

Heritage Ridge Metropolitan District
FINANCIAL STATEMENTS AND
REPORT OF INDEPENDENT CERTIFIED
PUBLIC ACCOUNTANTS

December 31, 2017

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Office of the State Auditor

September 19, 2018

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REPORT OF INDEPENDENT CERTIFIED
PUBLIC ACCOUNTANTS

Board of Directors
Heritage Ridge Metropolitan District

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the governmental funds of the Heritage Ridge Metropolitan District (the "District"), as of and for the year ended December 31, 2017, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on conducting our audit in accordance with auditing standards generally accepted in the United States of America as established by the *American Institute of Certified Public Accountants* ("US GAAS").

We conducted our audit in accordance with US GAAS. Those standards require that we plan and perform our audit to obtain reasonable assurance about whether these financial statements are free of material misstatement.

An audit includes 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 District'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 District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting principles 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 on the Financial Statements

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the governmental funds of the Heritage Ridge Metropolitan District, as of December 31, 2017, and the respective changes in financial position thereof, and the budgetary comparison for the general fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information - Management's Discussion and Analysis

The Board of Directors has elected to omit the Management's Discussion and Analysis information that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Government Accounting Standards Board, who considers it to be an essential part of the 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 omitted information.

Supplementary Information

Our audit was conducted with the purpose of forming an opinion on the basic financial statements of the Heritage Ridge Metropolitan District taken as a whole. The supplementary information on pages 19 and 20 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to our auditing procedures applied in the audit of the financial statements, and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Marc James & Associates PC

Highlands Ranch, CO
August 13, 2018

BASIC FINANCIAL STATEMENTS

Heritage Ridge Metropolitan District

GOVERNMENTAL FUNDS BALANCE SHEET/STATEMENT OF NET POSITION

December 31, 2017

	Governmental Funds				Adjustments	Statement of Net Position
	General	Debt Service	Capital Projects	Total		
ASSETS						
Cash and cash equivalents	\$ 1,835	\$ -	\$ -	\$ 1,835	\$ -	\$ 1,835
Restricted cash and cash equivalents	-	2,753	5,731	8,484	-	8,484
Property taxes receivable	31,186	114,930	-	146,116	-	146,116
Other	18	15	-	33	-	33
Capital assets - infrastructure	-	-	-	-	7,789,369	7,789,369
Total assets	\$ 33,039	\$ 117,698	\$ 5,731	\$ 156,468	7,789,369	7,945,837
LIABILITIES						
Accounts payable	\$ 5,793	\$ -	\$ 20,158	\$ 25,951	-	25,951
Construction retainages payable	-	-	104,521	104,521	-	104,521
Accrued interest payable	-	-	-	-	728,271	728,271
Total liabilities	5,793	-	124,679	130,472	728,271	858,743
DEFERRED INFLOWS						
Property taxes	31,186	114,930	-	146,116	-	146,116
LONG-TERM DEBT						
Due in less than one year	-	-	-	-	7,977,436	7,977,436
FUND BALANCE (DEFICIT)						
Committed	-	2,768	-	2,768	(2,768)	-
Unassigned	(3,940)	-	(118,948)	(122,888)	122,888	-
Total fund balance (deficit)	(3,940)	2,768	(118,948)	(120,120)	120,120	-
Total liabilities, deferred inflow s and fund balance	\$ 33,039	\$ 117,698	\$ 5,731	\$ 156,468		
NET POSITION						
Investment in capital assets, net of related debt					-	-
Unrestricted					(1,036,458)	(1,036,458)
Total net position					\$ (1,036,458)	\$ (1,036,458)

The accompanying notes are an integral part of this financial statement

Heritage Ridge Metropolitan District
STATEMENT OF GOVERNMENTAL FUNDS REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES/STATEMENT OF ACTIVITIES

