

**HIGHWAY 119 METROPOLITAN  
DISTRICT NO. 1  
Weld County, Colorado**

**FINANCIAL STATEMENTS  
DECEMBER 31, 2016**



**RECEIVED**

*By the Office of the State Auditor at 8:33 am, Sep 27, 2017*

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Dazzio & Associates, PC

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Certified Public Accountants

## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Highway 119 Metropolitan District No. 1  
Weld County, Colorado

We have audited the accompanying financial statements of the governmental activities and each major fund of the Highway 119 Metropolitan District No. 1 as of and for the year 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.

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## 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 the Highway 119 Metropolitan District No. 1, as of December 31, 2016, and the respective changes in financial position 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

### *Required Supplementary Information*

Management has omitted the 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 statements in an appropriate operational, 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 Highway 119 Metropolitan District No. 1's basic financial statements. The budget to actual schedule for the capital projects fund (the Supplemental Information) is presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Supplemental Information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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 budget to actual schedule for the debt service fund is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

*Dassio & Associates, P.C.*

June 27, 2017

## **BASIC FINANCIAL STATEMENTS**

**HIGHWAY 119 METROPOLITAN DISTRICT NO. 1**  
**STATEMENT OF NET POSITION**  
**GOVERNMENTAL ACTIVITIES**  
**December 31, 2016**

**ASSETS**

Cash and investments - unrestricted	\$ 124,546
Cash and investments - restricted	773,280
Due from Highway 119 Metropolitan District No. 2	27,888
Prepaid expense	4,421
Deposit - Town of Firestone	25,262
Capital assets, not being depreciated	115,899
Total assets	1,071,296

**LIABILITIES**

Accounts payable	57,575
Developer advances payable	
Due in more than one year	217,332
Total liabilities	274,907

**NET POSITION**

Investment in capital assets	115,899
Restricted for emergencies	7,900
Restricted for capital	760,482
Unrestricted	(87,892)
Total net position	\$ 796,389

These financial statements should be read only in connection with  
the accompanying notes to financial statements.

**HIGHWAY 119 METROPOLITAN DISTRICT NO. 1**  
**STATEMENT OF ACTIVITIES**  
**GOVERNMENTAL ACTIVITIES**  
**Year Ended December 31, 2016**

<u>Functions/Programs</u>	<u>Program Revenues</u>			<b>Net (Expense) Revenue and Changes in Net Position</b>
<u>Expenses</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Net (Expense) Revenue and Changes in Net Position</u>	
General government	\$ 185,635	\$ 262,829	\$ 922,640	\$ 999,834
Interest and fiscal charges	11,753	-	-	(11,753)
	\$ 197,388	\$ 262,829	\$ 922,640	988,081
General revenues:				
Interest income				2,019
Total general revenues				2,019
Change in net position				990,100
Net position - Beginning				(193,711)
Net position - Ending				\$ 796,389

These financial statements should be read only in connection with  
the accompanying notes to financial statements.

**HIGHWAY 119 METROPOLITAN DISTRICT NO. 1  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
December 31, 2016**

	<b>General</b>	<b>Capital Projects</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>			
Cash and investments - unrestricted	\$ 124,546	\$ -	\$ 124,546
Cash and investments - restricted	-	773,280	773,280
Due from Highway 119 Metropolitan District No. 2	22,142	5,746	27,888
Prepaid expense	4,421	-	4,421
Deposit - Town of Firestone	-	25,262	25,262
<b>TOTAL ASSETS</b>	<b>\$ 151,109</b>	<b>\$ 804,288</b>	<b>\$ 955,397</b>
 <b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accounts payable	\$ 13,769	\$ 43,806	\$ 57,575
<b>TOTAL LIABILITIES</b>	<b>13,769</b>	<b>43,806</b>	<b>57,575</b>
 <b>FUND BALANCES</b>			
Nonspendable - prepaid items	4,421	-	4,421
Restricted for emergencies	7,900	-	7,900
Restricted for capital	-	760,482	760,482
Assigned for subsequent years'	22,343	-	22,343
Unassigned	102,676	-	102,676
<b>TOTAL FUND BALANCES</b>	<b>137,340</b>	<b>760,482</b>	<b>897,822</b>
 <b>TOTAL LIABILITIES AND FUND BALANCES</b>	 <b>\$ 151,109</b>	 <b>\$ 804,288</b>	

Amounts report for governmental activities in the Statement of Net Position are different because:

Some assets used in governmental activities are not financial resources and, therefore, are not reported in the Balance Sheet - Governmental Funds.

Capital assets, not being depreciated

115,899

Some liabilities, including developer advances payable and accrued interest payable, are not due and payable in the current period and, therefore, are not reported in the Balance Sheet - Governmental Funds.

Developer advances payable

(146,913)

Accrued interest payable

(70,419)

(217,332)

Net position of governmental activities

\$ 796,389

These financial statements should be read only in connection with  
the accompanying notes to financial statements.

