
HEATHER GARDENS
METROPOLITAN DISTRICT
FINANCIAL STATEMENTS
DECEMBER 31, 2018

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1900 16th Street
Suite 300
Denver, CO 80202

T: 303.698.1883
E: info@rubinbrown.com
www.RubinBrown.com

CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS CONSULTANTS

Independent Auditors' Report

Board of Directors
Heather Gardens Metropolitan District
Aurora, Colorado

Report On The Financial Statements

We have audited the accompanying financial statements of the Heather Gardens Metropolitan District (the District) as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility For The Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of December 31, 2018, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The budget schedule and note on pages 24 and 25, respectively, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 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 information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Report On Summarized Comparative Information

We have previously audited the District's 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated July 16, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

RubinBrown LLP

August 12, 2019

HEATHER GARDENS METROPOLITAN DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)
December 31, 2018

Our discussion and analysis of Heather Gardens Metropolitan District's (District) financial performance provides an overview of the District's financial activities for the fiscal year ended December 31, 2018. Please read it in conjunction with the District's financial statements, which begin on page 8.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the District's basic financial statements. Required statements for business-type activities are: 1) Statement of Net Position, 2) Statement of Revenues, Expenses and Changes in Net Position and 3) Statement of Cash Flows. The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position are prepared using the economic resource measurement focus and the accrual basis of accounting.

The Statement of Net Position presents information on all of the District's assets and deferred outflows of resources and liabilities and deferred inflows of resources, with the difference between them reported as net position as of December 31, 2018. This statement provides useful information regarding the financial position of the District. Over time, increases and decreases in net position can serve as a useful indicator of whether the financial position of the District is improving or deteriorating. Nonfinancial factors should also be considered to assess the overall position of the District.

The Statement of Revenues, Expenses and Changes in Net Position reports the changes that have occurred during the year to the District's net position. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Revenues and expenses are reported for some items that will only result in cash flows in the subsequent years.

The Statement of Cash Flows, as its name implies, is concerned solely with flows of cash and cash equivalents. Only transactions that affect the District's cash position are reflected in this statement. Transactions are segregated into four sections on the statement: 1) cash flows from operating activities, 2) cash flows from noncapital financing activities, 3) cash flows from capital and related financial activities and, 4) cash flows from investing activities.

HEATHER GARDENS METROPOLITAN DISTRICT

Management's Discussion And Analysis (*Continued*)

Financial Highlights

- The District's net position decreased by \$316,470 or 5.6% as a result of this year's operations.
- During the year, the District's operating revenues decreased by \$38,974 or 1.7% from revenues in 2017. The District's operating expenses decreased \$130,316 or 4.4% from expenses in 2017.
- Non-operating revenues decreased by \$63,934 or 10% as a result of a decrease in property taxes collected and specific ownership taxes. There was a slight increase in Foundation donations and interest earned on Certificates of Deposit.
- Non-operating Expenses decreased by \$240,065 or 40.4% due to a decrease in interest expense and there was no debt issuance cost in 2018.
- Funds related to The District's annual Change in Net Position are allocated between restricted and unrestricted based on board designations and external restrictions.
- Outstanding long-term debt was reduced by \$235,000 or 2.7%

Financial Summary and Analysis

Capital Assets

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Land	\$ 1,725,000	\$ 1,725,000	\$ 1,725,000
Intangible assets (City of Aurora water rights)	133,190	133,190	133,190
Property, furniture and equipment	15,914,727	15,767,087	15,680,895
Less accumulated depreciation	(5,633,271)	(5,010,757)	(4,385,473)
Total Capital Assets - Net	<u>\$ 12,139,646</u>	<u>\$ 12,614,520</u>	<u>\$ 13,153,612</u>

For additional information, see note 4.

