

Highpointe Vista Metropolitan District No. 2

FINANCIAL STATEMENTS AND
REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

December 31, 2018

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REPORT OF INDEPENDENT CERTIFIED
PUBLIC ACCOUNTANTS

Board of Directors
Highpointe Vista Metropolitan District No. 2

Report on the Financial Statements

We have audited the accompanying basic financial statements of the governmental activities and the governmental funds of the Highpointe Vista Metropolitan District No. 2 (the "District"), as of and for the year ended December 31, 2018, 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 basic 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 Highpointe Vista Metropolitan District No. 2, as of December 31, 2018, and the respective changes in financial position thereof, and the respective 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

Supplementary Information

Our audit was conducted with the purpose of forming an opinion on the basic financial statements of the Highpointe Vista Metropolitan District No. 2 taken as a whole. The supplementary information on page 21 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information is the responsibility of management of the District and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to our auditing procedures applied in the audit of the financial statements and certain other 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 supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Management's Discussion and Analysis

The Board of Directors has omitted 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.

Marc, James and Associates, PC

Highlands Ranch, Colorado
March 13, 2019

BASIC FINANCIAL STATEMENTS

Highpointe Vista Metropolitan District No. 2

GOVERNMENTAL FUNDS BALANCE SHEET/STATEMENT OF NET POSITION

December 31, 2018

| | General Fund | Debt Service Fund | Total | Adjustments | Statement of Net Position |
|--|-------------------|-------------------------|-------------------|-----------------------|---------------------------------|
| ASSETS | | | | | |
| Cash and cash equivalents | \$ 39,582 | \$ - | \$ 39,582 | \$ - | \$ 39,582 |
| Property taxes receivable | 207,480 | 373,478 | 580,958 | - | 580,958 |
| Other receivables | 1,550 | - | 1,550 | - | 1,550 |
| Bond discount | - | - | - | 32,289 | 32,289 |
| Due from County Treasurer | 1,484 | 2,670 | 4,154 | - | 4,154 |
| Restricted cash | 300 | 167,418 | 167,718 | - | 167,718 |
| Capital assets, net of accumulated depreciation | - | - | - | 4,050,242 | 4,050,242 |
| Total assets | \$ 250,396 | \$ 543,566 | \$ 793,962 | 4,082,531 | 4,876,493 |
| LIABILITIES | | | | | |
| Accounts payable | \$ 595 | \$ - | \$ 595 | - | 595 |
| Accrued interest payable | - | - | - | 37,657 | 37,657 |
| Architectural review deposits | 6,300 | - | 6,300 | - | 6,300 |
| Other accrued liabilities | 229 | - | 229 | - | 229 |
| Long-term liabilities | | | | | |
| Due within one year | - | - | - | 45,000 | 45,000 |
| Due after one year | - | - | - | 5,925,000 | 5,925,000 |
| Total liabilities | 7,124 | - | 7,124 | 6,007,657 | 6,014,781 |
| DEFERRED INFLOWS OF RESOURCES | | | | | |
| Property taxes | 207,480 | 373,478 | 580,958 | - | 580,958 |
| FUND BALANCE/NET POSITION | | | | | |
| FUND BALANCE | | | | | |
| Restricted | 15,800 | 170,088 | 185,888 | (185,888) | - |
| Unassigned | 19,992 | - | 19,992 | (19,992) | - |
| Total fund balance | 35,792 | 170,088 | 205,880 | (205,880) | - |
| Total liabilities, deferred inflows of resources and fund balance | \$ 250,396 | \$ 543,566 | \$ 793,962 | | |
| NET POSITION (DEFICIT) | | | | | |
| Unrestricted | | | | (1,719,246) | (1,719,246) |
| Total net deficit | | | | \$ (1,719,246) | \$ (1,719,246) |