**HIGHWAY 119 METROPOLITAN DISTRICT NO. 1**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS**  
Year Ended December 31, 2016

	<u>General</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>			
Transfer from Highway 119 Metropolitan District No. 2	\$ 262,829	\$ 922,640	\$ 1,185,469
Net investment income	339	1,680	2,019
Total revenues	<u>263,168</u>	<u>924,320</u>	<u>1,187,488</u>
<b>EXPENDITURES</b>			
Current			
Management	15,964	-	15,964
Legal	80,523	-	80,523
Accounting	8,846	-	8,846
Insurance	4,078	-	4,078
Office supplies	413	-	413
Elections	27,872	-	27,872
Engineering	-	-	-
Service plan amendment	-	29,978	29,978
Cost certifications	-	17,961	17,961
Capital outlay			
Management fees	-	792	792
Legal	-	19,526	19,526
Engineering	-	87,344	87,344
Town of Firestone fees	-	8,237	8,237
Total expenditures	<u>137,696</u>	<u>163,838</u>	<u>301,534</u>
<b>NET CHANGE IN FUND BALANCES</b>	125,472	760,482	885,954
<b>FUND BALANCES - BEGINNING OF YEAR</b>	11,868	-	11,868
<b>FUND BALANCES - END OF YEAR</b>	<u>\$ 137,340</u>	<u>\$ 760,482</u>	<u>\$ 897,822</u>

These financial statements should be read only in connection with  
the accompanying notes to financial statements.

**HIGHWAY 119 METROPOLITAN DISTRICT NO. 1  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL  
FUNDS TO THE STATEMENT OF ACTIVITIES  
Year Ended December 31, 2016**

A reconciliation reflecting the differences between the governmental funds net change in fund balances and change in net position reported for governmental activities in the Statement of Activities as follows:

Net change in fund balances - Total governmental funds	<u>\$ 885,954</u>
Governmental fund 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.	
Capital outlay	<u>115,899</u>
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	
Change in accrued interest payable	<u>(11,753)</u>
Change in net position - Governmental activities	<u><u>\$ 990,100</u></u>

These financial statements should be read only in connection with the accompanying notes to financial statements.

**HIGHWAY 119 METROPOLITAN DISTRICT NO. 1**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN**  
**FUND BALANCE - BUDGET AND ACTUAL**  
**GENERAL FUND**  
**Year Ended December 31, 2016**

	<u>Original Budgeted Amounts</u>	<u>Final Budgeted Amounts</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
<b>REVENUES</b>				
Transfer from Highway 119 Metropolitan District No. 2	\$ 211,000	\$ 262,829	\$ 262,829	\$ -
Net investment income	-	339	339	-
Total Revenues	<u>211,000</u>	<u>263,168</u>	<u>263,168</u>	<u>-</u>
<b>EXPENDITURES</b>				
Current				
Management	-	16,000	15,964	36
Legal	40,000	65,673	80,523	(14,850)
Accounting	4,000	4,000	8,846	(4,846)
Insurance	3,200	3,200	4,078	(878)
Office supplies	100	100	413	(313)
Elections	5,000	5,000	27,872	(22,872)
Repay developer advances	170,000	170,000	-	170,000
Contingency and emergency reserves	1,000	1,000	-	1,000
Total Expenditures	<u>223,300</u>	<u>264,973</u>	<u>137,696</u>	<u>127,277</u>
<b>NET CHANGE IN FUND BALANCES</b>	(12,300)	(1,805)	125,472	127,277
<b>FUND BALANCES - BEGINNING OF YEAR</b>	23,451	11,868	11,868	-
<b>FUND BALANCES - END OF YEAR</b>	<u>\$ 11,151</u>	<u>\$ 10,063</u>	<u>\$ 137,340</u>	<u>\$ 127,277</u>

These financial statements should be read only in connection with the  
accompanying notes to financial statements.

**HIGHWAY 119 METROPOLITAN DISTRICT NO. 1  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**NOTE 1 – DEFINITION OF REPORTING ENTITY**

Highway 119 Metropolitan District No. 1 (District), a quasi-municipal corporation and political subdivision of the State of Colorado, is governed pursuant to the provisions of the Colorado Special District Act and was created on November 16, 2009. The District's service area is located in Weld County, Colorado. The District was organized along with Highway 119 Metropolitan District No. 2 (District No. 2) and Highway 119 Metropolitan District Nos. 3-6 (District Nos. 3-6) to finance, construct, acquire, and, if required or authorized by an intergovernmental agreement with the Town of Firestone (Town), operate and maintain certain streets, traffic safety controls, street lighting, water, sanitary sewer, landscaping, storm sewers, flood and surface drainage, and park and recreation improvements for certain planned developments as described in the Service Plan. The District, District No. 2 and District Nos. 3-6 are collectively known as the Districts. The District is the operating district which manages and oversees the activities of District No. 2 and District Nos. 3-6. District No. 2 along with District Nos. 3-6 are the taxing districts which are expected to include all of the future area for the planned developments. The Service Plan limits each District to a maximum mill levy of 10 mills for operating and 50 mills for debt, not to exceed 56 mills in total which may be adjusted in the event the method of calculating assessed valuation is changed after 2008. The Districts entered into a District Operating Agreement on March 24, 2010 which establishes the terms and conditions upon which the general administration and coordination of the Districts' activities will be managed and funded.