HEATHER GARDENS METROPOLITAN DISTRICT

Management's Discussion And Analysis (Continued)

The following condensed financial information was derived from the District's financial statements:

	2018	2017	2016
Current assets	\$ 2,143,797	\$ 2,086,672	\$ 2,444,347
Noncurrent assets	242,295	295,186	343,267
Capital assets, net of accumulated depreciation	12,139,646	12,614,520	13,153,612
Total Assets	14,525,738	14,996,378	15,941,226
Deferred Outflows of Resources	712,053	744,542	—
Current liabilities	424,523	397,322	625,122
Long-term liabilities	8,949,295	9,232,294	8,557,179
Total Liabilities	9,373,818	9,629,616	9,182,301
Deferred Inflows of Resources	557,316	488,177	551,855
Invested in capital assets, net of related debt	3,652,404	4,186,768	4,729,700
Restricted	1,463,980	1,275,935	1,024,306
Unrestricted	190,273	160,424	453,064
Total Net Position	\$ 5,306,657	\$ 5,623,127	\$ 6,207,070
Operating revenues	\$ 2,300,116	\$ 2,339,090	\$ 2,303,909
Nonoperating revenues	574,544	638,478	837,467
Total Revenues	2,874,660	2,977,568	3,141,376
Operating expenses	2,836,979	2,967,295	2,752,620
Nonoperating expenses	354,151	594,216	444,657
Total Expenses	3,191,130	3,561,511	3,197,277
Changes In Net Position	(316,470)	(583,943)	(55,901)
Ending Net Position	\$ 5,306,657	\$ 5,623,127	\$ 6,207,070

The District's non-operating revenue decreased almost \$64,000 due to decreased property taxes and specific ownership taxes which were budgeted accordingly, however, the decrease was based on assessed property values. These decreases were offset by slight increases in donations to the Heather Gardens Foundation, Conservation Trust Fund (lottery) entitlement and interest earned on certificates of deposit.

HEATHER GARDENS METROPOLITAN DISTRICT

Management's Discussion And Analysis (*Continued*)

Long-Term Debt Outstanding

	<u>2018</u>	<u>2017</u>	<u>2016</u>
General obligation bonds	\$ 8,465,000	\$ 8,700,000	\$ 8,780,000

Bond payments are made twice yearly (June 1 and December 1). The June payment includes only interest and the December payment includes both interest and principal. During 2018, the District paid down the principal by \$235,000 on the outstanding bonds. The bond payments are funded by the property tax revenue and specific ownership tax revenue received by the District.

Budgetary Discussion

The District revenues were favorable to the budget by \$89,000 during 2018.

The District approved the following budget amendments in 2018:

- Clubhouse, golf course, recreational vehicle lot increased by \$10,500 to a new budget total of \$1,262,938
- Restaurant expenses increased by \$74,000 to a new budget total of \$747,609
- Professional fees increased by \$21,000 to a new budget total of \$84,000
- Other operating expenses increased by \$15,900 to a new budget total of \$31,591
- Foundation expenses increased by \$18,100 to a new budget total of \$18,100
- Capital Outlay increased by \$16,369 to a new total of \$182,051

Total budget amendment impact of \$155,869.

Normally the District does not budget for expenditures from the Foundation Fund, although the District did include an amendment to the budget for the Foundation in the current year. All requests for Foundation expenditures are made by motion to the Board and are not authorized without specific Board approval.

Economic Factors and Rates

There are no other known facts, decisions or conditions that are expected to have an effect of the District's financial position or results of operations such as rate increases, increases in service areas, etc.

HEATHER GARDENS METROPOLITAN DISTRICT

Management's Discussion And Analysis (*Continued*)

Contacting the District's Financial Management

This financial report is designed to provide our residents and future residents of Heather Gardens with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Brett Miller, Controller, at Heather Gardens Association, 2888 S. Heather Gardens Way, Aurora, CO 80014 or call 303-755-0652.

HEATHER GARDENS METROPOLITAN DISTRICT

STATEMENT OF NET POSITION

December 31, 2018

(With Comparative Totals As Of December 31, 2017)