The accompanying notes are an integral part of these basic financial statements

Highpointe Vista Metropolitan District No. 2

STATEMENT OF GOVERNMENTAL FUNDS REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE/STATEMENT OF ACTIVITIES

For the Year ended December 31, 2018

| | General Fund | Debt Service Fund | Total | Adjustments | Statement of Activities |
|--|-----------------|-------------------------|-----------------|------------------|-------------------------------|
| Expenditures/Expenses | | | | | |
| Operating | | | | | |
| Administration | \$ 88,873 | \$ 7,197 | \$ 96,070 | \$ - | \$ 96,070 |
| Landscaping | 173,615 | - | 173,615 | (12,687) | 160,928 |
| Clubhouse and pool | 87,892 | - | 87,892 | (13,484) | 74,408 |
| Repairs and maintenance | 28,963 | - | 28,963 | (12,105) | 16,858 |
| Villas maintenance | 23,645 | - | 23,645 | - | 23,645 |
| Utilities | 16,096 | - | 16,096 | - | 16,096 |
| Depreciation | - | - | - | 403,310 | 403,310 |
| Debt service | | | | | |
| Paying agent | - | 5,500 | 5,500 | - | 5,500 |
| Principal | - | 30,000 | 30,000 | (30,000) | - |
| Interest | - | 338,563 | 338,563 | (25,869) | 312,694 |
| Total expenditures/expenses | 419,084 | 381,260 | 800,344 | 309,165 | 1,109,509 |
| Charges for services | | | | | |
| Clubhouse and pool usage | 96,776 | - | 96,776 | - | 96,776 |
| Association fees | 33,000 | - | 33,000 | - | 33,000 |
| Architectural reviews | 6,300 | - | 6,300 | - | 6,300 |
| Total charges for services | 136,076 | - | 136,076 | - | 136,076 |
| Net expenditures/expenses | 283,008 | 381,260 | 664,268 | 309,165 | 973,433 |
| General revenue | | | | | |
| Property taxes | 199,682 | 359,428 | 559,110 | - | 559,110 |
| Specific ownership taxes | 17,345 | 31,220 | 48,565 | - | 48,565 |
| Sale of capital assets | 24,465 | - | 24,465 | (23,015) | 1,450 |
| Other | 15,001 | 3,905 | 18,906 | - | 18,906 |
| Total general revenues | 256,493 | 394,553 | 651,046 | (23,015) | 628,031 |
| Excess of revenues over (under) expenditures/expenses | (26,515) | 13,293 | (13,222) | (332,180) | (345,402) |
| Fund balance/net position (deficit) | | | | | |
| Beginning of the year | 62,307 | 156,795 | 219,102 | (1,592,946) | (1,373,844) |
| End of the year | \$ 35,792 | \$ 170,088 | \$ 205,880 | \$ (1,925,126) | \$ (1,719,246) |

The accompanying notes are an integral part of these basic financial statements

Highpointe Vista Metropolitan District No. 2

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

For the Year ended December 31, 2018

| | Original Budget | Amended and Final Budget | Actual | Variance |
|---|--------------------|--------------------------------|------------------|------------------|
| Revenues | | | | |
| Property taxes | \$ 199,727 | \$ 199,727 | \$ 199,682 | (45) |
| Specific ownership taxes | 13,000 | 16,000 | 17,345 | 1,345 |
| Clubhouse and pool usage | 102,850 | 97,291 | 96,776 | (515) |
| Architectural reviews | 4,000 | 8,000 | 6,300 | (1,700) |
| Association fees | 33,000 | 35,250 | 33,000 | (2,250) |
| Sale of capital assets | - | (1,855) | 24,465 | 26,320 |
| Other | 4,100 | 18,258 | 15,001 | (3,257) |
| Total revenues | 356,677 | 372,671 | 392,569 | 19,898 |
| Expenditures | | | | |
| Operating | | | | |
| Administration | 98,645 | 93,873 | 88,873 | (5,000) |
| Landscaping | 70,000 | 169,220 | 173,615 | 4,395 |
| Clubhouse and pool | 59,000 | 82,029 | 87,892 | 5,863 |
| Repairs and maintenance | 13,380 | 47,633 | 28,963 | (18,670) |
| Villas maintenance | 33,000 | 29,800 | 23,645 | (6,155) |
| Utilities | 76,000 | - | 16,096 | 16,096 |
| Contingency | 5,000 | - | - | - |
| Total expenditures | 355,025 | 422,555 | 419,084 | (3,471) |
| Excess of revenues over (under) expenditures | \$ 1,652 | \$ (49,884) | (26,515) | \$ 23,369 |
| Fund Balance | | | | |
| Beginning of the year | | | 62,307 | |
| End of the year | | | <u>\$ 35,792</u> | |

The accompanying notes are an integral part of these basic financial statements

Highpointe Vista Metropolitan District No. 2

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Highpointe Vista Metropolitan District No. 2 (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 formed, pursuant to the Colorado Special District Act, Article 1 of Title 32 of the Colorado Revised Statutes, in November 2005 as a quasi-municipal corporation and a political subdivision of the State of Colorado. The District is governed by a seven-member Board of Directors. The District is located in the Town of Windsor, in Larimer County, Colorado.