For the Year ended December 31, 2017

	Governmental Funds				Adjustments	Statement of Activities
	General	Debt Service	Capital Projects	Total		
EXPENDITURES						
OPERATIONS						
Accounting and audit	\$ 24,400	\$ -	\$ 153	\$ 24,553	\$ -	\$ 24,553
District management	34,827	-	25	34,852	-	34,852
Engineering	472	-	7,162	7,634	-	7,634
Insurance	3,082	-	-	3,082	-	3,082
Landscape maintenance	1,625	-	-	1,625	-	1,625
Legal	27,754	-	956	28,710	-	28,710
Office	1,706	-	-	1,706	-	1,706
Miscellaneous	47,306	-	55,584	102,890	-	102,890
Treasurer's fees	10	42	-	52	-	52
Utilities	6,635	-	-	6,635	-	6,635
CAPITAL OUTLAY						
Infrastructure	-	-	3,560,957	3,560,957	(3,560,957)	-
DEBT SERVICE						
Interest expense	-	-	-	-	505,408	505,408
Total expenditures	<u>147,817</u>	<u>42</u>	<u>3,624,837</u>	<u>3,772,696</u>	<u>(3,055,549)</u>	<u>717,147</u>
CHARGES FOR SERVICES						
	<u>10,850</u>	<u>-</u>	<u>-</u>	<u>10,850</u>	<u>-</u>	<u>10,850</u>
Net expenditures/expenses	136,967	42	3,624,837	3,761,846	(3,055,549)	706,297
GENERAL REVENUES						
Property taxes	505	2,281	-	2,786	-	2,786
Interest	124	-	-	124	-	124
Total general revenues	<u>629</u>	<u>2,281</u>	<u>-</u>	<u>2,910</u>	<u>-</u>	<u>2,910</u>
REVENUE OVER (UNDER) EXPENDITURES	(136,338)	2,239	(3,624,837)	(3,758,936)	3,055,549	(703,387)
OTHER SOURCES						
Developer advances	<u>122,257</u>	<u>-</u>	<u>3,560,957</u>	<u>3,683,214</u>	<u>(3,683,214)</u>	<u>-</u>
CHANGES IN FUND BALANCE	(14,081)	2,239	(63,880)	(75,722)	75,722	-
CHANGE IN NET POSITION	-	-	-	-	(703,387)	(703,387)
FUND BALANCE /NET POSITION						
Beginning of the year - restated	<u>10,141</u>	<u>529</u>	<u>(55,068)</u>	<u>(44,398)</u>	<u>(288,673)</u>	<u>(333,071)</u>
End of the year	<u>\$ (3,940)</u>	<u>\$ 2,768</u>	<u>\$ (118,948)</u>	<u>\$ (120,120)</u>	<u>\$ (916,338)</u>	<u>\$ (1,036,458)</u>

The accompanying notes are an integral part of this financial statement

Heritage Ridge Metropolitan District

STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND

For the Year ended December 31, 2017

	Original and Final Budget	Actual	Variance
REVENUES			
Property taxes	\$ 464	\$ 505	\$ 41
Specific ownership taxes	28	-	(28)
Transfer fees	9,000	5,050	(3,950)
Setup fees	6,000	3,650	(2,350)
Design and architecture review fees	-	2,150	2,150
Interest and other	-	124	124
	<u>15,492</u>	<u>11,479</u>	<u>(3,937)</u>
EXPENDITURES			
OPERATING			
Accounting and audit	17,250	24,400	7,150
Contingency	15,000	-	(15,000)
District management	50,871	34,827	(16,044)
District engineering	5,000	472	(4,528)
Director fees	1,600	-	(1,600)
Hardscape maintenance	10,700	-	(10,700)
Insurance	3,150	3,082	(68)
Landscape maintenance	19,000	1,625	(17,375)
Legal	28,000	27,754	(246)
Miscellaneous	-	47,306	47,306
Office	2,800	1,706	(1,094)
Park and playground maintenance	5,000	-	(5,000)
Repairs and replacements	5,000	-	(5,000)
Storm water facility maintenance	5,000	-	(5,000)
Treasurer's fees	10	10	-
Utilities and utility locates	26,000	6,635	(19,365)
	<u>194,381</u>	<u>147,817</u>	<u>(46,564)</u>
EXCESS OF EXPENDITURES OVER REVENUE	(178,889)	(136,338)	42,627
OTHER SOURCES			
Developer advances	<u>182,597</u>	<u>122,257</u>	<u>(60,340)</u>
CHANGES IN FUND BALANCE	<u>\$ 3,708</u>	(14,081)	<u>\$ (17,713)</u>
FUND BALANCE (DEFICIT)			
Beginning balance		<u>10,141</u>	
Ending balance		<u><u>\$ (3,940)</u></u>	