Assets And Deferred Outflows Of Resources

	2018	2017
Current Assets		
Cash and cash equivalents	\$ 556,358	\$ 481,935
Certificates of deposit	900,000	1,000,713
Property tax receivable	557,316	488,177
Accounts receivable, net of allowance for doubtful accounts of \$3,149 in 2018 and 2017, respectively	41,413	33,492
Prepaid expenses	46,649	47,033
Inventory	22,421	16,120
Other current assets	19,640	19,202
Total Current Assets	2,143,797	2,086,672
Noncurrent Assets		
Cash restricted	242,295	295,186
Nondepreciable assets	1,725,000	1,725,000
Intangible assets	133,190	133,190
Depreciable assets, net of accumulated depreciation of \$5,633,271 and \$5,010,756 in 2018 and 2017, respectively	10,281,456	10,756,330
Total Noncurrent Assets	12,381,941	12,909,706
Total Assets	14,525,738	14,996,378
Deferred Outflows Of Resources		
Deferred loss on 2010 bond refunding	712,053	744,542
Total Deferred Outflows Of Resources	712,053	744,542

Liabilities, Deferred Inflows Of Resources And Net Position

Current Liabilities		
Accounts payable	17,429	18,568
Interest payable	32,035	28,895
Deposits	20,269	20,596
Unearned revenue	104,790	94,263
Current portion of bonds payable	250,000	235,000
Total Current Liabilities	424,523	397,322
Long-Term Liabilities		
Bonds payable	8,949,295	9,232,294
Total Liabilities	9,373,818	9,629,616
Deferred Inflows Of Resources		
Unearned property tax revenue	557,316	488,177
Net Position		
Net investment in capital assets	3,652,404	4,186,768
Restricted	1,463,980	1,275,935
Unrestricted	190,273	160,424
Total Net Position	\$ 5,306,657	\$ 5,623,127

HEATHER GARDENS METROPOLITAN DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION For The Year Ended December 31, 2018 (With Comparative Totals For The Year Ended December 31, 2017)

	2018	2017
Operating Revenue		
Recreation use fees	\$ 1,056,756	\$ 1,057,283
Restaurant income	629,880	637,167
Golf course fees	332,071	307,965
Community center fees	238,497	191,500
Recreational vehicle lot rentals	41,708	35,932
Other operating revenue	1,204	109,243
Total Operating Revenue	2,300,116	2,339,090
Operating Expenses		
Community center, golf course, recreational vehicle lot	1,268,203	1,185,190
Professional services and insurance	129,528	150,496
Depreciation	622,515	625,284
Restaurant expenses	759,479	691,072
Foundation expenses	18,035	11,315
Other operating expenses	39,219	303,938
Total Operating Expenses	2,836,979	2,967,295
Loss From Operations	(536,863)	(628,205)
Nonoperating Revenue		
Property taxes	488,706	548,612
Donations	6,162	4,846
Specific ownership taxes	36,290	46,964
Income on certificates of deposit	26,760	22,007
Conservation Trust Fund entitlement	16,626	16,049
Total Nonoperating Revenue	574,544	638,478
Nonoperating Expenses		
Interest	345,930	419,404
Amortization of bond premium, net	(33,526)	(2,087)
Debt issuance cost	—	164,953
Amortization of deferred loss on bond refunding and discount	33,016	2,707
Other nonoperating expenses	8,731	9,239
Total Nonoperating Expenses	354,151	594,216
Change In Net Position	(316,470)	(583,943)
Net Position - Beginning Of Year	5,623,127	6,207,070
Net Position - End Of Year	\$ 5,306,657	\$ 5,623,127

HEATHER GARDENS METROPOLITAN DISTRICT

STATEMENT OF CASH FLOWS

For The Year Ended December 31, 2018

(With Comparative Totals For The Year Ended December 31, 2017)

