

**Heritage Ridge Metropolitan District
Financial Statements
December 31, 2018
with Independent Auditors' Report**

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Heritage Ridge Metropolitan District
Larimer County, Colorado

We have audited the accompanying financial statements of the governmental activities and each major fund of the Heritage Ridge Metropolitan District (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 and the related notes to the financial statements.

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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Heritage Ridge Metropolitan District as of December 31, 2018 and the respective changes in financial position 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

Required Supplementary Information

Management has omitted Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require 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 (GASB), who considers it to be an essential part of financial reporting for placing the basic financial statements in appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The individual fund budgetary comparison schedules on pages 20 and 21 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The individual budgetary comparison schedules are the responsibility of management and were 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 individual fund budgetary schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Crady, Puca & Associates

Aurora, Colorado
September 26, 2019

Government-wide Financial Statements

Government-wide Financial Statements

Statement of Net Position

Heritage Ridge Metropolitan District

Statement of Net Position

December 31, 2018

Assets	
Cash and Investments	\$ 1,577
Accounts Receivable	14,819
Due from County Treasurer	1,086
Property Tax Receivable	309,848
Restricted Cash and Investments	84,513
Capital Assets:	
Non-depreciable	14,040,910
Total Assets	<u>14,452,753</u>
Liabilities	
Accounts Payable and Unearned Revenues	23,242
Interest Payable	495,926
Developer Advances Payable	11,942,002
Notes Payable:	
Due within one year	20,000
Due in more than one year	<u>3,630,000</u>
Total Liabilities	<u>16,111,170</u>
Deferred Inflows of Resources	
Unavailable Property Tax	<u>309,848</u>
Total Deferred Inflows of Resources	<u>309,848</u>
Net position	
Net Investment in Capital Assets	-
Restricted	
Debt Service	85,367
Emergencies	1,180
Unrestricted	<u>(2,054,812)</u>
Total Net Position	<u>\$ (1,968,265)</u>

Statement of Activities

Heritage Ridge Metropolitan District
Statement of Activities
For the year ended December 31, 2018

Expenditures

Governmental Activities:

Administrative	\$ 26,418
Management and Accounting	24,000
Legal	35,750
Landscape Maintenance and Utilities	33,759
Treasurer's Fees	2,929
Interest on Long-term Debt	787,603
Cost of Issuance	152,500
Capital Expenditures	<u>34,196</u>
Total Expenditures	<u>1,097,155</u>

General Revenues

Property Taxes	146,116
Specific Ownership Taxes	12,689
Other Income	<u>6,543</u>
Total General Revenues	<u>165,348</u>

Change in Net Position (931,807)

Net Position, beginning of year (1,036,458)

Net Position, end of year \$ (1,968,265)

Fund Financial Statements

Balance Sheet – Governmental Funds

**Heritage Ridge Metropolitan District
Balance Sheet - Governmental Funds
December 31, 2018**

	General Fund	Capital Projects	Debt Service Fund	Total
Assets				
Cash and Investments	\$ 1,577	\$ -	\$ -	\$ 1,577
Accounts Receivable	-	438	-	438
Advances Receivable	8,848	5,533	-	14,381
Due from County Treasurer	232	-	854	1,086
Property Tax Receivable	66,133	-	243,715	309,848
Restricted Cash and Investments	-	-	84,513	84,513
Total Assets	<u>\$ 76,790</u>	<u>\$ 5,971</u>	<u>\$ 329,082</u>	<u>\$ 411,843</u>
Liabilities				
Accounts Payable	\$ 12,700	\$ 9,942	\$ -	\$ 22,642
Unearned Revenue	600	-	-	600
Total Liabilities	<u>13,300</u>	<u>9,942</u>	<u>-</u>	<u>23,242</u>
Deferred Inflows of Resources				
Unavailable Property Tax	66,133	-	243,715	309,848
Total Deferred Inflows of Resources	<u>66,133</u>	<u>-</u>	<u>243,715</u>	<u>309,848</u>
Fund Balance				
Restricted:				
Debt Service	-	-	85,367	85,367
Emergencies	1,180	-	-	1,180
Unassigned	(3,823)	(3,971)	-	(7,794)
Total Fund Balance	<u>(2,643)</u>	<u>(3,971)</u>	<u>85,367</u>	<u>78,753</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balance				
	<u>\$ 76,790</u>	<u>\$ 5,971</u>	<u>\$ 329,082</u>	<u>\$ 411,843</u>