The accompanying notes are an integral part of this financial statement

Heritage Ridge Metropolitan District
NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Heritage Ridge Metropolitan District (the "District") conform to the accounting principles generally accepted in the United States of America ("US GAAP") as applicable to governmental entities. The following is a summary of the more significant policies consistently applied in the preparation of the basic financial statements of the District.

1. Reporting Entity

The District was organized in November 2015, under State of Colorado statutory authority, as a quasi-municipal corporation and is governed by a five-member Board of Directors pursuant to the provisions of the Colorado Special District Act (Title 32, Article I, Colorado Revised Statutes) for the overall purpose of the development of a residential community known as Heritage Ridge.

The District's service area, which consists of approximately 146 acres of land, is located in the Town of Berthoud, Colorado. Under the Service Plan, the District was formed to provide for the planning, design, financing, acquisition, construction and installation of public improvements as defined in the Service Plan. It is not the District's intention to own any public improvements. Accordingly, the District shall convey the public improvements to the Town of Berthoud, Colorado or other governmental entities. Any public improvements not conveyed to the Town of Berthoud, Colorado or other governmental entities may be conveyed to an owners' association.

As required by US GAAP, these financial statements present the activities of the District, which is legally separate and financially independent of other state and local government entities. The District has no component units as defined by Governmental Accounting Standards Board ("GASB"), Statement No. 14, *The Reporting Entity* and GASB No. 39, *Determining Whether Certain Organizations are Component Units*.

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

2. Measurement Focus and Financial Accounting Framework

The accompanying financial statements are presented in accordance with GASB Statement No 34, *Special Purpose Governments*.

Government-Wide Financial Statements

The government-wide financial statements, the Statement of Net Position and the Statement of Activities, report information on all of the governmental activities of the District.

The statement of net activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program or general revenues. Direct expenses are those that are clearly identifiable with a specific function or segment.

Revenues and expenditures are recorded on the accrual basis of accounting.

Governmental Fund Financial Statements

The governmental fund financial statements are prepared 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 if the revenues are collectible within the current period, or soon thereafter, to pay liabilities of the current period. For that purpose, the District considers revenues to be available if they are expected to be collected within 60 days of the end of the current fiscal period.

Heritage Ridge Metropolitan District
NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2. *Measurement Focus and Financial Accounting Framework - continued*

Governmental Funds

For 2017, the District has three Governmental Funds:

- *General Fund* – The General Fund is the general operating fund of the District. It is used to account for all of the financial resources not accounted for and reported in another fund,
- *Debt Service Fund* – The Debt Service Fund is used to account for all financial resources that are restricted, committed, or assigned to expenditures for principal, interest, and other debt-related costs,
- *Capital Projects Fund* - The Capital Project Fund is used to account for all financial resources that are restricted, committed, or assigned to expenditures for capital outlays, including the acquisition of capital facilities and other assets.

3. *Deposits*

District management considers cash and cash equivalents to include cash on hand, demand deposits, and money market accounts. Investments, as applicable, of the District are reported at fair value.

District management may at times follow the practice of pooling cash and investments of all funds to maximize investment earnings. Except when required by regulations or other agreements, all cash is deposited to and disbursed from a minimum number of bank accounts. Cash in excess of immediate operating requirements may be pooled for deposit and investment flexibility. As applicable, investment earnings are allocated periodically to the participating funds based upon each fund's average equity balance in the total cash.