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	2018	2017
Cash Flows From Operating Activities		
Payments received from customers	\$ 2,302,396	\$ 2,353,549
Payments to suppliers for goods and services	(2,221,959)	(2,604,690)
Net Cash Provided By (Used In) Operating Activities	80,437	(251,141)
Cash Flows From Noncapital Financing Activities		
Donations	6,162	4,846
Specific ownership taxes	36,290	46,964
Other nonoperating expenses	(8,731)	(9,239)
Net Cash Provided By Noncapital Financing Activities	33,721	42,571
Cash Flows From Capital And Related Financing Activities		
Property taxes levied for debt service, net	488,706	548,612
Proceeds from bond refunding	—	8,025,000
Principal paid on long-term debt	(235,000)	(8,105,000)
Bond issuance costs	—	(164,953)
Premium from 2017 bond refunding	—	771,107
Additional payments to refunding escrow agent	—	(747,249)
Interest paid on long-term debt	(342,790)	(417,085)
Conservation Trust Fund entitlement	16,626	16,049
Acquisition of property and equipment	(147,641)	(86,192)
Net Cash Used In Capital And Related Financing Activities	(220,099)	(159,711)
Cash Flows From Investing Activities		
Maturities of certificates of deposit	100,713	10,532
Income on certificates of deposit	26,760	22,007
Net Cash Provided By Investing Activities	127,473	32,539
Net Increase (Decrease) In Cash And Cash Equivalents	21,532	(335,742)
Cash And Cash Equivalents - Beginning Of Year	777,121	1,112,863
Cash And Cash Equivalents - End Of Year	\$ 798,653	\$ 777,121
Cash and cash equivalents	\$ 556,358	\$ 481,935
Cash restricted	242,295	295,186
Total Cash And Cash Equivalents - End Of Year	\$ 798,653	\$ 777,121

HEATHER GARDENS METROPOLITAN DISTRICT

STATEMENT OF CASH FLOWS

For The Year Ended December 31, 2018

(With Comparative Totals For The Year Ended December 31, 2017)

Page 2 Of 2

	For The Years Ended December 31,	
	2018	2017
Reconciliation Of Loss From Operations To Net Cash Provided By (Used In) Operating Activities		
Loss from operations	\$ (536,863)	\$ (628,205)
Adjustments to reconcile loss from operations to net cash provided by (used in) operating activities:		
Depreciation	622,515	625,284
Changes in assets:		
Receivables	(7,921)	(253)
Prepaid expenses	384	(2,371)
Inventory	(6,301)	(1,493)
Other assets	(438)	(79)
Changes in liabilities:		
Accounts payable	(1,139)	(11,029)
Unspent insurance claims	—	(107,110)
Due to the Association	—	(140,597)
Deposits	(327)	11,513
Unearned revenue	10,527	3,199
Net Cash Provided By (Used In) Operating Activities	\$ 80,437	\$ (251,141)

HEATHER GARDENS METROPOLITAN DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2018

1. Definition Of Reporting Entity

The Heather Gardens Metropolitan District (the District), a quasi-municipal corporation, was formed April 5, 1983. It is governed pursuant to provisions of the Colorado Special District Act. The District's service area is located within the City of Aurora, Arapahoe County, Colorado. The District was established to provide and operate park and recreation facilities and to improve and maintain Linvale Place within the District. The current activities of the District relate to recreational services and operations, the most significant of which is the operation of a public golf course and restaurant.

The District follows the Governmental Accounting Standards Board (GASB) accounting pronouncements, which provide guidance for determining which governmental activities, organizations and functions should be included within the financial reporting entity. GASB pronouncements set forth the financial accountability of a governmental organization's elected governing body as the basic criterion for including a possible component governmental organization in a primary government's legal entity. Financial accountability includes, but is not limited to, appointment of a voting majority of the organization's governing body, ability to impose its will on the organization, a potential for the organization to provide specific financial benefits or burdens and fiscal dependency.

The District is not a component unit of any other governmental entity. The District is financially accountable for The Heather Gardens Foundation (the Foundation), a committee whose purpose is to enhance the quality of life and enjoyment of the residents. All members of the Heather Gardens Association (the Association) are members of the Foundation. The Foundation is primarily funded through donations and its activities are blended within the District's restricted funds.

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

2. Summary Of Significant Accounting Policies

The accounting policies of the District conform to generally accepted accounting principles (GAAP) as applicable to governmental units accounted for as a proprietary enterprise fund.

HEATHER GARDENS METROPOLITAN DISTRICT

Notes To Basic Financial Statements *(Continued)*

The more significant accounting policies of the District are described as follows:

Measurement Focus And Basis Of Accounting

The District's records are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recognized when earned, and expenses are recognized when the liability is incurred. Depreciation is computed and recorded as an operating expense. Expenditures for property and equipment are shown as increases in assets, and redemption of bonds and loans is recorded as a reduction in liabilities.