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

Different because:

Total fund balance - governmental funds	78,753
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Capital Assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	14,040,910
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Long-term liabilities are not due and payable in the current period and therefore, are not reported in the funds.	(16,087,928)
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Total Net Position	<u>\$ (1,968,265)</u>
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Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds

Heritage Ridge Metropolitan District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds

For the year ended December 31, 2018

	General Fund	Capital Projects	Debt Service Fund	Total
Revenues				
Property Tax	\$ 31,187	\$ -	\$ 114,929	\$ 146,116
Specific Ownership Tax	2,708	-	9,981	12,689
Other Revenues	5,412	-	1,131	6,543
Total Revenues	39,307	-	126,041	165,348
Expenditures				
General Government:				
Administrative	22,918	-	3,500	26,418
Management and Accounting	24,000	-	-	24,000
Legal	27,762	7,988	-	35,750
Landscape Maintenance and Utilities	33,759	-	-	33,759
Treasurer's Fees	625	-	2,304	2,929
Debt Service:				
Interest	-	-	1,024,791	1,024,791
Cost of Issuance	-	-	152,500	152,500
Capital Expenditures	-	6,714,968	-	6,714,968
Total Expenditures	109,064	6,722,956	1,183,095	8,015,115
Excess (Deficiency) of Revenues over Expenditures	(69,757)	(6,722,956)	(1,057,054)	(7,849,767)
Other Financing Sources (Uses)				
Proceeds from Loan	-	-	3,650,000	3,650,000
Developer Advances	71,054	6,837,933	-	6,908,987
Repayment of Developer Advance	-	-	(2,510,347)	(2,510,347)
Total Other Financing Sources (Uses)	71,054	6,837,933	1,139,653	8,048,640
Net Changes in Fund Balance	1,297	114,977	82,599	198,873
Fund Balances, beginning	(3,940)	(118,948)	2,768	(120,120)
Fund Balances, ending	\$ (2,643)	\$ (3,971)	\$ 85,367	\$ 78,753

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of the Governmental Funds to the Statement of Activities

Heritage Ridge Metropolitan District
Reconciliation of the Statement of Revenues, Expenditure and Changes in Fund Balance of the Governmental Fund to the Statement of Activities
For the year ended December 31, 2018

	Total Governmental Funds
Net change in fund balance of the governmental funds	\$ 198,873
 Amounts reported for governmental activities in the statement of activities are different because:	
 Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense or ultimately conveyed. This is the amount by which depreciation and conveyance exceeds capital outlay in the current year.	6,680,772
 The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal on long-term debt consumes the current financial resources of governmental funds. This amount is the net effect of these differences in the treatment of long-term debt.	(8,048,640)
 Some expenses reported in the statement of activities do not require the use of current financial resources and therefore, are not reported as expenditures or income in governmental funds.	237,188
 Change in net position of governmental activities	<u>\$ (931,807)</u>

Schedule of Revenues, Expenditures and Changes in Fund Balances – Actual and Budget –
General Fund

Heritage Ridge Metropolitan District
Schedule of Revenues, Expenditures and Changes in Fund Balances
Actual and Budget - General Fund
For the year ended December 31, 2018

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Property Tax	\$ 31,186	\$ 31,186	\$ 31,187	\$ 1
Specific Ownership Tax	2,339	2,339	2,708	369
Other Revenues	12,700	12,700	5,412	(7,288)
Total Revenues	46,225	46,225	39,307	(6,918)
Expenditures				
Administrative	20,300	22,400	12,614	9,786
Management and Accounting	24,000	24,000	24,000	-
Legal	28,000	25,892	27,762	(1,870)
Audits	5,000	5,000	10,304	(5,304)
Treasurer's Fees	624	624	625	(1)
Landscape Maintenance and Utilities	70,000	51,275	33,759	17,516
Contingency	24,217	-	-	-
Total Expenditures	172,141	129,191	109,064	20,127
Excess (Deficiency) of Revenues over Expenditures	(125,916)	(82,966)	(69,757)	13,209
Other Financing Sources (Uses)				
Developer advances	92,666	90,678	71,054	(19,624)
Total Other Financing Sources (Uses)	92,666	90,678	71,054	(19,624)
Net Changes in Fund Balance	(33,250)	7,712	1,297	(6,415)
Fund Balance, beginning	33,250	(3,833)	(3,940)	(107)
Fund Balance, ending	\$ -	\$ 3,879	\$ (2,643)	\$ (6,522)