4. *Capital Assets*

The District's capital assets are recorded at cost, if purchased or constructed. Donated capital assets are valued at the estimated fair value at the time of donation. The District's capital assets consist of various infrastructures. The District has a capitalization policy of \$5,000. The District's Board of Directors has the option to capitalize certain items costing less than \$5,000 in certain circumstances. As of December 31, 2017, it is the intent of the District to convey all of the currently completed capital assets to the Town of Berthoud, Colorado or other related local governments or owners' association.

The cost of normal maintenance and repairs that do not add value to, or materially extend the life of, the related capital asset, are charged to expense as incurred.

5. *Fair Value of Financial Instruments*

The District's financial instruments include cash and cash equivalents, various receivables, and accounts payable. The District estimates that the fair value of these financial instruments, as of December 31, 2017, does not differ materially from the aggregate carrying values used in the accompanying financial statements. The carrying amount of these financial instruments approximates the fair value due to the short maturity of these financial instruments.

Heritage Ridge Metropolitan District
NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

6. *Use of Estimates*

The preparation of financial statements in conformity with US GAAP involves the use of management's estimates which affect the reported amounts of assets and liabilities as of the date of the financial statements, and the reported amounts of revenue and expenditures during the reporting period. These estimates are based upon management's best judgment, after considering past events and assumptions about future events. Actual results could differ from those estimates.

7. *Property Taxes*

Property taxes are levied by the District's Board of Directors. When applicable, the levy is based upon assessed valuations determined by the County Assessor, generally as of January 1 of each year. The levy is normally set by December 15 by certification to the County Commissioners to put the tax lien on the individual properties as of January 1 of the following year. The County Treasurer collects the determined taxes during the ensuing calendar year. The taxes are payable by April, or, if in equal installments, at the taxpayers' election, in February and June. Delinquent taxpayers are notified in July or August and the sales of the resultant tax liens on delinquent properties are generally held in November or December. The County Treasurer remits the taxes collected monthly to the District.

Property taxes, net of estimated uncollectible taxes, are recorded initially as deferred inflows of resources in the year they are levied and measurable, since they normally are not available nor are they budgeted as a resource until the subsequent year. Property taxes are recorded as revenue in the subsequent year when they are available or collected.

Under the Service Plan, the maximum Debt Mill Levy and maximum Operations and Maintenance Mill Levy of the District shall be 50 mills and 15 mills, respectively.

NOTE B – BUDGET INFORMATION

Budgets are adopted on a non-GAAP basis for the governmental funds. In accordance with State Budget Law, the District's Board of Directors holds a public hearing in the fall of each year to approve the budget and appropriate funds for the ensuing year. The appropriation is at the total fund expenditure level and lapses at year end. The District's Board of Directors can modify the budget by line item within the total appropriation without notification. The total appropriation can only be modified upon completion of a budget amendment approved following a public hearing on the same. The budget includes each fund on its basis of accounting unless otherwise indicated. The appropriation is at the total fund expenditures level and lapses at year-end.

State of Colorado statutes require a balanced budget. For 2017, the District's General Fund and Debt Service Fund budgeted revenues and other sources exceeded budgeted expenditures.

Heritage Ridge Metropolitan District
NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE C – CASH

Deposits and Custodial Credit Risk

The Colorado Public Deposit Protection Act (“PDPA”) requires that all units of local government deposit cash in eligible public depositories. State regulators determine the eligibility. Amounts on deposit in excess of the Federal Deposit Insurance Corporation (“FDIC”) insurance levels must be collateralized. The eligible collateral is determined by the PDPA. The PDPA allows institutions to create a single collateral pool for all public funds. The pool is to be maintained by another institution, or held in trust for all uninsured public deposits. The market value of the collateral must be equal to 102% of the aggregate uninsured public deposits.

The Colorado Division of Banking for banks and savings associations is required by statute to monitor the naming of eligible depositories and reporting of the uninsured deposits and assets maintained in the collateral pools.

As of December 31, 2017, none of the District’s deposits were exposed to custodial credit risk.