Operating Revenues And Expenses

The District distinguishes between operating revenues and expenses and nonoperating items in the statement of revenues, expenses and changes in net position. Operating revenues and expenses generally result from providing services in connection with the District's purpose of providing and operating park and recreation facilities and to improve and maintain streets within the District. Operating revenues consist of charges to customers for services provided. Operating expenses include the cost of services, administrative expenses and depreciation of assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses or capital contributions.

Budgetary Information

In accordance with the State Budget Law, the District's Board of Directors holds public hearings in the fall each year to approve the budget and appropriate the funds for the ensuing year. The appropriation is at the total fund expenditures level and lapses at year end. The District's Board of Directors can modify the budget by line item within the total appropriation without notification. The appropriation can only be modified upon completion of notification and publication requirements.

Cash Equivalents And Certificates Of Deposit

For purposes of the statement of cash flows, the District considers cash deposits and highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents. Certificates of deposit are reported at cost.

Capital Assets

Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated acquisition value at the date of donation.

HEATHER GARDENS METROPOLITAN DISTRICT

Notes To Basic Financial Statements (*Continued*)

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable. Depreciation is calculated using the straight-line method over the following estimated economic useful lives:

Buildings and improvements	7 - 39 years
Furniture and equipment	5 - 15 years

Property Taxes

Property taxes are levied by the District's Board of Directors. The levy is based on assessed valuations determined by the County Assessor generally as of January 1 of each year. The levy is set by December 15 by certification to the County Commissioners to put the tax lien on the individual properties effective 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 taxpayer's election, in February and June. Delinquent taxpayers are notified in August, and tax sales of the liens on delinquent properties are 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 unearned revenue in the year they are levied and measureable.

The unearned property tax revenues are recorded as revenue in the year they are available or collected.

Net Position

The District's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net positions are available.

Comparative Data

The financial statements include certain prior-year comparative information in total, but not at the level of detail required for presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the 2017 District financial statements.

HEATHER GARDENS METROPOLITAN DISTRICT

Notes To Basic Financial Statements *(Continued)*

Deferred Outflows Of Resources

In addition to assets, the statement of net position will sometimes include a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period or periods and so will not be recognized as an outflow of resources until then.

Deferred Inflows Of Resources

In addition to liabilities, the statement of net position will sometimes include a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period or periods and so will not be recognized as an inflow of resources until then. The District has unearned property tax income. This item has been reported as deferred inflows on the statement of net position.

Reclassifications

Certain 2017 comparative totals have been reclassified to conform to the 2018 financial statement presentation. The reclassifications had no effect on the net position or change in net position.

Subsequent Events

The District has evaluated subsequent events through the date financial statements are available for issue, which is the date of the Independent Auditors' Report.

3. Cash, Cash Equivalents And Certificates Of Deposits

Cash and cash equivalents as of December 31, 2018 consist of the following:

	<u>Book</u>	<u>Bank</u>
Deposits with financial institutions - unrestricted	\$ 555,108	\$ 755,264
Deposits with financial institutions - restricted	242,295	242,295
Cash on hand	1,250	—
	<u>\$ 798,653</u>	<u>\$ 997,559</u>

HEATHER GARDENS METROPOLITAN DISTRICT

Notes To Basic Financial Statements *(Continued)*

Cash Deposits

The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulators. Amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is specified by 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 State Regulatory Commission for banks and savings and loan 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.

Federal Deposit Insurance Corporation coverage is \$250,000 per official custodian. At December 31, 2018, the District's cash deposits at financial institutions had a book balance of \$1,698,653 and a corresponding bank balance of \$1,897,558. Of the bank balance, \$992,295 was covered by federal depository insurance. The remainder of the bank balance, \$905,263, was collateralized with securities held by the pledging financial institution and covered by eligible collateral as determined by PDPA.

