

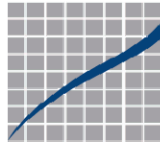
CONSTITUTION HEIGHTS METROPOLITAN DISTRICT

FINANCIAL STATEMENTS

DECEMBER 31, 2018

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BiggsKofford
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

Board of Directors

Constituion Heights Metropolitan District

Colorado Springs, Colorado

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Constituion Heights Metropolitan District ("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.

Auditor's Responsibility

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

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

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

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 District as of December 31, 2018, the respective changes in financial position and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board 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. Our opinions on the basic financial statements are not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information, as identified in the table of contents, 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 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 supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

BiggsKofford, P.C.

Colorado Springs, Colorado
July 23, 2019

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BASIC FINANCIAL STATEMENTS

CONSTITUTION HEIGHTS METROPOLITAN DISTRICT
STATEMENT OF NET POSITION
DECEMBER 31, 2018

	Governmental Activities
<u>ASSETS</u>	
Cash and investments	\$ 15,522
Cash and investments - restricted	384,986
Accounts receivable - County Treasurer	3,221
Property taxes receivable	316,621
Total assets	720,350
<u>LIABILITIES</u>	
Accounts payable	2,374
Accrued interest payable	1,857,449
Noncurrent liabilities:	
Accounts payable	23,671
Long-term liabilities	
Due within one year	4,100,000
Due in more than one year	5,194,500
Total liabilities	11,177,994
<u>DEFERRED INFLOWS OF RESOURCES</u>	
Deferred property tax revenues	316,621
Total deferred inflows of resources	316,621
<u>NET POSITION</u>	
Restricted for:	
Debt service	385,255
Emergency reserve	806
Unrestricted	(11,160,326)
Total net position	\$ (10,774,265)

The accompanying notes and independent auditor's report
should be read with this financial statement.

CONSTITUTION HEIGHTS METROPOLITAN DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2018

	<u>Expenses</u>	<u>Program Revenues</u>		<u>Capital Grants and Contributions</u>	<u>Net (Expenses) Revenue and Changes in Net Position</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>		
FUNCTIONS/PROGRAMS					
PRIMARY GOVERNMENT:					
General government	\$ 36,661	\$ -	\$ -	\$ -	\$ (36,661)
Interest and related costs on long-term debt	672,972	-	-	-	(672,972)
Total primary government	\$ 709,633	\$ -	\$ -	\$ -	(709,633)
GENERAL REVENUES:					
Property taxes					290,962
Specific ownership taxes					36,696
Interest earned on cash and investments					883
Total general revenues					328,541
Changes in net position					(381,092)
Net position, beginning of year					(10,393,173)
Net position, end of year					\$ (10,774,265)

The accompanying notes and independent auditor's report should be read with this financial statement.

**CONSTITUTION HEIGHTS METROPOLITAN DISTRICT
BALANCE SHEETS
GOVERNMENTAL FUNDS
DECEMBER 31, 2018**

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>			
Cash and investments	\$ 15,253	\$ -	\$ 15,253
Cash and investments - restricted	-	385,255	385,255
Accounts receivables - County Treasurer	3,221	-	3,221
Property taxes receivable	-	316,621	316,621
Total assets	<u>\$ 18,474</u>	<u>\$ 701,876</u>	<u>720,350</u>
<u>LIABILITIES</u>			
Accounts payable	2,374	-	2,374
Total liabilities	<u>2,374</u>	<u>-</u>	<u>2,374</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Deferred property tax revenues	-	316,621	316,621
Total deferred inflows of resources	<u>-</u>	<u>316,621</u>	<u>316,621</u>
<u>FUND BALANCE</u>			
Restricted for:			
Debt service	-	385,255	385,255
Emergency reserve	806	-	806
Unassigned:			
General government	15,294	-	15,294
Total fund balances	<u>16,100</u>	<u>385,255</u>	<u>401,355</u>
Total liabilities and fund balances	<u>\$ 18,474</u>	<u>\$ 701,876</u>	

Amounts reported in governmental activities in the statement of net position are different because:

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds:

Noncurrent accounts payable	(23,671)
Accrued interest payable	(1,857,449)
Bonds payable	<u>(9,294,500)</u>

Net position of governmental activities	<u>\$ (10,774,265)</u>
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The accompanying notes and independent auditor's report should be read with this financial statement.