Restricted Cash and Cash Equivalents

The District’s restricted cash and cash equivalents pertain to the amount of cash and cash equivalents equal to the cash held within the Debt Service Fund.

NOTE D - LONG-TERM DEBT

Operation Funding Agreement

On December 7, 2015, the District and Heritage Ridge I, LLC (the “Developer”) entered into an Operation Funding Agreement, as amended by that First Amendment dated February 12, 2016, and further amended by that Second Amendment dated February 14, 2017 (collectively, the “OFA”), whereby the Developer agreed to advance funds necessary to fund or directly pay the District’s operations and maintenance expenses for fiscal years 2015 through 2017, up to \$278,746. The District agreed to repay the advances together with accrued interest at the rate of eight percent (8%) per annum accruing from the date of deposit into the District’s accounts or from the date of direct payment by the Developer to the District’s consultants.

As of December 31, 2017, \$188,067 in principal and \$11,883 in accrued interest was outstanding under the OFA.

On March 15, 2018, the District and the Developer entered into an Amended and Restated 2015 – 2018 Operation Funding Agreement, which amended and restated the OFA in its entirety.

The following is an analysis of changes under the Operation Funding Agreement for the year ending December 31, 2017:

Balance December 31, 2016	Borrowings	Payments	Balance December 31, 2017	Balance Due in One Year
\$ 65,810	\$ 122,257	\$ -	\$ 188,067	\$ 188,067

Heritage Ridge Metropolitan District
NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE D - LONG-TERM DEBT - *continued*

Facilities Funding and Acquisition Agreement

On December 7, 2015, the District and the Developer entered into a Facilities Funding and Acquisition Agreement, as amended by that First Amendment dated February 12, 2016, as amended by that Second Amendment dated July 12, 2016, as amended by that Third Amendment dated September 13, 2016, as further amended by that Fourth Amendment dated March 2017 (collectively, the "FFAA"), pursuant to which the Developer agreed to make advances not to exceed \$12,458,560 to the District for the following purposes: organization expenses and public improvements. Interest on the funds advanced or to pay for improvements accrues at eight percent (8%) per annum. The FFAA does not constitute debt, but is an annual appropriations agreement intended to be repaid through future bond issuances.

As of December 31, 2017, \$7,789,369 in principal and \$716,388 in accrued interest was outstanding under the FFAA.

On March 15, 2018, the District and the Developer entered into an Amended and Restated Facilities Funding and Acquisition Agreement which amended and restated the FFAA in its entirety.

The following is an analysis of changes under the Facilities Funding and Acquisition Agreement for the year ending December 31, 2017.

Balance December 31, 2016	Borrowings	Payments	Balance December 31, 2017	Balance Due in One Year
\$ 4,228,412	\$ 3,560,957	\$ -	\$ 7,789,369	\$ 7,789,369

Authorized, But Unissued Debt

As of December 31, 2017, the amount of the voter authorized, but unissued, debt for the Heritage Metropolitan District was \$208,000,000. However, the District's Service Plan limits debt issuance to \$16,000,000.

NOTE E - CAPITAL ASSETS

The changes in the District's capital assets for the year ending December 31, 2017 are as follows:

	Balance December 31, 2016	Additions	Conveyance	Balance December 31, 2017
Capital assets				
Infrastructure	\$ 4,228,412	\$ 3,560,957	\$ -	\$ 7,789,369

As previously discussed in NOTE D, the 2017 capital assets are based upon an independent Engineer's Cost Certification through December 31, 2017, completed in March 2018.

Under the District's Service Plan, upon final acceptance, the capital assets acquired in 2017 are to be conveyed to the Town of Berthoud, other local governments or owners' associations, as applicable.

Heritage Ridge Metropolitan District

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE F – FUND BALANCE/NET POSITION

Fund Balance

The District utilizes the fund balance presentation as required under GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Fund balances, as applicable, are categorized as non-spendable, restricted, committed, assigned, or unassigned.