Credit Risk

The District has not adopted a formal investment policy; however, the District follows state statutes regarding investments. Colorado Revised Statutes specify investment instruments meeting defined rating and risk criteria in which local governments may invest, which include:

- Obligations of the United States and certain U.S. government agency securities
- Certain international agency securities
- General obligation and revenue bonds of U.S. local government entities
- Bankers' acceptances of certain banks
- Commercial paper
- Written repurchase agreements collateralized by certain authorized securities
- Certain money market funds
- Guaranteed investment contracts
- Local government investment pools

HEATHER GARDENS METROPOLITAN DISTRICT

Notes To Basic Financial Statements (Continued)

Interest Rate Risk

Colorado Revised Statutes limit investment maturities to five years or less unless formally approved by the Board of Directors. Such actions are generally associated with a debt service reserve or sinking fund requirements.

The District generally limits its concentration of investments to those which are believed to have minimal credit risk, minimal interest rate risk and no foreign currency risk. Additionally, the District is not subject to concentration risk disclosure requirements or subject to investment custodial credit risk for investments that are in the possession of another party.

Restricted Cash

At December 31, 2018, cash in the amount of \$242,295 is restricted. This amount has been restricted to make bond principle and interest payments.

4. Capital Assets

An analysis of the changes in capital assets for the year ended December 31, 2018 is as follows:

	Balance - January 1, 2018	Additions/ Transfers	Deletions/ Transfers	Balance - December 31, 2018
Capital Assets				
Nondepreciable Capital Assets				
Land	\$ 1,725,000	\$ —	\$ —	\$ 1,725,000
Intangible asset (City of Aurora water rights)	133,190	—	—	133,190
Total Nondepreciable Capital Assets	1,858,190	—	—	1,858,190
Depreciable Capital Assets				
Property and equipment	13,271,220	—	—	13,271,220
Furniture and equipment	1,000,775	134,865	—	1,135,640
Restaurant equipment	71,178	12,776	—	83,954
Restaurant and pro shop renovation	1,346,537	—	—	1,346,537
Capital lease equipment	77,376	—	—	77,376
Total Depreciable Capital Assets	15,767,086	147,641	—	15,914,727
Total Capital Assets	17,625,276	147,641	—	17,772,917
Accumulated Depreciation	(5,010,756)	(622,515)	—	(5,633,271)
Net Depreciable Capital Assets	10,756,330	(474,874)	—	10,281,456
Total Capital Assets, Net Of Depreciation	\$ 12,614,520	\$ (474,874)	\$ —	\$ 12,139,646

HEATHER GARDENS METROPOLITAN DISTRICT

Notes To Basic Financial Statements (Continued)

5. Long-Term Obligations

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

	Balance - January 1, 2018	Additions	Reductions	Balance - December 31, 2018	Due Within One Year
2010 - \$9,800,000 General Obligation Bonds	\$ 675,000	\$ —	\$ (215,000)	\$ 460,000	\$ 225,000
Unamortized discount on Series 2010 Bonds	(1,019)	—	527	(492)	—
2017 - \$8,025,000 Refunding Bonds	8,025,000	—	(20,000)	8,005,000	25,000
Premium on Series 2017 Refunding Bonds	768,313	—	(33,526)	734,787	—
Total Long-Term Obligations	\$ 9,467,294	\$ —	\$ (267,999)	\$ 9,199,295	\$ 250,000

Bonds Payable

In November 2017, the District issued \$8,025,000 of General Obligation Refunding Bonds, Series 2017, with interest rates ranging from 3.98% to 4.00%, for the purpose of advance refunding a portion of the General Obligations Bonds, Series 2010, with an interest rate ranging from 1.25% to 5.25%. The proceeds of the 2017 General Obligation Refunding Bonds related to the refunded debt were deposited with an escrow agent and invested in government securities, maturing at such times and in such amounts as required to provide funds sufficient to pay the principal and interest on the refunded bonds as they become due. As a result, \$7,895,000 of the 2010 General Obligation Bonds are considered to be defeased as of December 31, 2017, and the related liability for the bonds has been removed from the District's liabilities. The refunding resulted in a present values savings from the cash flow of \$1,149,527 and an economic loss on the refunding of \$747,249.

The remaining \$460,000 General Obligation Bonds Series 2010, dated July 22, 2010, is due annually in increasing amounts through 2020, with remaining interest due semiannually at rates of 3.50% to 4.10%. The bonds and interest are secured by the District's covenant to levy an *ad valorem* tax on all of the taxable property in the District.

