, Beginning	-	-	-	-
FUND BALANCES, Ending	<u>\$ 10,141</u>	<u>\$ (74,951)</u>	<u>\$ 528</u>	<u>\$ (64,282)</u>

See the accompanying independent auditors' report.

HERITAGE RIDGE METROPOLITAN DISTRICT

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	\$ (64,282)
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. This is capital outlay for the year.	2,093,329
Developer Advances 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. This amount represents developer advances.	(2,111,819)
Repayment of long-term obligations is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This amount is the increase in accrued interest.	<u>(20,631)</u>
Change in Net Position of Governmental Activities	<u><u>\$ (103,403)</u></u>

See the accompanying independent auditors' report.

# HERITAGE RIDGE METROPOLITAN DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016

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

Heritage Ridge Metropolitan District (the “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 the 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*.

HERITAGE RIDGE METROPOLITAN DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016

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

**Government-Wide and Fund Financial Statements** (Continued)

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 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.

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 construction of public infrastructure and other capital improvements within the District.

The *Debt Service Fund* accounts for the payment and related costs of long-term debt.

HERITAGE RIDGE METROPOLITAN DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016

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

**Cash and Investments**

Cash equivalents include investments with original maturities of three months or less.

Investments are recorded at fair value.

**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 fair market 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 the life of the asset 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 Statement of Net Position.

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.

**Deferred Inflows of Resources**

In addition to liabilities, the Statement of Financial Position and Balance Sheets will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, Deferred Inflows of Resources, represents an acquisition of net position and fund balance that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

HERITAGE RIDGE METROPOLITAN DISTRICT

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 components are investment in capital assets, restricted, or 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**

In the government-wide financial statements, net position is restricted when constraints placed on the net position are externally imposed.

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 deposits and prepaid amounts) or are legally or contractually required to be maintained intact. The District has classified prepaid expenses as nonspendable at 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. The District also restricts fund balance for capital projects and debt service.

HERITAGE RIDGE METROPOLITAN DISTRICT

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. These amounts cannot be used for any other purpose unless the Board 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.

**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.
- 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.

HERITAGE RIDGE METROPOLITAN DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016

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

**Budgets and Budgetary Accounting** (Continued)

- Budgets are legally adopted for all funds of the District on a basis consistent with GAAP. Appropriations are adopted at total fund expenditure level.
- Budgeted amounts in the financial statements are as originally adopted or as amended by the Board. All appropriations lapse at year end.
- The District amended its budget for the year ended December 31 2016.

**NOTE 3: CASH AND INVESTMENTS**

A summary of deposits and investments as of December 31, 2016 follows:

Deposits \$ 292,905

**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.

HERITAGE RIDGE METROPOLITAN DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016

**NOTE 3: CASH AND INVESTMENTS** (Continued)

At December 31, 2016, the District had deposits with financial institutions with a carrying amount of \$292,905. The bank balances with the financial institutions were \$169,631. Of this amount \$250,000 was covered by federal depository insurance and \$42,905 was covered by collateral held by authorized escrow agents in the financial institutions name (PDPA).

**Investments**

Interest Rate Risk

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

Colorado statutes specify in which instruments the units of local government may invest which includes:

- 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
- Local government investment pools
- Written repurchase agreements collateralized by certain authorized securities
- Certain money market funds
- Guaranteed investment contracts

The above investments are authorized for all funds and fund types used by Colorado municipalities.

The District did not have any investments for the year ended December 31, 2016.

HERITAGE RIDGE METROPOLITAN DISTRICT

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				
Construction in Progress	\$ _____ -	\$ <u>2,093,329</u>	\$ _____ -	\$ <u>2,093,329</u>

**NOTE 5: LONG-TERM OBLIGATIONS**

Following is a summary of long-term obligation 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 Advances					
- Operating	\$ _____ -	\$ 63,213	\$ _____ -	\$ 63,213	\$ 63,213
Developer Advances					
- Capital	_____ -	<u>2,048,606</u>	_____ -	<u>2,048,606</u>	<u>2,048,606</u>
<b>Total</b>	<b>\$ _____ -</b>	<b>\$ <u>2,111,819</u></b>	<b>\$ _____ -</b>	<b>\$ <u>2,111,819</u></b>	<b>\$ <u>2,111,819</u></b>

**Developer Advances – Operating**

On December 7, 2015, the District entered into an Operation Funding Agreement with Heritage Ridge I, LLC (“Developer”), as amended by that certain First Amendment to Operation Funding Agreement dated February 26, 2016 and further amended by that certain Second Amendment to Operation Funding Agreement dated November 7, 2016 (collectively, the “OFA”), pursuant to which the Developer agrees to advance funds to the District or pay consultants directly on the District’s behalf for the operation and maintenance expenses on a periodic basis as needed for fiscal years 2015 through 2017. The District agrees to repay these advances together with accrued interest at the rate of eight percent (8%) per annum accruing from the date of deposit into the District’s account or from the date of direct payment by the Developer to the District’s consultants. As of December 31, 2016 \$63,213 in principal and \$1,556 in accrued interest was outstanding under the OFA.