Notes to The Financial Statements

Note 1: Summary of Significant Accounting Policies

The accounting policies of the District conform to generally accepted accounting principles in the United States of America (US GAAP) as applicable to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of significant policies consistently applied in the preparation of the financial statements.

Reporting Entity

Heritage Ridge Metropolitan District (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 set forth in the Colorado Special District Act for the overall purpose of the development of a residential community known as Heritage Ridge located in Larimer County, Colorado.

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, designing, financing, acquiring, constructing and installing 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.

The District complies with GASB, Statement No. 61, “*The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34*” and GASB Statement No. 39, “*Determining Whether Certain Organizations Are Component Units*”. These statements establish standards for defining and reporting on the financial reporting entity. It defines component units as legally separate entities for which the officials of the primary government are financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete. The District has no component units as defined by the GASB.

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

Basis of Presentation

While separate government-wide and fund financial statements are presented, they are interrelated. The government-wide financial statements (i.e. the statement of net position and the statement of activities) report information on all of the governmental activities of the District which are financed primarily by property taxes, assessments, and charges for services.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by general and program revenues. Direct expenses are those that are clearly identifiable within a specific function or program. Program revenues include 1) fees or charges to citizens and other governmental entities that receive or directly benefit from services provided by a given function or program, and 2) grants, contributions and other revenues that are restricted to use in the operational or capital requirements of a specific function or program. Other revenues not directly related to a

[Note 1: Summary of Significant Accounting Policies - continued](#)

particular function or program, if any, are reported separately as general revenues. The District does not have proprietary or fiduciary funds.

The fund financial statements provide information about the government's funds.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current *financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. The exceptions to this general rule are that principal and interest on general long-term debt and expenditures related to compensated absences are recognized when due. General capital asset acquisitions are reported as expenditures in governmental funds.

The District reports the following major governmental funds:

General Fund – is the District's primary operating fund used to account for collections and payments of operating resources not accounted for in another fund.

Debt Service Fund – is the District's fund used to account for collections and payments of the District's debt resources.

Capital Projects Fund—is the District's fund used to account for all financial resources that are restricted, committed or assigned to expenditures for capital projects, including the acquisition or construction of capital facilities and other capital assets.

Assets

Cash and Investments

Investments held in the local government investment pool are reported at net asset value as allowed under US GAAP.

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

[Note 1: Summary of Significant Accounting Policies - continued](#)

earnings are allocated periodically to the participating funds based upon each fund's average equity balance in the total cash.

Fair Value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The District categorizes its fair value within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted market prices in active markets for identical assets; level 2 inputs are significant other observable inputs; and level 3 inputs are significant unobservable inputs. At December 31, 2018, the District did not hold any investments required to be reported under fair value.

Accounts Receivable

Accounts receivable consist of developer advances receivable as of December 31, 2018. The District considers all receivables collectible as of December 31, 2018.

Property Taxes

Property taxes are levied annually and attach as an enforceable lien on property as of January 1. At the option of the taxpayer, property taxes may be paid in full or in two equal installments. The first of such installment is to be paid as of February 28 and the second installment is to be paid no later than June 15. If elected to be paid in full, the amount is to be paid no later than April 30. If payments are not made timely, delinquent interest accrues. If the taxes are not paid within subsequent statutory periods, the property tax lien will be sold at public auction. The County bills and collects the property taxes and remits collections to the District on a monthly basis. No provision has been made for uncollected taxes, as all taxes are deemed collectible.

Property taxes are recorded initially as deferred inflows in the year they are levied and measurable since they are not normally available nor are they budgeted as a resource until the subsequent year. These amounts are recorded as revenue in the subsequent year when they are available or collected.