The District has no employees and all operations and administrative functions are contracted.

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.

**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 include the statement of net position and the statement of activities. These financial statements include all of the activities of the District. For the most part, the effect of interfund activity has been removed from these

**HIGHWAY 119 METROPOLITAN DISTRICT NO. 1**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

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 being reported as net position.

The statement of activities demonstrates the degree to which the direct and indirect expenses of a 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.

**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. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met. Depreciation is computed and recorded as an operating expense. Expenditures for capital assets are shown as increases in assets and redemption of bonds and notes are recorded as a reduction in liabilities.

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 government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The major sources of revenue susceptible to accrual are transfers from District No. 2. Expenditures, other than interest on long-term obligations, are recorded when the liability is incurred or the long-term obligation paid. All other revenue items are considered to be measurable and available only when cash is received by the District.

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 those required to be accounted for in another fund.

**HIGHWAY 119 METROPOLITAN DISTRICT NO. 1**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

The Capital Project Fund accounts for the resources accumulated and remitted to the District from District No. 2 under the terms of the Capital Pledge Agreement (Note 8).

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

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

**Budgets**

In accordance with the Local Government Budget Law of Colorado, the District's Board of Directors holds public hearings in the fall each year to adopt 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 appropriation can only be modified upon completion of notification and publication requirements. The budget includes each fund on its basis of accounting unless otherwise indicated.

Supplementary appropriations were approved for the General Fund increasing expenditures from \$223,300 to \$264,973.

**Pooled Cash and Investments**

The District follows the practice of pooling cash and investments of all funds to maximize investment earnings. Except when required by trust or other agreements, all cash is deposited to and disbursed from a single bank account. Cash in excess of immediate operating requirements is pooled for deposit and investment flexibility. Investment earnings are allocated periodically to the participating funds based upon each funds' average equity balance in total cash.

**Capital Assets**

Capital assets, which include water rights and infrastructure 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. 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. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable. The District anticipates conveying certain capital assets constructed to other entities upon completion.

**HIGHWAY 119 METROPOLITAN DISTRICT NO. 1**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

**Fund Equity**

Fund balance for governmental funds are reported in the categories listed below to make the nature and extent of the constraints placed on a government's fund balances more transparent. Because circumstances differ among governments, not every government or every governmental fund will present all of these components. The following classifications describe the relative strength of the spending constraints:

Nonspendable fund balance—the amount of fund balance that is not in spendable form (such as inventory or prepaids) or is legally or contractually required to be maintained intact.

Restricted fund balance—the amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.

Committed fund balance—amounts constrained to specific purposes by the District itself, using its highest level of decision-making authority (i.e., Board of Directors). To be reported as committed, amounts cannot be used for any other purpose unless the District takes the same highest level action to remove or change the constraint.

Assigned fund balance—amounts the District intends to use for a specific purpose. Intent can be expressed by the District Board of Directors or by an official or body to which the District Board of Directors delegates the authority.

Unassigned fund balance—amounts that are available for any purpose. Positive amounts are reported only in the General Fund.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the District Board of Directors has provided otherwise in its commitment or assignment actions.

**NOTE 3 - CASH AND INVESTMENTS**

Cash and investments as of December 31, 2016 are classified in the accompanying financial statements as follows:

Statement of Net Position/ Balance Sheet – Governmental Funds:

Cash and investments – unrestricted	\$ 124,546
Cash and investments – restricted	<u>773,280</u>
Total cash and investments	<u>\$ 897,826</u>

**HIGHWAY 119 METROPOLITAN DISTRICT NO. 1**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

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

Deposits with financial institutions	\$ 7,806
Investments	<u>890,020</u>
Total cash and investments	<u>\$ 897,826</u>

**Custodial Credit Risk**

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. 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 \$30,774 and a carrying balance of \$7,806.

**Credit Risk and Interest Rate Risk**

The District has not adopted a formal investment policy however, the District follows Colorado State Statutes which 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 and the World Bank
- . General obligation and revenue bonds of U.S. local government entities
- . Bankers' acceptances of certain banks
- . Commercial paper
- . Certain reverse repurchase agreements
- . Certain securities lending agreements
- . Certain corporate bonds
- . Written repurchase agreements collateralized by certain authorized securities
- . Certain money market funds
- . Guaranteed investment contracts
- . Local government investment pools

Colorado revised statutes limit investment maturities to five years or less unless formally approved by the board of Directors.