Non-spendable – represents amounts that cannot be spent because they are either in non-spendable form or legally required to remain intact;

Restricted – represents amounts with external constraints placed on the use of these resources or imposed by enabling legislation;

Committed – represents amounts that may only be used for specific purposes imposed by a formal action of the District’s highest level of decision-making authority, the District’s Board of Directors. Committed resources cannot be used for any other purpose, unless the District’s Board of Directors remove or change the specific use by the same type of action used to commit those amounts, either by resolution or by ordinance;

Assigned – represents amounts that the District intends to use for specific purposes, as expressed by the District’s Board of Directors or a District official delegated the authority to assign such amounts;

Unassigned – represents the residual classification for the general fund or deficit balances in other funds, as applicable.

Amounts are considered to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) amounts are available. Unrestricted amounts are considered to have been spent when an expenditure is incurred for purposes for which amounts in any of these unrestricted fund balances classifications could be used.

As of December 31, 2017, the District’s fund balance consisted of the following:

	General Fund	Debt Service Fund	Capital Projects Fund	Total
Fund balances:				
Committed	\$ -	\$ 2,768	\$ -	\$ 2,768
Unassigned	(3,940)	-	(118,948)	(122,888)
Total fund balances	\$ (3,940)	\$ 2,768	\$ (118,948)	\$ (120,120)

Heritage Ridge Metropolitan District

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE F – FUND BALANCE/NET POSITION - *continued*

Net Position

The District's net position represents the difference between the District's assets, liabilities, and deferred inflows of resources. The District reports three categories of net position, as follows:

Net investment in capital assets – consists of net capital assets, reduced by outstanding balances of any related debt obligations and deferred inflows of resources attributable to the acquisition, construction, or improvement of those assets and increased by balances of deferred outflows or resources related to those assets.

Restricted net position – net position is considered restricted if its use is constrained to a particular purpose. Restrictions are imposed by external organizations such as federal or state laws. Restricted net position is reduced by liabilities and deferred inflows of resources related to the restricted assets.

Unrestricted net position – consists of all other net position that does not meet the definition of the above two components and is available for general use by the District.

When an expense is incurred for purposes for which both restricted and unrestricted net positions are available, the District will use the most restrictive net position first.

NOTE G - RELATED PARTIES

Members of the Board of Directors

All of the members of the Board are either investors or related by virtue of employment with the Developer.

NOTE H – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, errors or omissions, and natural disasters, as well as theft of, damage to, or destruction of, property.

The District is a member of the Colorado Special Districts Property and Liability Pool ("Pool") as of December 31, 2017. The Pool is an organization created by intergovernmental agreements to provide property, liability, public officials' liability, boiler, and other coverage to its members.

The District pays annual premiums to the Pool for liability, property, public officials' liability, and workers' compensation coverage. In the event aggregated losses incurred by the Pool exceed amounts recoverable from reinsurance contracts and funds accumulated by the Pool, the Pool may require additional contributions from the Pool members. Any excess funds that the Pool determines are not needed for purposes of the Pool may be returned to the members pursuant to a distribution formula.

Heritage Ridge Metropolitan District

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE I – 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, and debt limitations, which apply to the State of Colorado and to all local governments.

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

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

The District’s management believes it is in compliance with the provisions of TABOR. TABOR, however, is complex and subject to interpretation. Many of the provisions, including the calculation of the fiscal year spending limits, will require judicial interpretation.

NOTE J - RESTATEMENT OF FUND BALANCE/NET POSITION

Restatement of Fund Balance

The beginning fund balance of the Capital Project’s Fund was increased by \$19,883 to reflect the correction of the retainages payable associated with the construction in process.

