

**FALCON HIGHLANDS METROPOLITAN DISTRICT  
El Paso County, Colorado**

**FINANCIAL STATEMENTS  
December 31, 2015**

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Dazzio & Associates, PC

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Certified Public Accountants

## **INDEPENDENT AUDITOR'S REPORT**

Board of Directors  
Falcon Highlands Metropolitan District  
El Paso County, Colorado

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of Falcon Highlands Metropolitan District, as of and for the year ended December 31, 2015, 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.

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## **Basis for Qualified Opinion on Governmental Activities**

As discussed in Note 5 to the financial statements, management does not have sufficient information to verify certain developer notes recorded in governmental activities and to record accrued interest payable on the notes. Accounting principles generally accepted in the United States of America require that all potential obligations be recorded, which would increase the liabilities and expenses of the governmental activities and decrease net position. The amount by which this departure would affect the assets, net position and expenses of the governmental activities has not been determined.

## **Qualified Opinion**

In our opinion, except for the effects of the matter described in the “Basis for Qualified Opinion on Governmental Activities” paragraph, the financial statements referred to above present fairly the financial position of the governmental activities of the Falcon Highlands Metropolitan District, as of December 31, 2015, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Unmodified Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of Falcon Highlands Metropolitan District, as of December 31, 2015, and the respective changes in financial position and, where applicable, cash flows thereof, and the 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 the 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, who 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 opinion on the basic financial statements is 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 Falcon Highlands Metropolitan District's financial statements. The Budget and Actual Schedules for the Debt Service Fund and the Enterprise Fund and the Reconciliation of Budgetary Basis (Actual) to the Statement of Revenues, Expenses and Changes in Net Position for the Enterprise Fund (the Supplementary Information) and the Summary of Assessed Valuation, Mill Levy and Property Taxes Collected and the Schedule of Debt Service Requirements to Maturity (the Other Information), are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Supplementary Information is the responsibility of management and was 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 Supplementary Information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Other Information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

*Duggio & Associates, P.C.*

July 8, 2016

## **BASIC FINANCIAL STATEMENTS**

**FALCON HIGHLANDS METROPOLITAN DISTRICT**  
**STATEMENT OF NET POSITION**  
**Decmeber 31, 2015**

	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Cash and investments	\$ 420,067	\$ 318,122	\$ 738,189
Cash and investments - Restricted	1,024,427	-	1,024,427
Accounts receivable	12,462	29,727	42,189
Receivable - County Treasurer	6,120	-	6,120
Receivable - Interest	20	-	20
Property taxes receivable	642,788	-	642,788
Capital assets, not being depreciated	1,354,955	402,786	1,757,741
Capital assets, net	3,121	3,683,196	3,686,317
Total assets	<u>3,463,960</u>	<u>4,433,831</u>	<u>7,897,791</u>
<b>LIABILITIES</b>			
Accounts payable	27,711	32,614	60,325
Accrued lease interest	8	-	8
Bonds payable	11,871,103	-	11,871,103
Accrued bond interest payable	6,130,741	-	6,130,741
Noncurrent liabilities:			
Due within one year	1,597	-	1,597
Due in more than one year	7,808,747	-	7,808,747
Total liabilities	<u>25,839,907</u>	<u>32,614</u>	<u>25,872,521</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Property tax revenue	642,788	-	642,788
Total deferred inflows of resources	<u>642,788</u>	<u>-</u>	<u>642,788</u>
<b>NET POSITION</b>			
Net investments in capital assets	1,354,239	4,085,982	5,440,221
Restricted for:			
Emergency reserves	8,700	-	8,700
Conservation trust	4,027	-	4,027
Unrestricted	(24,385,701)	315,235	(24,070,466)
Total Net Position	<u>\$ (23,018,735)</u>	<u>\$ 4,401,217</u>	<u>\$ (18,617,518)</u>

These financial statements should be read only in connection with  
the accompanying notes to financial statements.