HEATHER GARDENS METROPOLITAN DISTRICT

Notes To Basic Financial Statements *(Continued)*

Bond and coupon payments to maturity are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 250,000	\$ 337,037	\$ 587,037
2020	260,000	328,100	588,100
2021	270,000	318,200	588,200
2022	280,000	307,400	587,400
2023	290,000	296,200	586,200
2024 - 2028	1,630,000	1,297,600	2,927,600
2029 - 2033	1,980,000	945,000	2,925,000
2034 - 2038	2,405,000	516,200	2,921,200
2039 - 2040	1,100,000	66,400	1,166,400
	<u>\$ 8,465,000</u>	<u>\$ 4,412,137</u>	<u>\$ 12,877,137</u>

6. Net Position

The District has a net position consisting of three components: net investment in capital assets, restricted and unrestricted.

Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of bonds that are attributable to the acquisition, construction or improvement of those assets.

As of December 31, 2018, the District had net position invested in capital assets, which is calculated as follows:

Capital assets - net of accumulated depreciation	\$ 12,139,646
Capital related borrowings	<u>(8,487,242)</u>
	<u>\$ 3,652,404</u>

HEATHER GARDENS METROPOLITAN DISTRICT

Notes To Basic Financial Statements *(Continued)*

Restricted assets include net position that is restricted for use either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The District had the following restricted net position as of December 31, 2018:

Restricted	
TABOR emergency reserves	\$ 17,775
Foundation	188,329
Conservation Trust Fund	111,042
Debt service	<u>1,146,834</u>
Total	<u>\$ 1,463,980</u>

Emergency reserves have been provided for as required by Article X, Section 20, of the Constitution of the State of Colorado, otherwise known as the Taxpayer Bill of Rights (TABOR). A portion of the net position has been restricted in compliance with this requirement.

Debt service restricted net position represents amounts restricted for future payment of general obligation bond principal, interest and related costs.

The Heather Gardens Foundation Fund's restricted net position represents the net unspent proceeds of contributions received for the Foundation. The Foundation is a District operation and is not a legally separate entity.

The Conservation Trust Fund's restricted net position represents the net unspent proceeds received from the State Lottery for the Conservation Trust Fund.

Unrestricted net position consists of net position that does not meet the definition of net investment in capital assets or restricted.

7. Risk Management

The District is exposed to various risks related to torts; thefts of, damage to or destruction of assets; errors or omissions or acts of God.

The District is a member of the Colorado Special Districts Property and Liability Pool (the Pool) as of December 31, 2018. The Pool is an organization created by intergovernmental agreement to provide property, liability, public official's liability and boiler and machinery insurance coverage to its members. Settled claims have not exceeded this coverage in any of the past three fiscal years.

HEATHER GARDENS METROPOLITAN DISTRICT

Notes To Basic Financial Statements *(Continued)*

The District pays annual premiums to the Pool for liability, property and public official's liability. 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 which the Pool determines are not needed for purposes of the Pool may be returned to the members pursuant to a distribution formula.

8. Heather Gardens Association

The District has entered into a management agreement with the Association, the homeowners association for the members who own units within the District's boundaries.

Under the terms of the agreement, the District designated the Association as the District's agent to operate, manage and supervise the properties and facilities of the District. The District makes all decisions relative to the District's capital reserves. The final responsibility and authority for the District's property remains with the District. The Association shall take reasonable steps to collect and enforce the collection of all fees, charges, rents and other sums arising from the use of District property. The Association transfers all collections of community center fees, facilities revenue (golf course) and restaurant income to the District monthly, net of reimbursement of expenses and costs incurred for the operation and maintenance of District assets.

The District permits the members of the Association use of the District facilities on a nonexclusive basis with other members of the general public. The District also permits the Association to share office space at no cost, the value of which is offset by the services provided under the management agreement and therefore is insignificant and not reflected in the financial statements.

At December 31, 2018, there was no balance due to or due from the Association.

9. Tax, Spending And Debt Limitations

TABOR contains tax, spending, revenue and debt limitations which apply to the State of Colorado and all local governments.