**CONSTITUTION HEIGHTS METROPOLITAN DISTRICT
STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2018**

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
<u>REVENUES</u>			
Property taxes	\$ -	\$ 290,962	\$ 290,962
Specific ownership taxes	36,696	-	36,696
Interest income	-	883	883
Total revenues	36,696	291,845	328,541
<u>EXPENDITURES</u>			
Current:			
Audit	7,750	-	7,750
Bank charges	393	-	393
County Treasurer's fees	-	4,364	4,364
Insurance	2,759	-	2,759
Legal	3,342	-	3,342
Management fees	12,547	-	12,547
Supplies	53	-	53
Debt service:			
Bond principle	-	105,000	105,000
Interest expense	-	190,278	190,278
Total expenditures	26,844	299,642	326,486
Excess of revenues over (under) expenditures	9,852	(7,797)	2,055
Net change in fund balances	9,852	(7,797)	2,055
Fund balances, beginning of year	6,248	393,052	399,300
Fund balances, end of year	\$ 16,100	\$ 385,255	\$ 401,355

The accompanying notes and independent auditor's report
should be read with this financial statement.

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**CONSTITUTION HEIGHTS METROPOLITAN DISTRICT
RECONCILIATION OF THE STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2018**

Net change in fund balances - total governmental funds	\$	2,055
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Amounts reported for governmental activities in the statement of activities are different because:

The issuance of debt provides current financial resources to government funds, while the repayment of principal of debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. The net effect of these differences in the treatment of debt is as follows:

Principal payments on bonds		105,000
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:

Change in and reclassification of noncurrent accounts payable		(5,453)
Change in accrued interest payable		(482,694)

Changes in net position of governmental activities	\$	(381,092)
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The accompanying notes and independent auditor's report should be read with this financial statement.

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**CONSTITUTION HEIGHTS METROPOLITAN DISTRICT
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
YEAR ENDED DECEMBER 31, 2018**

	Budget		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Specific ownership taxes	\$ 24,976	\$ 39,917	\$ 36,696	\$ (3,221)
Interest income	-	197	-	(197)
Total revenues	24,976	40,114	36,696	(3,418)
EXPENDITURES				
Audit	7,750	7,750	7,750	-
Bank charges	200	200	393	(193)
Insurance	3,000	500	2,759	(2,259)
Legal	15,000	6,000	3,342	2,658
Management fees	26,600	20,000	12,547	7,453
Supplies	-	200	53	147
Total expenditures	52,550	34,650	26,844	7,806
Excess of revenues over (under) expenditures	(27,574)	5,464	9,852	(11,224)
OTHER FINANCING SOURCES (USES)				
Developer advances	20,000	-	-	-
Total other financing sources	20,000	-	-	-
Net change in fund balance	\$ (7,574)	\$ 5,464	9,852	\$ 4,388
Fund balance, beginning of year			6,248	
Fund balance, end of year			\$ 16,100	

The accompanying notes and independent auditor's report
should be read with this financial statement.

CONSTITUTION HEIGHTS METROPOLITAN DISTRICT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018

1. DEFINITION OF REPORTING ENTITY

Constitution Heights Metropolitan District ("District"), a quasi-municipal corporation and political subdivision of the State of Colorado, was formed on November 16, 2004, and is governed pursuant to provisions of the Colorado Special District Act. The District's service area is located in El Paso County, Colorado ("County"). The District was organized to construct public improvements including road and bridge improvements, landscaping, sanitary and storm sewer, water systems, park and recreation, channel and other drainage improvements needed for the area.

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 and a potential for the organization to provide specific financial benefits or burdens and fiscal dependency.