Capital Assets

Capital assets, which include construction in progress, are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the District as assets with an initial cost of \$5,000 or more and an estimated useful life in excess of one year. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at the estimated fair value at the date of donation. Capital expenditures for projects are capitalized as constructed.

Normal maintenance and repairs that do not add value to assets or materially extend the life of the assets are not capitalized. Improvements are capitalized and depreciated over the remaining lives of the capital assets. Depreciation is reported as a current charge in the statement of activities. Capital assets have not yet been placed in service, therefore, no depreciation has been reported.

Liabilities

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities.

Note 1: Summary of Significant Accounting Policies - continued

Deferred Outflows/Inflows of Resources

Deferred Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. In the current year, the District did not have any items in this reporting category.

Deferred Inflows of Resources

In addition to liabilities, statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position and fund balance that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The District has one item that qualifies for reporting in this category, unavailable property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amount becomes available.

Net Position

Net position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. Net position is reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors, laws or regulations of other governments.

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted-net position and unrestricted-net position in the government-wide financial statements, a flow assumption must be made about the order in which resources are considered to be applied. It is the District's policy to consider restricted-net position to have been depleted before unrestricted-net position is applied.

Fund Balance Classification

In the fund financial statements, governmental funds report aggregate amounts for five classes of fund balances on the constraints imposed on the use of these resources. The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not spendable in form which include items such as prepaid items or inventories; or (b) legally or contractually required to be maintained intact.

The spendable portion of the fund balance comprises the remaining four classifications: restricted, committed, assigned, and unassigned.

Restricted fund balance. This classification reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed fund balance. These amounts can only be used for specific purposes pursuant to constraints imposed by formal resolutions of the District's Board of Directors, the District's highest level of decision-making authority. Those committed amounts cannot be used for any other purpose unless the District's Board of Directors removes the specified use by taking the same type of action imposing the commitment.

Note 1: Summary of Significant Accounting Policies - continued

Assigned fund balance. This classification reflects the amounts constrained by the District's intent to be used for specific purposes, but are neither restricted nor committed. The intended use may be expressed by the Board or other individual's authorized to assign funds to be used for a specific purpose. Unlike commitments, assignments are generally only temporary and do not require a formal action to remove the assignment.

Unassigned fund balance. This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

When both restricted and unrestricted resources are available for use, it is the District's policy to use externally restricted resources first, then unrestricted resources – committed, assigned, and unassigned-in order as needed.

Use of Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 2: Stewardship, Compliance and Accountability

Budgets and Budgetary Accounting

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

- As required by State statutes, budgets are legally adopted for all funds of the District on a basis consistent with US GAAP.
- On or before October 15th, District Management submits to the Board a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.
- Public hearings are conducted to obtain taxpayer comments.
- Prior to December 15, the budget is legally enacted through passage of a resolution.

Appropriations are adopted at total fund expenditure level. District Management is authorized to transfer budgeted amounts within any fund. However, any revisions that alter the total expenditures of any fund must be approved by the Board. The budget is only amended in conformity with Colorado Revised Statutes which allows the District to amend the budget and adopt a supplementary appropriation if money for a specific purpose, other than ad valorem taxes, becomes available to meet a contingency. The level of control in the budget at which expenditures exceeded appropriations is at the fund level. All appropriations lapse at year end.

TABOR Amendment – Revenue Spending Limitation Amendment

In November 1992, Colorado voters amended Article X of the Colorado Constitution by adding Section 20 commonly known as the Taxpayer's Bill of Rights ("TABOR"). TABOR contains revenue, spending, tax and debt limitations that apply to the State of Colorado and local governments. Spending and revenue limits are determined 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.

Heritage Ridge Metropolitan District
Notes to the Financial Statements
December 31, 2018

Note 2: Stewardship, Compliance and Accountability- continued

TABOR also requires local governments to establish emergency reserves to be used for declared emergencies only. Emergencies, as defined by TABOR, exclude economic conditions, revenue shortfalls, or salary or fringe benefit increases. These reserves must be at least 3% of Fiscal Year Spending excluding bonded debt service, federal grants and sales of assets. The District has reserved a portion of its December 31, 2018 year-end fund balance in the General Fund for emergencies as required under TABOR of \$1,180 which is the approximate required reserve at December 31, 2018.