The District was formed to provide financing, construction, operation and maintenance of various infrastructure, landscaping and recreational facilities for a Planned Unit Development referred to as Highpointe Estates (the "Development"). 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*.

2. Measurement Focus and Financial Reporting Framework

Government-wide Financial Statements

The government-wide financial statements, the Statement of Net Position and the Statement of Activities, report information on the accrual basis of accounting related to the *governmental-type activities* of the District, which rely to a significant extent on property taxes, specific ownership taxes and charges for services. The Statement of Activities demonstrates the degree to which expenses of the *governmental-type activities* are supported by property tax , specific ownership taxes and charges for services.

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.

Highpointe Vista Metropolitan District No. 2

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

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

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

Governmental Funds

The District maintains two individual governmental funds. The governmental funds information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balance for the General Fund and the Debt Service Fund, both of which, the District considers to be major funds.

The *General Fund* is the District's primary operating fund. It accounts for all financial resources of the general government, except for those required to be accounted for in another fund.

The *Debt Service Fund* accounts for the resources accumulated and payments made for principal and interest on long-term debt of the District.

3. *Cash and Cash Equivalents*

The District considers cash and cash equivalents to include cash on hand, unrestricted demand deposits and money market accounts, as applicable.

4. *Fair Value of Financial Instruments*

The District's financial instruments include cash, accounts receivable, accounts payable and deferred inflows of resources. The District estimates that the fair value of these financial instruments as of December 31, 2018, do 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.

5. *Capital Assets*

The District's capital assets which consist of various infrastructure and amenities are reported in the government-wide financial statements. The District's capital assets, as applicable, are recorded at cost, if purchased or constructed.

The District has a capitalization policy of \$5,000. The District's Board of Directors has the option to capitalize certain items less than \$5,000 in certain circumstances. Depreciation is provided in amounts sufficient to relate the cost of depreciable capital assets to operations over the estimated useful lives of the assets. Depreciation is provided under the straight-line method, with estimated original service lives of ten to twenty-five years.

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

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

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 District management's estimates that affect the reported amounts of assets and liabilities as of the date of the financial statements, and the reported amounts of revenue and expenses as applicable, during the reporting period. These estimates are based upon District management's best judgment, after considering past events and assumptions about future events. Actual results could differ from those estimates.

District management has estimated the useful lives of the depreciable capital assets of the District.

NOTE B – BUDGET INFORMATION

The District's annual budget is prepared on a Non-GAAP basis for the District's General Fund and Debt Service Fund. An annual appropriated budget is adopted at the total fund expenditure level and the annual appropriations lapse at the end of the District's fiscal year.

The District conforms to the following procedures, in accordance with the State of Colorado Revised Statutes, in the establishment of the budgetary information reflected in the accompanying financial statements.

On or before October 15, the District's Treasurer and/or the District's Manager submit a proposed budget for the subsequent fiscal year to the District's Board of Directors. The budget sets forth all proposed expenditures for administration, operations, maintenance, debt service, and capital projects for the budget year; all anticipated revenues for the budget year; estimated beginning and ending fund balances; actual figures for the prior fiscal year and projected figures through the end of the current year; and a written budget message describing the important features of the budget.

Following receipt of the proposed budget, the District publishes notice of the hearing at which the adoption of the proposed budget will be considered, a statement that the proposed budget is available for inspection, and that any interested elector may file objections to the proposed budget prior to its adoption. The budget hearing is held at a regular or special Board of Directors' meeting.

Following the budget hearing, the Board of Directors adopts the budget and makes appropriations for the budget year. The District also certifies a mill levy for collection in the budget year. Because the District certifies a mill levy, the adoption of the budget, appropriations and certification of the mill levy must occur on or before December 15. Expenditures in excess of the amounts appropriated for a Fund or transfer of monies between Funds must be approved by the Board of Directors in the same manner as the adoption of the budget.