**HIGHWAY 119 METROPOLITAN DISTRICT NO. 1  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

At December 31, 2016, the District had the following investments:

<u>Investment</u>	<u>Maturity</u>	<u>Fair Value</u>
Colorado Local Government Liquid Asset Trust (COLOTRUST)	Weighted average under 60 days	<u>\$ 890,020</u>

**COLOTRUST**

At December 31, 2016, the District has invested in the Colorado Local Government Liquid Asset Trust (the Trust), an investment vehicle established for local government entities in Colorado to pool surplus funds. The State Securities Commissioner administers and enforces all State statutes governing the Trust. The Trust operates similarly to a money market fund and each share is equal in value to \$1.00. The Trust offers shares in two portfolios, COLOTRUST PRIME and COLOTRUST PLUS+. Both portfolios may invest in U.S. Treasury securities and repurchase agreements collateralized by U.S. Treasury securities. COLOTRUST PLUS+ may also invest in certain obligations of U.S. government agencies, highest rated commercial paper and repurchase agreement collateralized by certain obligations of the U.S. government agencies. COLOTRUST is rated AAAM by Standard and Poor's.

**Investment Valuation**

The District has certain investments which are measured at fair value on a recurring basis are categorized within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The fair value measurements of the District's investments are as follows at December 31, 2016:

<u>Investments</u>	<u>Fair Value</u>	<u>Level 1 Inputs</u>	<u>Level 2 Inputs</u>	<u>Level 3 Inputs</u>
COLOTRUST	<u>\$ 890,020</u>	<u>\$ -</u>	<u>\$ 890,020</u>	<u>\$ -</u>

**Restricted Cash and Investments**

Cash and investments in the amount of \$774,565 are reflected as restricted as the funds are required to be used in accordance with the Capital Pledge Agreement (Note 8).

**HIGHWAY 119 METROPOLITAN DISTRICT NO. 1  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**NOTE 4 – CAPITAL ASSETS**

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

	<u>Balance at January 1, 2016</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at December 31, 2016</u>
Capital assets, not being depreciated:				
Construction in process	\$ -	\$ 115,899	\$ -	\$ 115,899
Total capital assets, not being depreciated	<u>\$ -</u>	<u>\$ 115,899</u>	<u>\$ -</u>	<u>\$ 115,899</u>

With the exception of the District Park as discussed in the service plan, street landscaping and a non-potable water system, which may be owned, operated and maintained by the District, all public improvements and facilities financed, constructed, installed or acquired by the Districts, are to be dedicated and conveyed to the Town of Firestone or its designee.

**NOTE 5 – LONG-TERM OBLIGATIONS**

The following is an analysis of the changes in the District's long-term obligations for the year ended December 31, 2016.

	<u>Balance at January 1, 2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at December 31, 2016</u>	<u>Due Within One Year</u>
<b><u>Highway 119 Holdings, LLC</u></b>					
Developer advances - principal	\$ 125,783	\$ -	\$ -	\$ 125,783	\$ -
Accrued interest	50,839	10,063	-	60,902	-
<b><u>Voyage Ventures, LLC</u></b>					
Developer advances - principal	21,130	-	-	21,130	-
Accrued interest	7,827	1,690	-	9,517	-
	<u>\$ 205,579</u>	<u>\$ 11,753</u>	<u>\$ -</u>	<u>\$ 217,332</u>	<u>\$ -</u>

**Developer Advances**

*Funding and Reimbursement Agreement – Highway 119 Holdings, LLC*

On March 24, 2010, the District entered into a Funding and Reimbursement Agreement with Highway 119 Holdings, LLC (Highway 119) as amended on November 2, 2010 (First Amendment), on November 30, 2011 (Second Amendment), on December 5, 2012 (Third Amendment), on December 3, 2013 (Fourth Amendment), on December 2, 2014

**HIGHWAY 119 METROPOLITAN DISTRICT NO. 1**  
**NOTES TO FINANCIAL STATEMENTS**  
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(Fifth Amendment), on December 1, 2015 (Sixth Amendment), on March 31, 2016 (Seventh Amendment) and on January 1, 2017 (Eighth Amendment). Highway 119 has expended funds on behalf of the Districts, has advanced certain funds to the District and is willing to loan additional funds to the District for capital costs and operations and maintenance costs not to exceed the aggregate of amount of \$200,000. Advances made under this agreement shall bear simple interest at a rate of 8% per annum from the date any such advance was made to the District. The District intends to repay any advances made under this agreement from the bond proceeds issued by the District and any revenues made available to the District by any of District Nos. 2-6 subject to annual appropriation. The District's obligations to repay the advances will terminate at the earlier of repayment in full of amounts advanced or forty years from the execution date of the agreement. At December 31, 2016, the District had outstanding developer advances owing to Highway 119 in the total amount of \$186,685 of which \$125,783 is principal and \$60,902 of accrued interest.