The District is not financially accountable for any other organization nor is the District a component unit of any other primary governmental entity.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Government-wide and fund financial statements

The government-wide financial statements include the statement of net position and the statement of activities. These financial statements include all of the activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are normally supported by taxes and intergovernmental revenues.

The statement of net position reports all financial and capital resources of the District. The difference between the assets and liabilities plus deferred inflows of resources of the District is reported as net position.

See independent auditor's report

CONSTITUTION HEIGHTS METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government-wide and fund financial statements (continued)

The statement of activities demonstrates the degree to which the direct and indirect expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for the governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement focus, basis of accounting and financial statement position

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectable within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The major sources of revenue susceptible to accrual are taxes, grants and intergovernmental revenue. All other revenue items are considered to be measurable and available only when cash is received by the District. The District determined that developer advances are not considered as revenue susceptible to accrual. Expenditures, other than interest on long-term obligations are recorded when the liability is incurred or the long-term obligation is due.

The District reports the following major governmental funds:

General fund - The general fund is used to account for all financial resources of the District except those required to be accounted for in another fund.

See independent auditor's report

CONSTITUTION HEIGHTS METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement focus, basis of accounting and financial statement position (continued)

Debt service fund - The debt service fund accounts for the servicing of general long-term debt and revenues generated and received by the District that are required to be used in payment of long-term debt.

Budgets

In accordance with state budget law, the District's board of directors holds public hearings in the fall each year to approve the budget and appropriate funds for the ensuing year. The appropriation is at the total fund expenditures, fund balance remaining, and other financing uses level and lapses at year-end. The District's board of directors can modify the budget by line item within the total appropriation without notification. The appropriation can only be modified upon completion of notification and publication requirements. The budget includes each fund on its basis of accounting unless otherwise indicated.

Pooled cash and investments

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

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 normally set by December 15 and attaches as an enforceable lien as of January 1 of the following year. The County Treasurer collects the determined taxes during the ensuing calendar year. The taxes are payable by April or, at the taxpayer's election, in February and June in equal installments. Delinquent taxpayers are notified in August and generally sales of the tax liens on delinquent properties are held in November or December. The County Treasurer remits the taxes collected to the District monthly.

See independent auditor's report

CONSTITUTION HEIGHTS METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property taxes (continued)

Property taxes, net of estimated uncollectible taxes, are recorded initially as deferred revenues in the year they are levied and measurable. The deferred property tax revenues are recorded as revenues in the year they are available or collected.

Deferred inflows of resources

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) 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. Accordingly, the item, deferred property tax revenue, is deferred and recognized as an inflow of resources in the period that the amount becomes

Equity

Net position

For government-wide presentation purposes, when both restricted and unrestricted resources are available for use, it is the District's practice to use restricted resources first, then unrestricted resources as they are needed.

Fund balance

Fund balance for governmental funds is reported in classifications that comprise a hierarchy based on the extent to which the government is bound to honor constraints on the specific purposes for which spending can occur. Governmental funds report up to five classifications of fund balance: nonspendable, restricted, committed, assigned, and unassigned. Because circumstances differ among governments, not every government or every governmental fund will present all of these components. The following classifications describe the relative strength of the spending constraints:

Nonspendable fund balance - The portion of fund balance that cannot be spent because it is either not in spendable form (such as prepaid amounts or inventory) or is legally or contractually required to be maintained intact.

See independent auditor's report

CONSTITUTION HEIGHTS METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Equity (continued)

Fund balance (continued)

Restricted fund balance - The portion of fund balance that is constrained to being used for a specific purpose by external parties (such as bondholders), constitutional provisions, or enabling legislation.

Committed fund balance - The portion of fund balance that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, the board of directors. The constraint may be removed or changed only through formal action of the board of directors.

Assigned fund balance - The portion of fund balance that is constrained by the government's intent to be used for specific purposes, but is neither restricted nor committed. Intent is expressed by the board of directors to be used for a specific purpose. Constraints imposed on the use of assigned amounts are more easily removed or modified than those imposed on amounts that are classified as committed.