On November 3, 2015, a majority of the District’s electors authorized the District to collect and spend or retain in a reserve all current levied taxes and fees of the District without regard to any limitations under Article X, Section 20 of the Colorado Constitution.

The District’s management believes it is in compliance with the provisions of TABOR, as it is currently understood. However, TABOR is complex and subject to interpretation. Many of the provisions may not become fully understood without judicial review.

Note 3: Cash and Investments

At December 31, 2018, cash and investments are classified in the accompanying financial statements as follows:

Cash and Investments	\$	1,577
Restricted Cash and Investments		84,513
		\$ 86,090

The following is a summary of deposits and investments held by the District at December 31, 2018:

Type	Rating per Standards & Poor’s	Total
Deposits with financial institutions		\$ 11,097
Money Market Funds	AAAm	74,993
		\$ 86,090

Cash Deposits

The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. State regulators determine eligibility. 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 is to be maintained by another institution or held in trust for all the uninsured public deposits as a group. The market value of the collateral must be at a minimum of 102% of the aggregate uninsured deposits.

The State Commissioners for banks and financial services are required by state statute to monitor the naming of eligible depositories and reporting the uninsured deposits and assets maintained in collateral pools.

Heritage Ridge Metropolitan District
Notes to the Financial Statements
December 31, 2018

[Note 3: Cash and Investments - continued](#)

Investments

The District has not adopted a formal investment policy; however, it follows state statues regarding investments.

Custodial Credit Risk: At December 31, 2018, all of the District’s deposits and investments were insured by the Federal Deposit Insurance Corporation or held in eligible public depositories as required by PDPA.

Interest Rate Risk: Colorado Revised Statutes (CRS) limit investment maturities to five years or less unless formally approved by the Board. In accordance with CRS, the District manages its exposure to declines in fair value by limiting the weighted average maturity of its investments.

Credit Risk: Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. The District follows the general provisions of the Colorado Revised Statutes (CRS) which limits the District’s exposure to credit risk. CRS specify investment instruments meeting defined rating and risk criteria in which local governmental entities may invest. The allowed investments may include but are not limited to the following:

- Certain money market funds
- Certain certificates of deposit
- Local government investment pools

[Note 4: Capital Assets](#)

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

	Beginning Balance, Restated	Additions	Deletions	Ending Balance
Construction in progress	\$ 7,360,138	\$ 6,680,772	\$ -	\$ 14,040,910

Capital asset costs are based on an Independent Engineer’s Cost Verification and Certification dated May 10, 2019. The initial certification for Filing 1 was completed March 7, 2018. Additional reimbursable costs were not included in the original certification; therefore, the certification was revised on May 10, 2019 to include these costs as well as costs associated with Filings 2-5. Only costs incurred through December 31, 2018 have been included in construction in progress at December 31, 2018.

[Note 5: Long-Term Obligations](#)

Long-term Notes

Changes in long-term obligation for the year ended December 31, 2018 are as follows:

	Beginning Balance, Restated	Additions	Deletions	Ending Balance	Due within One Year
Series 2018 Note	\$ -	\$ 3,650,000	\$ -	\$ 3,650,000	\$ 20,000
FFAA	7,360,138	6,833,090	(2,510,347)	11,682,881	-
OFA	188,067	71,054	-	259,121	-
	\$ 7,548,205	\$ 10,554,144	\$ (2,510,347)	\$ 15,592,002	\$ 20,000

Heritage Ridge Metropolitan District
Notes to the Financial Statements
December 31, 2018

Note 5: Long-Term Obligations- continued

Limited Tax General Obligation Note, Series 2018

On May 3, 2018, the District entered into a Limited Tax General Obligation Note, Series 2018 (“Series 2018 Note”) in the amount of \$3,650,000 with a financial institution. The proceeds of the Series 2018 Note was used to reimburse the Developer for certain advances made under the funding agreement, fund the 2018 loan reserve amount of \$60,000, and pay for certain costs of issuance. The Series 2018 Note matures May 1, 2025 and bears an annual interest rate of 4.5% calculated on the basis of a 360-day year which is payable semiannually on each June 1 and December 1, commencing on December 1, 2018.