*Funding and Reimbursement Agreement – Voyage Ventures, LLC*

On August 10, 2012, the District entered into a Funding and Reimbursement Agreement with Voyage Ventures, LLC (Voyage) as amended on December 5, 2012 (First Amendment), on December 3, 2013 (Second Amendment), on December 2, 2014 (Third Amendment), on December 1, 2015 (Fourth Amendment) and January 1, 2017 (Fifth Amendment). Voyage has expended funds on behalf of the Districts, has advanced certain funds to the District and is willing to loan additional funds to the District for capital costs and operations and maintenance costs not to exceed the aggregate of amount of \$100,000. Advances made under this agreement prior to the issuance of a reimbursement obligation reflecting such advances shall bear simple interest at a rate of 8% per annum from the date any such advance was made to the District. The District intends to repay any advances made under this agreement from the bond proceeds issued by the District and any revenues made available to the District by any of District Nos. 2-6 subject to annual appropriation. The District's obligations to repay the advances will terminate at the earlier of repayment in full of amounts advanced or forty years from the execution date of the agreement. At December 31, 2016, the District had outstanding developer advances owing to Voyage in the total amount of \$30,647 of which \$21,130 is principal and \$9,517 of accrued interest.

**Authorized but Unissued Debt**

The District has the following authorized but unissued debt at December 31, 2016.

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	<b>Authorized November 3, 2009 Election</b>	<b>Authorized November 8, 2016 Election</b>	<b>Remaining at December 31, 2016</b>
Street Improvements	\$ 86,000,000	\$ 115,439,500	\$ 201,439,500
Parks and Recreation	86,000,000	115,439,500	201,439,500
Water	86,000,000	115,439,500	201,439,500
Sanitation/Storm Sewer	86,000,000	115,439,500	201,439,500
Transportation	-	115,439,500	115,439,500
Mosquito control	-	115,439,500	115,439,500
Traffic safety	-	115,439,500	115,439,500
Fire protection	-	115,439,500	115,439,500
TV relay and translation	-	115,439,500	115,439,500
Security services	-	115,439,500	115,439,500
Special assessment debt	-	115,439,500	115,439,500
Operations and Maintenance Debt	86,000,000	115,439,500	201,439,500
Refunding	86,000,000	115,439,500	201,439,500
Private Agreements as Debt	86,000,000	115,439,500	201,439,500
Intergovernmental agreements	-	115,439,500	115,439,500
Mortgage	86,000,000	-	86,000,000
	<u>\$ 688,000,000</u>	<u>\$ 1,731,592,500</u>	<u>\$ 2,419,592,500</u>
District limited to:	<u>\$ 86,000,000</u>	<u>\$ 115,439,500</u>	<u>\$ 201,439,500</u>

The Service Plan limits the Districts' aggregate debt to \$85,717,500.

**NOTE 6 - FUND EQUITY**

At December 31, 2016, the District reported the following classifications of fund equity.

**Nonspendable Fund Balance**

The nonspendable fund balance in the General Fund in the amount of \$4,421 is comprised of prepaid amounts which are not in spendable form.

**Restricted Fund Balance**

The restricted fund balance in the General Fund in the amount of \$7,900 is comprised of the Emergency Reserves that have been provided for as required by Article X, Section 20 of the Constitution of the State of Colorado (Note 10).

The restricted fund balance in the Capital Projects Fund in the amount of \$760,482 is restricted for expenditures related to the water tank and associated appurtenances as required by the Capital Pledge Agreement (Note 8).

**Assigned Fund Balance**

The assigned fund balance in the General Fund represents the amount appropriated for use in the budget for the year ending December 31, 2017.

**HIGHWAY 119 METROPOLITAN DISTRICT NO. 1  
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**NOTE 7 - NET POSITION**

The District has net position consisting of two components –investment in capital assets and restricted.

Net investment in capital assets, net of accumulated depreciation and reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. As of December 31, 2016, net investment in capital assets was \$115,899.

Restricted net position includes items that are restricted for use either externally imposed by creditors, grantors, contributors, or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The District had restricted net position of \$7,900 for Emergency Reserves (Note 10) and \$760,482 restricted for capital (Note 8 – Capital Pledge Agreement) as of December 31, 2016.

The District has an unrestricted net position deficit of \$87,892 at December 31, 2016. The deficit is a result of developer advances used to fund operations.

**NOTE 8 – AGREEMENTS**

**Intergovernmental Agreement with the Town of Firestone**

On March 24, 2010, the Districts entered into an Intergovernmental Agreement (Town IGA) with the Town of Firestone (the Town). The Town IGA acknowledges that the property within the Districts' boundaries are subject to all ordinances, rules and regulations of the Town including without limitation, ordinances, rules and regulations relating to zoning, subdividing, building and land use, and to all related Town land use policies, master plans, related plans and intergovernmental agreements.