Restatement of Net Position

The District’s beginning net position was restated to reflect the increases in capital assets, operating and capital advances and accrued interest resulting from the direct payments to vendors by the Developer in 2017 and as applicable, prior years as follows:

Increase in capital assets	\$	2,135,082
Increase in the operating advance		(2,597)
Increase in the capital advance		(2,179,806)
Increase in accrued interest		<u>(202,231)</u>
Decrease in net position	\$	<u><u>(249,552)</u></u>

Heritage Ridge Metropolitan District

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE K – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The Governmental Funds Balance Sheet/Statement of Net Position and Statement of Governmental Funds Revenue, Expenditures and Changes in Fund Balance/Statement of Activities includes an adjustments column, which reconciles the differences between the government-wide and governmental fund financial statements, as follows:

Governmental Funds Balance Sheet/Statement of Net Position

Capital assets, infrastructure, reflected in the Statement of Net Position are not financial resources in the governmental funds and accordingly are not reported in the governmental funds. \$ 7,789,369

Long-term debt, including accrued interest payable, is not due and payable in the current period and therefore is not reported in the governmental funds.

Long-term debt 7,977,436
Accrued interest payable 728,271

Statement of Governmental Funds Revenue, Expenditures and Changes in Fund Balance/Statement of Activities

Interest expense is recorded in the Statement of Activities when incurred. Interest is only recorded, as paid in the debt service fund. 505,408

Elimination of the Developer Advances, which is reflected as an addition to the Developer Advances in the Statement of Net Position. 3,683,214

Capital assets acquired from the Developer are charged to expenditures in the governmental funds; the capital assets are reflected in the Statement of Net Position. 3,560,957

NOTE L – MANAGEMENT'S EVALUATION OF SUBSEQUENT EVENTS

The preparation of the District's financial statements and accompanying footnotes in conformity with US GAAP requires District management to evaluate transactions and events subsequent to the balance sheet date involving the District. Management has evaluated the subsequent transactions and events of the District through August 13, 2018 which is the date that the financial statements and accompanying footnotes were available for issuance.

- On May 3, 2018, the District entered into a Limited Tax General Obligation Loan in the amount \$3,650,000. The proceeds are to be used to reimburse the Developer for certain advances, fund the 2018 Loan Reserve Fund Requirement and to pay for certain costs of issuance. The Limited Tax General Obligation Loan is to be paid from Pledged Revenue and the 2018 Pledged Collateral as defined in the Loan Agreement. The Limited Tax General Obligation Loan carries an initial per annum interest rate of 4.50%

SUPPLEMENTARY INFORMATION

Heritage Ridge Metropolitan District

SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - DEBT SERVICE FUND

For the Year ended December 31, 2017

	Original and Final Budget	Actual	Variance
REVENUES			
Property taxes	\$ 2,086	\$ 2,281	\$ 195
Specific ownership taxes	125	-	(125)
Interest	100	-	(100)
Total revenues	2,311	2,281	(30)
EXPENDITURES			
Contingency	100	-	(100)
Treasurer's fees	42	42	-
Total expenditures	142	42	(100)
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	2,169	2,239	70
FUND BALANCE			
Beginning balance		529	
Ending balance		\$ 2,768	

Heritage Ridge Metropolitan District

SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - CAPITAL PROJECTS FUND

For the Year ended December 31, 2017

	Original and Final Budget	Actual	Variance
EXPENDITURES			
Accounting	\$ 5,250	\$ 153	\$ (5,097)
District management	-	25	25
Engineering	-	7,162	7,162
Formation and organizational	60,000	-	(60,000)
Legal	12,000	956	(11,044)
Miscellaneous	-	55,584	55,584
Project management	15,097	-	(15,097)
Capital outlay	<u>7,781,000</u>	<u>3,560,957</u>	<u>(4,220,043)</u>
Total expenditures	7,873,347	3,624,837	(4,248,510)
OTHER SOURCES			
Proceeds from the issuance of debt	60,000	-	(60,000)
Developer advances	<u>7,813,347</u>	<u>3,560,957</u>	<u>4,252,390</u>
Total other sources	<u>7,873,347</u>	<u>3,560,957</u>	<u>4,192,390</u>
CHANGES IN FUND BALANCE	<u>\$ -</u>	(63,880)	<u>\$ (8,440,900)</u>
FUND BALANCE (DEFICIT)			
Beginning balance - restated		<u>(55,068)</u>	
Ending balance		<u>\$ (118,948)</u>	