For 2018, the budget of the District's General Fund and Debt Service Fund were amended.

State of Colorado Statutes require a balanced budget. For 2018, the District's amended General Fund budgeted expenditures exceeded budgeted revenues by \$49,884. Additionally, the District's amended Debt Service Fund budgeted revenues exceeded budgeted expenditures by \$10,385.

Highpointe Vista Metropolitan District No. 2

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

NOTE C – CASH AND INVESTMENTS

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, 2018, all of the District’s funds were held in eligible public depositories.

NOTE D – RESTRICTED CASH

The cash held in the Debt Service Fund, \$167,418, is reflected as restricted as of December 31, 2018.

NOTE E – CAPITAL ASSETS

The changes in the District’s capital assets for the year ended December 31, 2018 are as follows:

| | Balance December 31, 2017 | Additions | Disposals | Balance December 31, 2018 |
|---------------------------------|---------------------------------|---------------------|--------------------|---------------------------------|
| Capital assets | | | | |
| Infrastructure | \$ 2,818,637 | \$ - | \$ - | 2,818,637 |
| Equipment | 69,176 | - | (69,176) | - |
| Amenities | | | | |
| Landscaping | 2,253,789 | 24,793 | - | 2,278,582 |
| Pool, clubhouse and other | <u>2,799,007</u> | <u>13,483</u> | <u>-</u> | <u>2,812,490</u> |
| Total | 7,940,609 | 38,276 | (69,176) | 7,909,709 |
| Accumulated depreciation | | | | |
| Infrastructure | 934,269 | 123,139 | - | 1,057,408 |
| Equipment | 46,164 | - | (46,164) | - |
| Amenities | | | | |
| Landscaping | 1,035,997 | 123,363 | - | 1,159,360 |
| Pool, clubhouse and other | <u>1,485,891</u> | <u>156,808</u> | <u>-</u> | <u>1,642,699</u> |
| Total | <u>3,502,321</u> | <u>403,310</u> | <u>(46,164)</u> | <u>3,859,467</u> |
| Net capital assets | <u>\$ 4,438,288</u> | <u>\$ (365,034)</u> | <u>\$ (23,012)</u> | <u>\$ 4,050,242</u> |

Highpointe Vista Metropolitan District No. 2

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

NOTE F – LONG - TERM DEBT

Limited Tax General Obligation Refunding Bonds, Series 2016A

In September 2016, the District issued Limited Tax General Obligation Refunding Bonds, Series 2016A, ("Series 2016A Bonds") with a par value of \$4,915,000. The Series 2016A Bonds were issued for the purpose of refinancing the Limited Property Tax Supported Revenue Bonds, Series 2007, issued by the former Highpointe Vista Metropolitan District No. 1 ("District 1") in the amount of \$3,375,000 plus accrued interest in the amount of \$732,693 and a portion of the accrued interest associated with the Developer Reimbursement Obligation Agreement between District 1 and the former Developer in the amount of \$616,273. The Series 2016A Bonds were issued at a net discount of \$32,488, resulting in net proceeds of \$4,882,512.

The Series 2016A Bonds have a final maturity of December 1, 2046, and bear interest at a rate of 5% calculated on the basis of a 360-day year of twelve 30-day months, payable to the extent Pledged Revenues, as defined in the Senior Trust Indenture, are available semiannually on each June 1 and December 1, commencing on December 1, 2016.

In 2018, interest payments totaling \$245,750 were made and as of December 31, 2018, there was accrued interest payable of \$20,354 which is reflected on the Statement of Net Position.

The Series 2016A Bonds are subject to optional redemption prior to maturity at the option of the District, as a whole or in integral multiples of \$1,000, beginning on December 1, 2021, and on any date thereafter, upon payment of par, accrued interest and redemption premium equal to a percentage of the principal amount so redeemed, as follows:

| <u>Date of Redemption</u> | <u>Redemption Premium</u> |
|---------------------------------------|---------------------------|
| December 1, 2021 to November 30, 2022 | 3.00% |
| December 1, 2022 to November 30, 2023 | 2.00 |
| December 1, 2024 to November 30, 2024 | 1.00 |
| December 1, 2024 and thereafter | 0.00 |

Subordinated Limited Tax General Obligation Refunding Bonds, Series 2016B

In September 2016, the District issued Subordinate Limited Tax General Obligation Refunding Bonds, Series 2016B, ("Series 2016B Bonds") in the amount of \$1,085,000. The Series 2016B Bonds were issued for the purpose of refinancing a portion of the outstanding principal of Developer Reimbursement Obligation Agreement between District 1 and the former Developer.