The Districts agree that they are organized for the purpose of financing certain public improvements for the area within its boundaries only which are is designated as the proposed Union, Firelight Adams, Golden and Sherrelwood developments (the developments) or for the purpose of connecting the developments to the Town's infrastructure, and that the Districts' purposes, powers, facilities, functions and activities are to be limited and governed by the service plan.

The Town's approval of the Districts' service plan is expressly conditioned upon the requirement that District No. 1 construct Regional Improvements (as defined in the service plan) benefiting the Town's and the Districts' residents and taxpayers and located within or outside of the developments, the cost of which equals or exceeds 23% of the Districts' aggregate net proceeds of all general obligation and revenue bonds issued by the Districts, with certain exclusions as defined in the Town IGA and service plan.

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**Capital Pledge Agreement for Water Tank Improvements**

On December 10, 2015, the District entered into a Capital Pledge Agreement for Water Tank Improvements (Capital Pledge Agreement) with District No. 2. The Capital Pledge Agreement requires District No. 2 to levy an ad valorem property tax mill levy in an amount not to exceed 46.000 mills (Required Mill Levy) to pay for the design, acquisition, installation, repair, replacement and/or construction of a water tank and associated appurtenances. District No. 2's total obligation under the Capital Pledge Agreement is not to exceed \$2,500,000. District No. 2 is to remit the net taxes to the District as soon as reasonably practicable upon receipt, but in no event later than 10 business days after receipt, all revenue comprising property tax revenue. During 2016, District No. 2 remitted \$922,640 to the District.

**NOTE 9 - RISK MANAGEMENT**

Except as provided in the Colorado Governmental Immunity Act, 24-10-101, et seq., C.R.S. the District may be 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 Districts Property and Liability Pool (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 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, public officials' liability and workers compensation. In the event that 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 10 - 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 that apply to the State of Colorado and all local governments.

Spending and revenue limits are determined based on the prior year's Fiscal Year Spending adjusted for allowable increases based upon inflation and local growth. Fiscal Year Spending is generally defined as expenditures plus reserve increases with certain exceptions. Revenue in excess of the Fiscal Year Spending limit must be refunded unless the voters approve retention of such revenue.

TABOR requires local governments to establish Emergency Reserves. These reserves must be at least 3% of Fiscal Year Spending (excluding bonded debt service). Local governments are not allowed to use the emergency reserves to compensate for economic conditions, revenue shortfalls, or salary or benefit increases.

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On November 3, 2009, the majority of the District's voters approved the following ballot questions:

Ballot Issue A: Shall Highway 119 Metropolitan District No. 1 taxes be increased \$1,000,000 annually, commencing in 2010, or by such greater or lesser annual amount as may be derived from an ad valorem mill levy not in excess of 50.000 mills annually (provided that such maximum mill levy shall be adjusted up or down to account for changes in law or the method by which assessed valuation is calculated occurring after 2010, so that to the extent possible, the actual tax revenues generated by the mill levy, as adjusted, are neither diminished nor enhanced as a result of such changes), the revenues therefrom to be used for the purpose of paying the District's operations, maintenance, and other expenses; and shall the proceeds of such taxes and investment income thereon be collected and spent by the District as a voter-approved revenue change in 2010 and in each year thereafter, without regard to any spending, revenue-raising, or other limitation contained within Article X, Section 20 of the Colorado Constitution, or Section 29-1-301, Colorado Revised Statutes, and without limiting in any year the amount of other revenues that may be collected and spent by the District?

Ballot Issue B – Shall Highway 119 Metropolitan District No. 1 be authorized to collect, retain, and spend any and all amounts annually from any revenue sources whatsoever other than ad valorem taxes, including but not limited to tap fees, facility fees, service charges, inspection charges, administrative charges, grants, or any other fee rate, toll, penalty, income, or charge imposed, collected, or authorized by law to be imposed or collected by the District, and shall such revenue be collected and spent by the District as a voter-approved revenue change without regard to any spending, revenue-raising, or other limitation contained within Article X, Section 20 of the Colorado Constitution, and without limiting in any year the amount of other revenues that may be collected and spent by the District?

Ballot Issue C - Shall Highway 119 Metropolitan District No. 1 taxes be increased \$10,000,000 annually or such lesser amount as necessary for the payment of such amounts due pursuant to one or more agreements or contracts with private parties, by the imposition of ad valorem property taxes levied in any year, without limitation as to rate or amount or any other condition, for the payment of such amounts due, and shall the proceeds of such taxes and any investment income thereon be collected, retained and spent by the District in fiscal year 2010 and in each fiscal year thereafter as a voter-approved revenue change without regard to any spending, revenue-raising, or other limitation contained within Article X, Section 20 of the Colorado Constitution, the limits imposed on increases in property taxation by Section 29-1-301, C.R.S. in any year, or any other law which purports to limit the District's revenues or expenditures as it currently exists or as it may be amended in the future, all without limiting in any year the amount of other revenues that may be collected, retained and spent by the District?