HERITAGE RIDGE METROPOLITAN DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016

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

**Developer Advances - Capital**

On December 7, 2015, the District and the Developer entered into a Facilities Funding and Acquisition Agreement, as amended by that certain First Amendment to Facilities Funding and Acquisition Agreement dated February 26, 2016, as amended by that certain Second Amendment to Facilities Funding and Acquisition Agreement dated July 12, 2016, and as further amended by that certain Third Amendment to Facilities Funding and Acquisition Agreement dated September 13, 2016 (collectively, the “FFAA”), pursuant to which the Developer agreed to make advances not to exceed \$4,858,213 to the District for the following purposes: organization expenses and public improvements. Interest on the funds advanced or to pay for improvements (from the date of verification) accrue at eight percent (8%) per annum. As of December 31, 2016 \$2,048,606 in principal and \$19,075 in accrued interest was outstanding under the FFAA.

**NOTE 6: RELATED PARTIES**

All of the members of the Board are either investors or related by virtue of employment with the Developer, Heritage Ridge I, LLC. The District owes the Developers \$2,111,819 in principal and \$20,631 in accrued interest as of December 31, 2016 under the FFAA and OFA collectively.

**NOTE 7: RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; injuries to employees; and natural disasters. The District participates in the Colorado Special Districts Property and Liability Insurance Pool (the “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 its pool contributions, outside insurance purchases, deductibles, and uninsured losses through the General Fund.

Settled claims resulting from these risks have not exceeded commercial or District coverages in any of the past three years.

HERITAGE RIDGE METROPOLITAN DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016

**NOTE 8: DEBT AUTHORIZATION**

On November 3, 2015, a majority of the qualified electors of the District authorized the issuance of general obligation indebtedness totaling \$208,000,000 at a rate not to exceed 18%. Issuance of general obligation debt is authorized as follows:

- An amount not to exceed \$16,000,000 at an interest rate not to exceed 18% per annum, for the cost of constructing street improvements; and
- An amount not to exceed \$16,000,000 at an interest rate not to exceed 18% per annum, for the cost of parks and recreation improvements; and
- An amount not to exceed \$16,000,000 at an interest rate not to exceed 18% per annum, for the cost of water improvements; and
- An amount not to exceed \$16,000,000 at an interest rate not to exceed 18% per annum, for the cost of sanitation improvements; and
- An amount not to exceed \$16,000,000 at an interest rate not to exceed 18% per annum, for the cost of traffic and safety control improvements; and
- An amount not to exceed \$16,000,000 at an interest rate not to exceed 18% per annum, for the cost of fire protection improvements; and
- An amount not to exceed \$16,000,000 at an interest rate not to exceed 18% per annum, for mosquito control purposes; and
- An amount not to exceed \$16,000,000 at an interest rate not to exceed 18% per annum, for transportation improvements; and
- An amount not to exceed \$16,000,000 at an interest rate not to exceed 18% per annum, for security purposes; and
- An amount not to exceed \$16,000,000 at an interest rate not to exceed 18% per annum, for television relay and translation purposes; and
- An amount not to exceed \$16,000,000 at an interest rate not to exceed 18% per annum, for covenant enforcement; and

HERITAGE RIDGE METROPOLITAN DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016

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

- An amount not to exceed \$16,000,000 at an interest rate not to exceed 18% per annum, for operations and maintenance purposes; and
- An amount not to exceed \$100,000,000 at an interest rate not to exceed 18% per annum, for the cost of refunding bonds; and
- An amount not to exceed \$16,000,000 at an interest rate not to exceed 18% per annum, for the cost of intergovernmental agreements.

The District's Service Plan includes a debt authorization limit of \$16,000,000.

As of December 31, 2016, the amount of debt authorized but unissued was \$208,000,000. The District intends to issue over time a part or all of the remaining authorized but unissued general obligation debt for purposes of providing public improvements to support development as it occurs within the District's service area. Irrespective of the voted authorizations, the District's service plan establishes a limit of \$16,000,000.