**FALCON HIGHLANDS METROPOLITAN DISTRICT  
STATEMENT OF ACTIVITIES  
Year Ended December 31, 2015**

<u>Functions/Programs</u>	<u>Program Revenues</u>				<u>Net (Expenses) Revenues and Changes in Net Position</u>		
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Primary government:							
Government activities:							
General government	\$ 207,911	\$ 134,654	\$ -	\$ -	\$ (73,257)	\$ -	\$ (73,257)
Interest and related costs on long term debt	1,493,440	-	-	6,250	(1,487,190)	-	(1,487,190)
	<u>\$ 1,701,351</u>	<u>\$ 134,654</u>	<u>\$ -</u>	<u>\$ 6,250</u>	<u>(1,560,447)</u>	<u>-</u>	<u>(1,560,447)</u>
Business-type activities:							
Enterprise	\$ 569,512	\$ 457,058	\$ -	\$ 25,300	-	(87,154)	(87,154)
	<u>\$ 569,512</u>	<u>\$ 457,058</u>	<u>\$ -</u>	<u>\$ 25,300</u>	<u>-</u>	<u>(87,154)</u>	<u>(87,154)</u>
General revenues:							
Property taxes					615,826	-	615,826
Specific ownership taxes					69,613	-	69,613
Interest income					3,113	-	3,113
Transfers					12,250	(12,250)	-
Total general revenues and transfers					<u>700,802</u>	<u>(12,250)</u>	<u>688,552</u>
Change in Net Position					(859,645)	(99,404)	(959,049)
Net Position - Beginning					(22,159,090)	4,500,621	(17,658,469)
Net Position - Ending					<u>\$ (23,018,735)</u>	<u>\$ 4,401,217</u>	<u>\$ (18,617,518)</u>

These financial statements should be read only in connection with  
the accompanying notes to financial statements.

**FALCON HIGHLANDS METROPOLITAN DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
December 31, 2015**

	General	Conservation Trust Fund	Debt Service	Total Governmental Funds
<b>ASSETS</b>				
Cash and investments	\$ 420,067	\$ -	\$ -	\$ 420,067
Cash and investments - Restricted	8,700	4,027	1,011,700	1,024,427
Accounts receivable	12,462	-	-	12,462
Receivable - County Treasurer	6,120	-	-	6,120
Receivable - Interest	-	-	20	20
Property taxes receivable	91,827	-	550,961	642,788
<b>TOTAL ASSETS</b>	<b>\$ 539,176</b>	<b>\$ 4,027</b>	<b>\$ 1,562,681</b>	<b>\$ 2,105,884</b>
<b>LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Accounts payable	\$ 27,711	\$ -	\$ -	\$ 27,711
Total liabilities	27,711	-	-	27,711
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Property tax revenue	91,827	-	550,961	642,788
Total deferred inflows of resources	91,827	-	550,961	642,788
<b>FUND BALANCES</b>				
Restricted for:				
Emergency reserves	8,700	-	-	8,700
Debt service	-	-	1,011,720	1,011,720
Conservation trust	-	4,027	-	4,027
Unassigned:	410,938	-	-	410,938
Total fund balances	419,638	4,027	1,011,720	1,435,385
<b>TOTAL LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES</b>	<b>\$ 539,176</b>	<b>\$ 4,027</b>	<b>\$ 1,562,681</b>	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the funds.	
Capital assets, net	1,358,076
Long-term liabilities, including Developer advances, are not due and payable in the current period and, therefore, are not reported in the funds.	
Bonds and notes payable	(14,860,000)
Bond discount, net	48,897
Accrued bond interest	(6,130,741)
Lease payable	(3,837)
Accrued lease interest	(8)
Developer advances (related parties) payable	(4,866,507)
Net Position of governmental activities	<b>\$ (23,018,735)</b>

These financial statements should be read only in connection with the accompanying notes to financial statements.