Unassigned fund balance - The residual portion of fund balance that does not meet any of the criteria described above.

If more than one classification of fund balance is available for use when an expenditure is incurred, it is the District's policy to use the most restrictive classification first.

3. CASH AND INVESTMENTS

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

Statement of net position:

Cash and investments	\$ 15,522
Cash and investments - restricted	<u>384,986</u>
	<u><u>\$ 400,508</u></u>

See independent auditor's report

CONSTITUTION HEIGHTS METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

3. CASH AND INVESTMENTS (CONTINUED)

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

Deposits with financial institutions	\$ 15,522
Investments	<u>384,986</u>
	<u>\$ 400,508</u>

Deposits with financial institutions

The Colorado Public Deposit Protection Act ("PDPA") requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulators. Amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is determined by the PDPA. The PDPA allows the institution to create a single collateral pool for all public funds. The pool for all the uninsured public deposits as a group is to be maintained by another institution or held in trust. The market value of the collateral must be 102% of the aggregate uninsured deposits.

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

At December 31, 2018, the District's cash deposits had a bank balance of \$15,522 and a carrying balance of \$15,522.

Investments

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

The District generally limits its concentration of investments to those with an asterisk below 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.

Colorado revised statutes limit investment maturities to five years or less unless otherwise formally approved by the board of directors. Such actions are generally associated with a debt service reserve or sinking fund requirements.

See independent auditor's report

CONSTITUTION HEIGHTS METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

3. CASH AND INVESTMENTS (CONTINUED)

Investments (continued)

Colorado 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 United States government agency securities
- Certain international agency securities
- General obligation and revenue bonds of United States local government entities
- Bankers' acceptances of certain banks
- Commercial paper
- Written repurchase agreements collateralized by certain authorized securities
- Certificates of deposit in Colorado PDPA approved banks or savings banks
- * Certain money market funds
- Guaranteed investment contracts
- Local government investment pools

Fair value measurement and application

The District categorizes its fair value measurements 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 prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. Investments not measured at fair value and not categorized include governmental money market funds which record their investments at amortized cost.

As of December 31, 2018, the District had the following in investments.

<u>Investments</u>	<u>Maturity</u>	<u>Fair Value</u>
BBVA money markets	Weighted average under 60 days	<u>\$ 384,986</u>

The BBVA Money Markets is a money market fund that is managed by BBVA and each share is equal in value to \$1. The fund is AAAM rated and invests in high quality short-term US government securities. The average maturity of the underlying securities is 90 days or less.

See independent auditor's report

CONSTITUTION HEIGHTS METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

4. LONG-TERM OBLIGATIONS

The following is a summary of long-term debt of the District during the year ended December 31, 2018:

	Balance 01/01/18	Additions	Repayments/ Defeasance	Balance 12/31/18	Due Within One Year
2011B Series Bonds	\$ 5,041,000	\$ -	\$ -	\$ 5,041,000	\$ -
Series 2014 Tax Free Loan	4,205,000	-	105,000	4,100,000	4,100,000
Developer advances	153,500	-	-	153,500	-
	<u>\$ 9,399,500</u>	<u>\$ -</u>	<u>\$ 105,000</u>	<u>\$ 9,294,500</u>	<u>\$ 4,100,000</u>

The District has authorized indebtedness up to \$25 million. Pursuant to the District's service plan, the District may issue up to \$6,500,000 in limited tax general obligation bonds.

2011 Series Bonds

On January 11, 2011 the District issued subordinate general obligation limited tax bonds in the amount of \$5,508,000. The bonds bear a fixed interest rate of 8.00% with the final payment due December 15, 2040. The bond proceeds were used to reimburse developer advances.

The bonds are limited tax cash-flow obligations, payable from the subordinate pledged revenues (mill levy less required debt service on the tax free loan). The bonds are subordinate to the loan, and failure to pay the principal or interest on the bonds when due, in and of itself, does not constitute default. All bonds are owned by two developers within the District.