Ballot Issue D - Shall Highway 119 Metropolitan District No. 1 taxes be increased \$10,000,000 annually or such lesser amount as necessary for the payment of such amounts due pursuant to one or more intergovernmental agreements or other contracts, by the imposition of ad valorem property taxes levied in any year, without limitation as to rate or amount or any other condition, for the payment of such amounts due, and shall

**HIGHWAY 119 METROPOLITAN DISTRICT NO. 1  
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the proceeds of such taxes and any investment income thereon be collected, retained and spent by the District in fiscal year 2010 and in each fiscal year thereafter as a voter-approved revenue change without regard to any spending, revenue-raising, or other limitation contained within Article X, Section 20 of the Colorado Constitution, the limits imposed on increases in property taxation by Section 29-1-301, C.R.S. in any year, or any other law which purports to limit the District's revenues or expenditures as it currently exists or as it may be amended in the future, all without limiting in any year the amount of other revenues that may be collected, retained and spent by the District?

On November 6, 2016, the majority of the District's voters approved the following ballot questions:

Ballot Issue 5A - Shall Highway 119 Metropolitan District No. 1 taxes be increased \$10,000,000 annually (such tax increase to be authorized notwithstanding any provision of Article X, Section 20 of the Colorado Constitution, including any future amendments to Article X, Section 20 of the Colorado Constitution imposing property tax cuts) or such lesser annual amount as necessary to pay the District's administration, covenant enforcement, design review, operations, maintenance and other similar expenses by the imposition of ad valorem property taxes levied in any year, without limitation as to rate or amount or any other condition, to pay such expenses and shall the revenue from such taxes and any investment income thereon be collected, retained and spent by the District in fiscal year 2017 and in each fiscal year thereafter as a voter-approved revenue change without regard to any spending, revenue-raising, or other limitation contained within Article X, Section 20 of the Colorado Constitution, the limits imposed on increases in taxation by Section 29-1-301, C.R.S., in any year, or any other law which purports to limit the District's revenues or expenditures as it currently exists or as it may be amended in the future, all without limiting in any year the amount of other revenues that may be collected, retained and spent by the District?

Ballot Issue 5B - Shall Highway 119 Metropolitan District No. 1 taxes be increased \$10,000,000 annually (such tax increase to be authorized notwithstanding any provision of Article X, Section 20 of the Colorado Constitution, including any future amendments to Article X, Section 20 of the Colorado Constitution imposing property tax cuts) or such lesser annual amount as necessary to pay for capital costs of public improvements, through property taxes levied in any year, without limitation as to rate or amount or any other condition, to pay such expenses and shall the revenue from such taxes and any investment income thereon be collected, retained and spent by the District in fiscal year 2017 and in each fiscal year thereafter as a voter-approved revenue change without regard to any spending, revenue-raising, or other limitation contained within Article X, Section 20 of the Colorado Constitution, the limits imposed on increases in taxation by Section 29-1-301, C.R.S., in any year, or any other law which purports to limit the District's revenues or expenditures as it currently exists or as it may be amended in the future, all without limiting in any year the amount of other revenues that may be collected, retained and spent by the District?

Ballot Issue 5C - Shall Highway 119 Metropolitan District No. 1 taxes be increased \$10,000,000 annually (such tax increase to be authorized notwithstanding any provision of Article X, Section 20 of the Colorado Constitution, including any future amendments to Article X, Section 20 of the Colorado Constitution imposing property tax cuts) or such

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lesser annual amount as necessary to pay the District's administration, covenant enforcement, design review, operations, and maintenance expenses, and for the purpose of paying the costs of any public improvements, facilities, systems, programs, or projects which the District may lawfully provide, by the imposition of a fee or fees imposed, without limitation as to rate or amount or any other condition, to pay such expenses and shall the revenue from such fees and any investment income thereon be collected, retained and spent by the District in fiscal year 2017 and in each fiscal year thereafter as a voter-approved revenue change without regard to any spending, revenue-raising, or other limitation contained within Article X, Section 20 of the Colorado Constitution, the limits imposed on increases in taxation by Section 29-1-301, C.R.S., in any year, or any other law which purports to limit the District's revenues or expenditures as it currently exists or as it may be amended in the future, all without limiting in any year the amount of other revenues that may be collected, retained and spent by the District?