**FALCON HIGHLANDS METROPOLITAN DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND**  
**BALANCES - GOVERNMENTAL FUNDS**  
**Year Ended December 31, 2015**

	<u>General</u>	<u>Conservation Trust Fund</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>				
Property taxes	\$ 87,975	\$ -	\$ 527,851	\$ 615,826
Specific ownership taxes	69,613	-	-	69,613
Conservation trust fund proceeds	-	4,027	-	4,027
Maintenance fees	130,627	-	-	130,627
Infrastructure fees	-	-	6,250	6,250
Interest income	1,146	-	1,967	3,113
Total revenues	<u>289,361</u>	<u>4,027</u>	<u>536,068</u>	<u>829,456</u>
<b>EXPENDITURES</b>				
General government	217,532	-	-	217,532
Debt service	-	-	699,306	699,306
Total expenditures	<u>217,532</u>	<u>-</u>	<u>699,306</u>	<u>916,838</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>				
	<u>71,829</u>	<u>4,027</u>	<u>(163,238)</u>	<u>(87,382)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	-	12,250	12,250
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>12,250</u>	<u>12,250</u>
<b>NET CHANGE IN FUND BALANCES</b>				
	71,829	4,027	(150,988)	(75,132)
<b>FUND BALANCES - BEGINNING OF YEAR</b>				
	<u>347,809</u>	<u>-</u>	<u>1,162,708</u>	<u>1,510,517</u>
<b>FUND BALANCES - END OF YEAR</b>				
	<u>\$ 419,638</u>	<u>\$ 4,027</u>	<u>\$ 1,011,720</u>	<u>\$ 1,435,385</u>

These financial statements should be read only in connection with  
the accompanying notes to financial statements.

**FALCON HIGHLANDS METROPOLITAN DISTRICT  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
Year Ended December 31, 2015**

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

Net change in fund balances - Total governmental funds	\$ (75,132)
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Governmental funds report capital outlays as expenditures. In the statement of activities, capital outlay is not reported as an expenditure. However, the statement of activities will report as depreciation expense the allocation of the cost of any depreciable asset over the estimated useful life of the asset. The conveyance of capital assets to other governments in the current period are as follows:

Capital outlay	9,653
Current year depreciation	(1,561)

The issuance of long-term debt (e.g., bonds and Developer advances), 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. Neither transaction, however, has any effect on Net Position.

Bond principal payment	140,000
Lease principal payment	1,529

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.

Accrued bond interest payable - Change in liability	(930,317)
Accrued lease interest payable - Change in liability	3
Amortization of original issue discount	(3,820)

Changes in Net Position of governmental activities	<u>\$ (859,645)</u>
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These financial statements should be read only in connection with  
the accompanying notes to financial statements.

**FALCON HIGHLANDS METROPOLITAN DISTRICT  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES - BUDGET AND ACTUAL  
Year Ended December 31, 2015**

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
<b>REVENUES</b>			
Property taxes	\$ 88,003	\$ 87,975	\$ (28)
Specific ownership taxes	61,602	69,613	8,011
Maintenance fees	120,000	130,627	10,627
Interest income	400	1,146	746
Total revenues	<u>270,005</u>	<u>289,361</u>	<u>19,356</u>
<b>EXPENDITURES</b>			
Accounting	30,000	21,666	8,334
Audit	8,500	8,500	-
County Treasurer's fees	1,320	1,324	(4)
District management	25,000	23,491	1,509
Directors fees	-	2,285	(2,285)
Utilities	10,000	12,894	(2,894)
Election	-	-	-
Engineering	5,000	-	5,000
Equipment expense	10,000	1,182	8,818
Fuel	2,000	1,033	967
Insurance	5,800	5,695	105
Landscape maintenance	3,000	1,696	1,304
Legal	30,000	40,179	(10,179)
Payroll - Wages and taxes	26,000	23,521	2,479
Repairs and maintenance	9,000	10,875	(1,875)
Miscellaneous	1,000	1,807	(807)
Park equipment	20,000	-	20,000
Street repairs	50,000	50,000	-
Contingency	5,649	-	5,649
John Deere Mower 2013 - Principal	1,530	1,528	2
John Deere Mower 2013 - Interest	201	203	(2)
Capital outlay	30,000	9,653	20,347
Total expenditures	<u>274,000</u>	<u>217,532</u>	<u>56,468</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(3,995)</u>	<u>71,829</u>	<u>75,824</u>
<b>NET CHANGE IN FUND BALANCES</b>	(3,995)	71,829	75,824
<b>FUND BALANCES - BEGINNING OF YEAR</b>	342,631	347,809	5,178
<b>FUND BALANCES - END OF YEAR</b>	<u>\$ 338,636</u>	<u>\$ 419,638</u>	<u>\$ 81,002</u>