Series 2014 Tax Free Loan

On July 29, 2014 the District entered into a tax free loan with Compass Bank in the amount of \$4,385,000. The loan bears interest at a variable rate that is 2.50% per annum for the first five years with a maximum interest rate of 8.00% per annum. The loan requires a balloon payment at maturity on July 29, 2019. The proceeds of the loan were used to refund Series 2011 tax free loan and make a payment on Series 2011 subordinate general obligation limited tax bonds.

See independent auditor's report

CONSTITUTION HEIGHTS METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

4. LONG-TERM OBLIGATIONS (CONTINUED)

Series 2014 Tax Free Loan (continued)

The District is required, pursuant to the bond agreements, to maintain loan payment, reserve and surplus cash accounts. The purpose of the reserve cash account is to provide adequate reserves to meet principal and interest requirements if the bond account does not have enough funding. The reserve account is required to be maintained as long as the bonds are outstanding.

The bonds are secured by and payable from the pledged revenues consisting of monies derived by the District from the following sources, net of any collection costs: (1) required mill levy and (2) any other legally available monies which the District determines to be treated as pledged revenues. The bonds are also secured by amounts held by the trustee in the reserve fund. Required mill levy means an ad valorem mill levy imposed upon all taxable property of the District each year in an amount sufficient to pay the principal, premium if any, and interest on the bonds as the same become due and payable and to make up any deficiencies in the reserve fund. The maximum required mill levy is 25.000 mills, adjusted for changes in the ratio of actual value to assessed value of property within the District. For collection year 2018, the District levied 25.000 mills for the debt service fund.

Developer advances

In November of 2005, the District entered into a reimbursement agreement with two developers under which the District will reimburse the developers for the cost of water service extension improvements that benefit the District and development within the District. This agreement was amended on November 24, 2010. The District agreed to repay such advances plus accrued interest at a rate set forth at the time of the initial issuance. The interest rate established in the reimbursement agreement is 8.00% per annum. As of December 31, 2018 developer advances payable are \$153,500. As of December 31, 2018 accrued interest related to the developer advances totaled \$67,435.

See independent auditor's report

CONSTITUTION HEIGHTS METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

4. LONG-TERM OBLIGATIONS (CONTINUED)

The District's long-term obligations on the 2011 Bonds and 2014 Loan will mature as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 4,100,000	\$ 2,259,332	\$ 6,359,332
2020	-	403,280	403,280
2021	-	403,280	403,280
2022	-	403,280	403,280
2023	-	403,280	403,280
2024-2028	-	2,016,400	2,016,400
2029-2033	-	2,016,400	2,016,400
2034-2038	-	2,016,400	2,016,400
2039-2040	5,041,000	806,560	5,847,560
Total	<u>\$ 9,141,000</u>	<u>\$ 10,728,212</u>	<u>\$ 19,869,212</u>

In the event revenues or reserves are insufficient to meet scheduled interest payments, unpaid interest may be carried forward as a subsequent year obligation. To the extent not paid when due, such interest will compound on each interest payment date, at the rate borne by the bonds. As of December 31, 2018, unpaid interest totaled \$1,787,719.

5. NET POSITION

The District has a net position consisting of two components - restricted and unrestricted.

Restricted positions include net position that are subject to restrictions for use either by external restrictions 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 a restricted net position as of December 31, 2018 as follows:

Restricted net position:

Debt service (see Note 4)	\$ 385,255
Emergencies (see Note 10)	<u>806</u>
	<u>\$ 386,061</u>

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CONSTITUTION HEIGHTS METROPOLITAN DISTRICT
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DECEMBER 31, 2018

5. NET POSITION (CONTINUED)

The District's unrestricted net position as of December 31, 2018 totaled a deficit of \$11,160,326. This deficit amount was a result of the District being responsible for the repayment of general obligation bonds and tax free loans.

6. RELATED PARTIES

In the ordinary course of business, the District has and expects to continue to have transactions, including developer advances, with developers which are the landowners within the District (see also Note 4). The members of the board of directors of the District are employees, owners of or otherwise associated with the developers and may have conflicts of interest in dealing with the District.