HEATHER GARDENS METROPOLITAN DISTRICT

Notes To Basic Financial Statements (*Continued*)

Enterprises, defined as government-owned businesses authorized to issue revenue bonds and receiving less than 10% of annual revenue in grants from all state and local governments combined, are excluded from the provisions of TABOR. The District's management believes that its operations qualify for this exclusion; however, management has elected to adopt certain provisions of TABOR with respect to property tax revenue collected by the District.

Spending and revenue limits are determined based on the prior fiscal year's 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 enterprise operations and 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 interpretation of how to calculate fiscal year spending limits, will require judicial interpretation.

10. Operating Lease

The District pays for an operating lease, which is in the name of the Association, for a copier in the club house. Total payments for the copier for the year ended December 31, 2018 were \$4,236. The monthly rental payments are \$353. The lease term ended in 2018 and continued on a month-to-month basis.

Other Supplementary Information

The schedule of revenues, expenditures and changes in funds available - budget and actual (budgetary basis) is presented to demonstrate compliance with a resolution of the Board of Directors, which established a TABOR enterprise for the District's qualifying operations.

HEATHER GARDENS METROPOLITAN DISTRICT

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUNDS AVAILABLE - BUDGET AND ACTUAL (BUDGETARY BASIS) For The Year Ended December 31, 2018

	Original Budget	Amended Budget	Actual	Variance - Favorable (Unfavorable)
Revenues				
Recreation use fees	\$ 1,057,404	\$ 1,057,404	\$ 1,056,756	\$ (648)
Restaurant income	604,403	604,403	629,880	25,477
Golf course fees	331,831	331,831	332,071	240
Community center fees	152,145	152,145	238,497	86,352
Recreational vehicle lot rentals	44,004	44,004	41,708	(2,296)
Other operating revenues	41,320	41,320	1,204	(40,116)
Property taxes	488,162	488,162	488,706	544
Donations	—	—	6,162	6,162
Specific ownership taxes	36,996	36,996	36,290	(706)
Income on certificates of deposit	14,188	14,188	26,760	12,572
Conservation Trust Fund entitlement	15,200	15,200	16,626	1,426
Total Revenues	2,785,653	2,785,653	2,874,660	89,007
Expenditures				
Operating:				
Community center, golf course, recreational vehicle lot	1,252,438	1,262,938	1,268,203	(5,265)
Restaurant expenses	673,609	747,609	759,479	(11,870)
Professional services	63,000	84,000	77,633	6,367
Bad debt expense	1,500	1,500	—	1,500
Election expenses	25,000	25,000	5,261	19,739
Insurance	47,190	47,190	51,895	(4,705)
Other operating expenses	15,691	31,591	66,974	(35,383)
Foundation expense	—	18,100	18,035	65
Debt service:				
County Treasurer's collection fees	8,600	8,600	7,731	869
Principal	235,000	235,000	235,000	—
Interest	346,738	346,738	345,930	808
Bank payee fee	1,000	1,000	1,000	—
Capital outlay	165,682	182,051	147,641	34,410
Total Expenditures	\$ 2,835,448	\$ 2,991,317	2,984,782	\$ 6,535
Excess Of Expenditures Over Revenues			(110,122)	
Adjustments to GAAP basis				
Depreciation			(622,515)	
Bond principal payments			235,000	
Capital outlay			165,676	
Capital outlay - Foundation			(18,035)	
Changes In Net Position Per Statement Of Revenues, Expenses And Changes In Net Position - GAAP Basis			\$ (316,470)	

HEATHER GARDENS METROPOLITAN DISTRICT

NOTE TO BUDGETARY COMPARISON SCHEDULE

Budgets And Budgetary Accounting

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

1. Prior to September 1, the District obtains budget requests from various department heads.
2. Prior to October 15, the proposed budget is submitted to the Board of Directors.
3. By December 15, the District must certify the levy to the County Commissioners.
4. By December 15, the Board enacts a resolution appropriating the budget.
5. Department heads are required to submit budget change requests after initial approval to the Board of Directors.
6. Supplemental requests are gathered by the Board of Directors. The Board of Directors will hold formal public hearings prior to approving the increased budget and appropriations.