The Series 2018 Note is subject to a mandatory sinking fund redemption commencing on December 1, 2019. The Series 2018 Note is secured by pledged revenue which includes Ad Valorem Taxes, mill levy difference and specific ownership taxes generated by pledged revenue. Minimum mill levy shall not be less than 50 mills. The note contains a mandatory prepayment clause.

Debt service requirements to maturity for the Series 2018 Note is as follows:

Year Ending December 31,	Principal	Interest	Total
2019	\$ 20,000	\$ 164,250	\$ 184,250
2020	60,000	163,350	223,350
2021	70,000	160,650	230,650
2022	75,000	157,500	232,500
2023	85,000	154,125	239,125
2024	95,000	150,300	245,300
2025	3,245,000	60,844	3,305,844
Total	\$ 3,650,000	\$ 1,011,019	\$ 4,661,019

Developer Advances – Facilities Funding and Acquisition Agreement

On December 7, 2015, the District and Heritage Ridge I, LLC (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 amended by that Fourth Amendment dated March 2017, and as further amended and restated in its entirety on March 15, 2018 by the Amended and Restated Facilities Funding and Acquisition Agreement (“FFAA”), pursuant to which the Developer agreed to make advances not to exceed \$17,125,462 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.

Principal amounts of \$2,510,347 and accrued interest of \$927,154 under the FFAA agreement were retired upon the issuance of the Series 2018 Note.

As of December 31, 2018, \$11,682,881 in principal and \$453,124 in accrued interest was outstanding under the FFAA.

Note 5: Long-Term Obligations- continued

Developer Advances – Operation Funding Agreement

On December 7, 2015, the District the Developer entered into an Operation Funding Agreement, as amended by that First Amendment dated February 12, 2016, and amended by that Second Amendment dated February 14, 2017, and as further amended and restated in its entirety on March 15, 2018 (“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 2018, up to \$369,064. 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, 2018, \$259,121 in principal and \$29,302 in accrued interest was outstanding under the OFA.

Due to the uncertainty of timing of principal and interest payments under the FFAA and OFA agreements, these amounts have not been included in a debt service schedule.

Authorized but unissued debt

The amount of voter authorized debt for the Heritage Ridge Metropolitan District is \$208,000,000; however, the District’s Service Plan limits debt issuance to \$16,000,000. As of December 31, 2018, the District has \$12,350,000 of authorized but unissued debt under the Service Plan.

Note 6: Related Parties

All of the members of the Board are either investors or related by virtue of employment with the Developer and may have conflict of interest on dealings with the District. Management believes that all potential conflicts, if any, have been disclosed to the Board.

The District has entered into various funding agreements with the Developer, see Note 5.

Note 7: Risk Management

The District is exposed to various risks of loss related general liability, torts, theft of, damage to, and destruction of assets, and errors and omissions. The District has elected to participate in the Colorado Special Districts Property and Liability Pool (“the Pool”). The Pool is an organization created by intergovernmental agreement to provide common liability and casualty insurance coverage to its members at a cost that is considered economically appropriate. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

The District pays annual premiums to the Pool for auto, public official’s liability, property and general liability coverage. In the event aggregated losses incurred by the Pool exceed its amounts recoverable from reinsurance contracts and it accumulated reserves, the District may be called upon to make additional contributions to the Pool on the basis proportionate to other 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. During the year ended December 31, 2018, the Pool has made no distributions nor required additional contributions from the District.

Note 8: Reconciliation of Government-Wide and Fund Financial Statements

Explanation of differences between the Governmental Fund Balance Sheet and the Government-Wide Statement of Net Position

The governmental funds balance sheet includes reconciliation between fund balance- total governmental funds and net position-governmental activities as reported in the government-wide statement of net position. Explanation of the reconciling items is as follows:

Capital assets, infrastructure, of \$14,040,910 reflected in the Statement of Net Position are not financial resources in the governmental funds and accordingly are not reported in the governmental funds.

Long-term liabilities are not due and payable in the current periods and; therefore, are not reported in the funds. Notes and advances payable amount to \$15,592,002 and accrued interest payable amounted to \$495,926 for a total of \$16,087,928.

Explanation of Difference between the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-Wide Statement of Activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net position of governmental activities as reported in the government-wide statement of activities. Explanation of the reconciling items is as follows:

Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense or ultimately conveyed to the Town. The current year difference was capital outlay of \$6,680,772.