The Series 2016B Bonds have a maturity of December 15, 2046, and shall bear interest at a rate of 6.25% calculated on the basis of a 360-day year of twelve 30-day months, payable to the extent of Subordinate Pledged Revenues, as defined in the Subordinate Trust Indenture, are available annually on each December 15, commencing on December 15, 2016. The required 2016 interest payment and a portion of the required 2017 interest payments were not made as scheduled and were in arrears. During 2018, the required interest payments totaling \$67,812 were made as scheduled and an additional interest payment, applied to the arrearage, was made in the amount of \$25,000 for a total of \$92,812. Under the terms of the Series 2016B Bonds, the failure of the District to pay the principal or interest on the Series 2016B Bonds when due, does not constitute an Event of Default. As of December 31, 2018, there exists interest in arrears and accrued interest in the amount of \$17,303 which is reflected on the Statement of Net Position.

Principal payments are due beginning annually on December 1, 2023.

Highpointe Vista Metropolitan District No. 2

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

NOTE F – LONG - TERM DEBT - *continued*

Subordinated Limited Tax General Obligation Refunding Bonds, Series 2016B - continued

The Series 2016B Bonds are subject to mandatory redemption in part by lot on December 15 of each year commencing December 15, 2017, to the extent of monies on deposit, if any, 45 days prior to the applicable Mandatory Redemption Date, at a redemption price equal to the principal amount thereof, plus accrued interest. As the amount and timing of any redemption, if any, are not determinable, the entire outstanding amount is considered to be due on the maturity date of December 15, 2046.

The Series 2016B Bonds are subject to optional redemption prior to maturity at the option of the District, as a whole or in integral multiples of \$1,000, beginning on December 15, 2021, and on any date thereafter, upon payment of par, accrued interest and redemption premium equal to a percentage of the principal amount so redeemed, as follows:

| <u>Date of Redemption</u> | <u>Redemption Premium</u> |
|---------------------------------------|---------------------------|
| December 1, 2021 to November 30, 2022 | 3.00% |
| December 1, 2022 to November 30, 2023 | 2.00 |
| December 1, 2024 to November 30, 2024 | 1.00 |
| December 1, 2024 and thereafter | 0.00 |

Under the terms of the Subordinate Trust Indenture in the event that any amount of principal or interest on the Series 2016B Bonds remains unpaid after the application of all Subordinate Pledged Revenue available; on December 15, 2056, shall be deemed discharged.

Covenants and Agreements

Under the terms of the Senior Trust Indenture, the District is required to have an annual audit of its financial records to be performed by a Certified Public Accountant completed within reasonable efforts no later than 210 days after the end of the calendar year.

Changes in Long-Term Debt

The following is an analysis of the changes in the long-term debt for the year ended December 31, 2018:

| | <u>December 31, 2017</u> | <u>Additions</u> | <u>Payments</u> | <u>December 31, 2018</u> | <u>Due within One Year</u> |
|--------------------|------------------------------|------------------|------------------|------------------------------|--------------------------------|
| Series 2016A Bonds | \$ 4,915,000 | \$ - | \$ 30,000 | \$ 4,885,000 | \$ 45,000 |
| Series 2016B Bonds | <u>1,085,000</u> | <u>-</u> | <u>-</u> | <u>1,085,000</u> | <u>-</u> |
| | <u>\$ 6,000,000</u> | <u>\$ -</u> | <u>\$ 30,000</u> | <u>\$ 5,970,000</u> | <u>\$ 45,000</u> |