Ballot Issue 5D - Shall Highway 119 Metropolitan District No. 1 taxes be increased \$10,000,000 annually (such tax increase to be authorized notwithstanding any provision of Article X, Section 20 of the Colorado Constitution, including any future amendments to Article X, Section 20 of the Colorado Constitution imposing property tax cuts) or such lesser annual amount as necessary to pay for the payment of amounts due under one or more intergovernmental agreements or other contracts, or for payment of regional improvements for which the District is authorized or obligated pursuant to its service plan, by the imposition of ad valorem property taxes levied in any year, without limitation as to rate or amount or any other condition, for the purpose of paying the District's obligations under any one or more of such intergovernmental agreements or other contracts, or to pay the cost of regional improvements, and shall the revenue from such taxes and any investment income thereon be collected, retained and spent by the District in fiscal year 2017 and in each fiscal year thereafter as a voter-approved revenue change without regard to any spending, revenue-raising, or other limitation contained within Article X, Section 20 of the Colorado Constitution, the limits imposed on increases in taxation by Section 29-1-301, C.R.S., in any year, or any other law which purports to limit the District's revenues or expenditures as it currently exists or as it may be amended in the future, all without limiting in any year the amount of other revenues that may be collected, retained and spent by the District?

Ballot Issue 5E - Shall Highway 119 Metropolitan District No. 1 taxes be increased \$10,000,000 annually (such tax increase to be authorized notwithstanding any provision of Article X, Section 20 of the Colorado Constitution, including any future amendments to Article X, Section 20 of the Colorado Constitution imposing property tax cuts) or such lesser amount as necessary for the payment of such amounts due pursuant to one or more agreements or contracts with private parties, by the imposition of ad valorem property taxes levied in any year, without limitation as to rate or amount or any other condition for the payment of such amounts due, and shall the proceeds and any investment income thereon be collected, retained and spent by the District in fiscal year 2017 and in each fiscal year thereafter as a voter-approved revenue change without regard to any spending, revenue-raising, or other limitation contained within Article X, Section 20 of the Colorado Constitution, the limits imposed on increases in taxation by Section 29-1-301, C.R.S., in any year, or any other law which purports to limit the District's revenues or expenditures as it currently exists or as it may be amended in the

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future, all without limiting in any year the amount of other revenues that may be collected, retained and spent by the District?

Ballot Issue 5F - Shall Highway 119 Metropolitan District No. 1 be authorized to collect, retain and spend any and all amounts annually from any revenue sources whatsoever, including but not limited to taxes, tax increment revenues, tap fees, park fees, facility fees, service charges, inspection charges, administrative charges, gifts, grants, or any other fee, rate, toll, penalty, income, or charge authorized by law or contract to be imposed, collected or received by the District in fiscal year 2016 and in each fiscal year thereafter, such amounts to constitute a voter-approved revenue change and be collected, retained and spent by the District without regard to any spending, revenue-raising or other limitation contained within Article X, Section 20 of the Colorado Constitution, including any future amendments to Article X, Section 20 of the Colorado Constitution imposing tax cuts, the limits imposed on increases in property taxation by Section 29-1-301, C.R.S. in any subsequent year, or any other law which purports to limit the District's revenues or expenditures as it currently exists or as it may be amended in the future, and without limiting in any year the amount of other revenues that may be collected, retained and spent by the District.

The District's management believes it is in compliance with the provisions of TABOR. However, TABOR is complex and subject to interpretation. Many of the provisions, including the interpretation of how to calculate Fiscal Year Spending limits will require judicial interpretation.

This information is an integral part of the accompanying financial statements.

## **SUPPLEMENTAL INFORMATION**

**HIGHWAY 119 METROPOLITAN DISTRICT NO. 1**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN**  
**FUND BALANCE - BUDGET AND ACTUAL**  
**CAPITAL PROJECTS FUND**  
**Year Ended December 31, 2016**

	<b>Original and Final Budgeted Amounts</b>	<b>Actual</b>	<b>Variance with Final Budget - Positive (Negative)</b>
<b>REVENUES</b>			
Transfer from Highway 119 Metropolitan District No. 2	\$ 921,640	\$ 922,640	\$ 1,000
Net investment income	2,000	1,680	(320)
Total Revenues	<u>923,640</u>	<u>924,320</u>	<u>680</u>
<b>EXPENDITURES</b>			
Service plan amendment	29,978	29,978	-
Cost certifications	16,676	17,961	(1,285)
Capital outlay:			
Management fees	792	792	-
Legal	19,526	19,526	-
Engineering	87,344	87,344	-
Town of Firestone fees	8,237	8,237	-
Contingency	761,087	-	761,087
Total Expenditures	<u>923,640</u>	<u>163,838</u>	<u>759,802</u>
<b>NET CHANGE IN FUND BALANCES</b>	-	760,482	760,482
<b>FUND BALANCE - BEGINNING OF YEAR</b>	<u>-</u>	<u>-</u>	<u>-</u>
<b>FUND BALANCE - END OF YEAR</b>	<u>\$ -</u>	<u>\$ 760,482</u>	<u>\$ 760,482</u>