**NOTE 9: COMMITMENTS AND CONTINGENCIES**

TABOR 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 fiscal year spending (excluding debt service), as required by the Amendment. At December 31, 2016, the emergency reserve of \$7,000 was recorded in the General Fund.

**REQUIRED SUPPLEMENTAL INFORMATION**

HERITAGE RIDGE METROPOLITAN DISTRICT

GENERAL FUND  
 BUDGETARY COMPARISON SCHEDULE  
 Year Ended December 31, 2016

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE Positive (Negative)
REVENUES				
Property Taxes	\$ 109	\$ 109	\$ 109	\$ -
Specific Ownership Tax	7	7	9	2
Interest and Other Income	-	-	6,094	6,094
<b>TOTAL REVENUES</b>	<b>116</b>	<b>116</b>	<b>6,212</b>	<b>6,096</b>
EXPENDITURES				
Current				
General Government				
Accounting and Administration	8,000	8,000	10,901	(2,901)
District Management	12,500	38,048	33,153	4,895
District Engineer	10,000	3,000		3,000
Elections	2,000	1,725	1,705	20
Director's Fees	-	645	646	(1)
Treasurer's Fees	-	-	2	(2)
Insurance	3,000	2,479	2,479	-
Irrigation Water System	10,000	-	-	-
Legal	20,000	41,000	38,706	2,294
Office, Website, Dues & Other	2,500	2,504	1,669	835
Landscape Maintenance	10,000	3,000	251	2,749
<b>TOTAL EXPENDITURES</b>	<b>78,000</b>	<b>100,401</b>	<b>89,512</b>	<b>10,889</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(77,884)</b>	<b>(100,285)</b>	<b>(83,300)</b>	<b>16,985</b>
OTHER FINANCING SOURCES				
Proceeds from Developer Advances	80,455	102,799	93,441	(9,358)
<b>NET CHANGE IN FUND BALANCE</b>	<b>2,571</b>	<b>2,514</b>	<b>10,141</b>	<b>7,627</b>
FUND BALANCE, Beginning	150	-	-	-
FUND BALANCE, Ending	\$ 2,721	\$ 2,514	\$ 10,141	\$ 7,627

See the accompanying independent auditors' report.

**INDIVIDUAL FUND SCHEDULES**

HERITAGE RIDGE METROPOLITAN DISTRICT

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

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE Positive (Negative)
REVENUES				
Proceeds from Note	\$ -	\$ -	\$ -	\$ -
TOTAL REVENUES	-	-	-	-
EXPENDITURES				
Current				
Accounting	-	8,000	-	8,000
District Management	-	12,500	8,241	4,259
Legal	-	20,000	9,585	10,415
Capital Outlay				
Phase 1 Landscaping and Irrigation	-	589,363	260,443	328,920
Phase 1C Infrastructure	-	579,949	514,672	65,277
Phase 1D Public Infrastructure	-	3,648,401	1,300,388	2,348,013
TOTAL EXPENDITURES	-	4,858,213	2,093,329	2,764,884
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	-	(4,858,213)	(2,093,329)	(2,764,884)
OTHER FINANCING SOURCES				
Proceeds from Developer Advances	-	4,858,213	2,018,378	(2,839,835)
NET CHANGE IN FUND BALANCE	-	-	(74,951)	74,951
FUND BALANCE, Beginning	-	-	-	-
FUND BALANCE, Ending	\$ -	\$ -	\$ (74,951)	\$ 74,951

See the accompanying independent auditors' report.

HERITAGE RIDGE METROPOLITAN DISTRICT

DEBT SERVICE FUND  
 BUDGETARY COMPARISON SCHEDULE  
 Year Ended December 31, 2016

	ORIGINAL AND FINAL BUDGET	ACTUAL	VARIANCE Positive (Negative)
REVENUES			
Property Taxes	\$ 489	\$ 489	\$ -
Specific Ownership Tax	29	39	10
Other Income	-	-	-
	<hr/>	<hr/>	<hr/>
TOTAL REVENUES	518	528	10
	<hr/>	<hr/>	<hr/>
EXPENDITURES			
Current			
Treasurer's Fees	-	-	-
	<hr/>	<hr/>	<hr/>
TOTAL EXPENDITURES	-	-	-
	<hr/>	<hr/>	<hr/>
NET CHANGE IN FUND BALANCE	518	528	10
	<hr/>	<hr/>	<hr/>
FUND BALANCE, Beginning	-	-	-
	<hr/>	<hr/>	<hr/>
FUND BALANCE, Ending	<u>\$ 518</u>	<u>\$ 528</u>	<u>\$ 10</u>

See the accompanying independent auditors' report.