Highpointe Vista Metropolitan District No. 2

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

NOTE F – LONG - TERM DEBT – *continued*

Future Minimum Required Principal Redemptions

The future minimum required principal redemptions for the Series 2016A and the Series 2016B Bonds as of December 31, 2018 are as follows:

| <u>Year Ended December 31</u> | |
|-------------------------------|---------------------|
| 2019 | \$ 45,000 |
| 2020 | 55,000 |
| 2021 | 60,000 |
| 2022 | 70,000 |
| 2023 | 79,000 |
| 2024-2028 | 565,000 |
| 2029-2033 | 836,000 |
| 2034-2038 | 1,200,000 |
| 2039-2043 | 1,666,000 |
| 2044-2046 | <u>1,394,000</u> |
| Total | <u>\$ 5,970,000</u> |

Debt Issuance Authorization

In November 2005, the qualified electors of the District approved the issuance of indebtedness and the imposition of taxes for the repayment thereof up to \$6,750,000. The District determined that the portion of the principal amount of the Series 2016A Bonds that is in excess of (i) the original principal amount of the debt issued by District No. 1 (\$3,375,000) and (ii) the principal amount of the Developer Reimbursement Obligation being paid from proceeds of the Series 2016A Bonds (\$0, since the remaining net proceeds of the Series 2016A Bonds was only applied to pay accrued interest on this obligation), which the excess amount is \$1,540,000, shall be allocated to the electoral authorization for refundings. Pursuant to Article X, Section 20 of the Colorado Constitution and Section 11-56-107, C.R.S., voter approval was not required for the remainder portion of the principal amount of the Series 2016A Bonds and for the principal amount of the Series 2016B Bonds (which refinanced the equivalent principal amount of District debt consisting of the obligations of the District under the 2007 Pledge Agreement with District No. 1 to provide for the payment of the Developer Reimbursement Obligation), which constitutes a refunding at a lower interest rate of the obligations of the District under the 2007 Pledge Agreement to provide for payment on the District 1 debt and the Developer Reimbursement Obligation.

As of December 31, 2018, the District had \$5,210,000 remaining in electoral authorization for debt refundings.

In the future, the District may issue a portion 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. However, the amount and timing of any debt issuances, if any, are not determinable.

Highpointe Vista Metropolitan District No. 2

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

NOTE G – 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 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 can 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 removes or changes 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 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, 2018, the District’s fund balance consisted of the following:

| | <u>General Fund</u> | <u>Debt Service Fund</u> | <u>Total</u> |
|--------------------|-------------------------|------------------------------|-------------------|
| Restricted | | | |
| Emergency reserve | \$ 12,600 | \$ - | \$ 12,600 |
| Debt service | - | 170,088 | 170,088 |
| Unassigned | <u>23,192</u> | <u>-</u> | <u>23,192</u> |
| Total fund balance | <u>\$ 35,792</u> | <u>\$ 170,088</u> | <u>\$ 205,880</u> |

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

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

Net Position

Net Position represents the difference between assets and deferred outflows of resources less 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 their 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 position is available, the District will use the most restrictive net position first.

NOTE I – COMMITMENTS

District Management Agreement

The District outsources the management of the District which includes overall management, accounting and administrative services. The service contract renews annually each year on January 1, unless notice of non-renewal is provided by either party as described in the service contract. Under the service contract, for 2018, the District was required to make monthly payments of \$2,850 for a total annual compensation of \$34,200 plus all late fees received as set by the current late fee policy. The service contract was renewed for 2019 with a monthly payment of \$3,400 for a total annual compensation of \$40,800 plus all late fees received and a \$400 per home transfer fee, as applicable.

District Landscape Maintenance Agreement

In January 2019, the District entered into an agreement for landscape maintenance and snow removal services related to the operation and maintenance of certain District facilities and improvements. The term of the agreement shall be for one year and be terminated by the District or the Contractor upon providing written notice at least 30 days prior to the termination date. The total amount of the Landscape Maintenance Agreement is not to exceed \$71,200 to be paid in 8 monthly payments of \$8,652 per month beginning in April 2019.

Highpointe Vista Metropolitan District No. 2

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

NOTE I – COMMITMENTS - *continued*

Villa Landscape Maintenance Agreement

In December 2018, the District entered into an agreement for landscape maintenance and snow removal services related to the operation and maintenance of The Villas at Highpointe Estates. The term of the agreement shall be for one year and be terminated by the District or the Contractor upon providing written notice at least 30 days prior to the termination date. The total amount of the Landscape Maintenance Agreement, excluding snow and any additional time and material requested work is \$18,096 to be paid in 8 monthly payments of \$2,196 per month beginning in April 2019. In addition, under the terms of the agreement, the District is to pay to the contractor \$449 per snow clearing event.