7. INTERGOVERNMENTAL AGREEMENT

On November 30, 2006, the District entered into an intergovernmental agreement ("IGA") with Central Marksheffel Metropolitan District to finance and construct certain road improvements to a portion of Marksheffel Road.

On November 4, 2008, the District entered into an IGA that further defined the District's responsibility for construction and financing the \$2,200,000 project. Specifically this agreement called for the District to issue one or more bonds once the level of assessed valuation within the District was sufficient to service the bonds. This IGA also provided for the Regional Transportation Authority ("RTA") to finance and construct these improvements subject to reimbursement by the District if RTA has completed construction of the north portion of Marksheffel Road prior to the District starting construction on the middle portion.

On September 22, 2009, the District entered into an IGA with the County ("County") which provided for the construction of the middle portion of Marksheffel Road by the County with RTA funds. Upon entering this IGA, the County contemporaneously entered the November 4, 2008 IGA. Under the terms of the 2009 IGA, the District agreed to deed certain property to the County and to contribute up to \$2,788,841 for the cost of design, engineering, and construction of Akers Drive (one of the deeded properties) and Marksheffel Road, including \$588,841 for the cost of improvements to Akers Drive and \$2,200,000 for Marksheffel Road improvements. After contributing \$185,000 for the value of work completed to date on Marksheffel Road, the County will be reimbursed for the balance of the Marksheffel Road improvement costs by collecting a building permit fee, recorded against certain properties within the District and against properties within the impact area of the described improvements as allocated on Exhibit E to the 2009 IGA.

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CONSTITUTION HEIGHTS METROPOLITAN DISTRICT
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DECEMBER 31, 2018

8. ECONOMIC DEPENDENCY

The District has not yet established a revenue base sufficient to fund general and capital expenditures. Until an independent revenue base is established, general expenses and construction of public improvements will be dependent upon funding by the developer.

9. RISK MANAGEMENT

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

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

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

10. TAX, SPENDING AND DEBT LIMITATIONS

Article X, Section 20 of the Colorado Constitution, commonly known as the Taxpayer's Bill of Rights ("TABOR"), contains tax, spending, revenue and debt limitations which apply to the State of Colorado and all local governments within the State of Colorado.

Spending and revenue limits are determined based on the prior fiscal year spending adjusted for allowable increases based upon inflation and local growth. Fiscal year spending is generally defined as expenditures plus reserve increases with certain exceptions. Revenue in excess of the fiscal year spending limit must be refunded unless the voters approve retention of such revenue. The District's voters approved a ballot issue allowing the District to retain all revenues.

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

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CONSTITUTION HEIGHTS METROPOLITAN DISTRICT
NOTES TO FINANCIAL STATEMENTS
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10. TAX, SPENDING AND DEBT LIMITATIONS (CONTINUED)

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 likely require judicial interpretation.

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SUPPLEMENTARY INFORMATION

**CONSTITUTION HEIGHTS METROPOLITAN DISTRICT
DEBT SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
YEAR ENDED DECEMBER 31, 2018**

	Budget		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<u>REVENUES</u>				
Property taxes	\$ 290,423	\$ 290,962	\$ 290,962	\$ -
Interest income	-	686	883	197
Total revenues	290,423	291,648	291,845	197
<u>EXPENDITURES</u>				
County Treasurer's fees	4,356	4,364	4,364	-
Lender's fee	400	214	-	214
Bond principle	105,000	105,000	105,000	-
Interest expense	188,585	190,278	190,278	-
Total expenditures	298,341	299,856	299,642	214
Excess of revenues over (under) expenditures	(7,918)	(8,208)	(7,797)	(17)
<u>OTHER FINANCING SOURCES (USES)</u>				
Repayments of developer advances	(82,000)	(51,619)	-	51,619
Total other financing sources	(82,000)	(51,619)	-	51,619
Net change in fund balance	\$ (89,918)	\$ (59,827)	(7,797)	\$ 52,030
Fund balance, beginning of year			393,052	
Fund balance, end of year			\$ 385,255	

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