The issuance of long-term debt (e.g. notes payable) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. The details of this difference are as follows:

Note issuance	\$	(3,650,000)
Developer advance		(6,908,987)
Principal payment on FFAA		2,510,347
Net adjustment	\$	<u><u>(8,048,640)</u></u>

Another element of the reconciliation states that “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.” The difference is due to the change in accrued interest of \$237,188.

Heritage Ridge Metropolitan District
Notes to the Financial Statements
December 31, 2018

[Note 9: Prior Period](#)

An audit was performed for the District in the prior year. In the current year, it was determined that the District had inadvertently duplicated the costs of certain invoices in the amount of \$429,231 in its determination of construction in process and the associated FFAA advance payable. This adjustment had no effect on fund balance or net position, therefore, no prior period adjustment was made to these accounts. The audit schedules provided in Note 4 and Note 5 have been adjusted to properly reflect the activity at December 31, 2017.

[Note 10: Subsequent Events](#)

On June 28, 2019, the District issued \$12,350,000 of Subordinate Taxable (Convertible to Tax-Exempt) Limited Tax General Obligation Bonds, Series 2018. The bonds mature December 15, 2058 and bear an initial per annum interest rate of 8.5%.

Heritage Ridge Metropolitan District
Notes to the Financial Statements
December 31, 2018

Supplementary Information

Schedule of Revenues, Expenditures and Changes in Fund Balances – Actual and Budget – Debt Service Fund

Heritage Ridge Metropolitan District
Schedule of Revenues, Expenditures and Changes in Fund Balances
Actual and Budget - Debt Service Fund
For the year ended December 31, 2018

	Original Budget	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Property Tax	\$ 114,930	\$ 114,930	\$ 114,929	\$ (1)
Specific Ownership Tax	8,620	8,620	9,981	1,361
Other Revenues	-	-	1,131	1,131
Total Revenues	123,550	123,550	126,041	2,491
Expenditures				
Treasurer's Fees	2,299	2,299	2,304	(5)
Bank Fees	-	-	3,500	(3,500)
Cost of Issuance	-	147,500	152,500	(5,000)
Debt Service Payment	124,018	360,731	1,024,791	(664,060)
Total Expenditures	126,317	510,530	1,183,095	(672,565)
Excess (Deficiency) of Revenues over Expenditures	(2,767)	(386,980)	(1,057,054)	(670,074)
Other Financing Sources (Uses)				
Proceeds from debt issuance	-	3,650,000	3,650,000	-
Repayment of Developer Advance	-	(3,203,020)	(2,510,347)	692,673
Total Other Financing Sources (Uses)	-	446,980	1,139,653	692,673
Net Changes in Fund Balance	(2,767)	60,000	82,599	22,599
Fund Balance, beginning	2,767	2,767	2,768	1
Fund Balance, ending	\$ -	\$ 62,767	\$ 85,367	\$ 22,600

Heritage Ridge Metropolitan District
Notes to the Financial Statements
December 31, 2018

Schedule of Revenues, Expenditures and Changes in Fund Balances – Actual and Budget –
Capital Projects Fund

**Heritage Ridge Metropolitan District
Schedule of Revenues, Expenditures and Changes in Fund Balances
Actual and Budget - Capital Projects Fund
For the year ended December 31, 2018**

	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Other Revenues	\$ -	\$ -	\$ -
Total Revenues	-	-	-
Expenditures			
Management and Accounting	6,200	-	6,200
Legal	10,000	7,988	2,012
Engineer	5,000	-	5,000
Capital Outlay	12,958,000	6,714,968	6,243,032
Total Expenditures	12,979,200	6,722,956	6,256,244
Excess (Deficiency) of Revenues over Expenditures	(12,979,200)	(6,722,956)	6,256,244
Other Financing Sources (Uses)			
Developer advances	12,979,200	6,837,933	(6,141,267)
Total Other Financing Sources (Uses)	12,979,200	6,837,933	(6,141,267)
Net Changes in Fund Balance	-	114,977	114,977
Fund Balance, beginning	6,998	(118,948)	(125,946)
Fund Balance, ending	\$ 6,998	\$ (3,971)	\$ (10,969)