Pool Management Agreement

The District outsources the operation and management of the District's pool facilities. Under the service contract, the District was required to make eight monthly payments as specified in the agreement for a total annual compensation of \$54,000.

NOTE J – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets and natural disasters. These risks are covered by commercial insurance purchased from independent insurance brokers. Settled claims have not exceeded this commercial coverage in any of the past three years.

NOTE K – 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 all local governments.

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

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

NOTE L – MANAGEMENT'S EVALUATION OF SUBSEQUENT EVENTS

The preparation of the District's financial statements and accompanying footnotes in conformity with generally accepted accounting principles requires management of the District 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 March 13, 2019, which is the date the financial statements and accompanying footnotes were available for issuance.

Highpointe Vista Metropolitan District No. 2

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

NOTE M – RECONCILIATION OF GOVERNMENT-WIDE AND GOVERNMENTAL FUND
FINANCIAL STATEMENTS

The Governmental Funds Balance Sheet/Statement of Net Position includes an adjustments column which reconciles the differences between the government-wide and fund financial statements as follows:

Capital assets, net of accumulated depreciation, reflected in the Statement of Net Position are not financial resources in the governmental funds and accordingly are not reported in the governmental funds, \$ 4,050,242

Long-term liabilities are not due and payable in the current period and, therefore, are not reflected in the governmental funds, 5,970,000

The net discount associated with the issuance of the 2016A Bonds, reflected in the Statement of Net Position is not a financial resource in the governmental funds and accordingly is not reported in the governmental funds, 32,289

Interest is recognized in the governmental funds as paid, therefore accrued interest is only recognized on the Statement of Net Position. 37,657

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

Depreciation expense on capital assets is reported in the Statement of Activities. However, it does not use current financial resources, as such, depreciation expense is not recorded as an expenditure in the governmental funds, 403,310

Governmental funds report capital outlays as expenditures. However, in the Statement of Net Position, the costs of those capital assets are capitalized. During 2018, this is the amount of capitalized capital outlays, 38,276

Interest is recognized in the governmental funds as paid. For the Statement of Activities interest expense is recognized as incurred. This is the difference between the amount of interest paid and the amount of interest incurred, plus the amortization of the bond discount, 25,869

Governmental funds report principal payments on long-term debt as expenditures. However, in the Statement of Net Position, the principal payments on long-term debt are recognized as reductions of the long-term debt. During 2018, this is the amount of principal payments on long-term debt. 30,000

SUPPLEMENTARY INFORMATION

Highpointe Vista Metropolitan District No. 2

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

For the Year ended December 31, 2018

| | Original Budget | Amended and Final Budget | Actual | Variance |
|---|--------------------|--------------------------------|-------------------|-------------------|
| Revenue | | | | |
| Property taxes | \$ 359,520 | \$ 359,520 | \$ 359,428 | \$ 92 |
| Specific ownership taxes | 21,571 | 30,000 | 31,220 | (1,220) |
| Interest | - | 3,500 | 3,905 | (405) |
| | <u>381,091</u> | <u>393,020</u> | <u>394,553</u> | <u>(1,533)</u> |
| Expenditures | | | | |
| Operating | | | | |
| Treasurer's fees | 7,190 | 7,190 | 7,197 | (7) |
| Debt service | | | | |
| Paying agent fees | 5,500 | 5,500 | 5,500 | - |
| Principal | 30,000 | 30,000 | 30,000 | - |
| Interest | 314,945 | 339,945 | 338,563 | 1,382 |
| | <u>357,635</u> | <u>382,635</u> | <u>381,260</u> | <u>1,375</u> |
| | | | | |
| Excess of revenues over expenditures | <u>\$ 23,456</u> | <u>\$ 10,385</u> | 13,293 | <u>\$ (2,908)</u> |
| Fund Balance | | | | |
| Beginning of the year | | | <u>156,795</u> | |
| End of the year | | | <u>\$ 170,088</u> | |