These financial statements should be read only in connection with  
the accompanying notes to financial statements.

**FALCON HIGHLANDS METROPOLITAN DISTRICT  
 CONSERVATION TRUST FUND  
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
 FUND BALANCES - BUDGET AND ACTUAL  
 Year Ended December 31, 2015**

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
<b>REVENUES</b>			
Conservation trust fund proceeds	\$ 3,000	\$ 4,027	\$ 1,027
Total revenues	<u>3,000</u>	<u>4,027</u>	<u>1,027</u>
<b>EXPENDITURES</b>			
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>3,000</u>	<u>4,027</u>	<u>1,027</u>
<b>NET CHANGE IN FUND BALANCES</b>	3,000	4,027	1,027
<b>FUND BALANCES - BEGINNING OF YEAR</b>	<u>-</u>	<u>-</u>	<u>-</u>
<b>FUND BALANCES - END OF YEAR</b>	<u>\$ 3,000</u>	<u>\$ 4,027</u>	<u>\$ 1,027</u>

These financial statements should be read only in connection with  
 the accompanying notes to financial statements.

**FALCON HIGHLANDS METROPOLITAN DISTRICT**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**ENTERPRISE FUND**  
**Year Ended December 31, 2015**

<b>OPERATING REVENUES</b>	
Water usage fees	\$ 251,324
Water treatment fees	115,415
Administrative fees	82,084
Penalties	6,855
Water meters	790
Inspection fees	90
O&M reserve fee	500
Total operating revenues	457,058
<b>OPERATING EXPENSES</b>	
Facility operations	
Fuel	1,549
Payroll - Wages and taxes	51,566
Permits - Fees	555
Repairs and maintenance	2,906
Operating expense	11,998
Security	5,534
Small tools and supplies	604
Supplies - Treatment facility	15,116
Utilities	55,279
Utility billing	37,001
Depreciation	202,490
Administration and general expenses	
Accounting	42,297
Dues and subscriptions	1,388
Equipment expense	306
District management	27,263
Engineering	55,356
Legal	33,588
Insurance	11,538
Telephone	2,658
Utility locates	412
Miscellaneous expense	283
Allocation of lease expense	(1,182)
Total operating expenses	558,505
<b>OPERATING INCOME (LOSS)</b>	<b>(101,447)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>	
Water tap fees	12,250
Sewer tap fees	13,050
Interest expense	(7)
Woodmen Hills sewer tap fees	(11,000)
Total nonoperating revenues (expenses)	14,293
<b>INCOME BEFORE TRANSFERS</b>	<b>(87,154)</b>
Transfers out	(12,250)
Net transfers	(12,250)
<b>CHANGE IN NET POSITION</b>	<b>(99,404)</b>
<b>TOTAL NET POSITION - BEGINNING OF YEAR</b>	<b>4,500,621</b>
<b>TOTAL NET POSITION - END OF YEAR</b>	<b>\$ 4,401,217</b>

These financial statements should be read only in connection with  
the accompanying notes to financial statements.

**FALCON HIGHLANDS METROPOLITAN DISTRICT  
STATEMENT OF CASH FLOWS  
ENTERPRISE FUND  
Year Ended December 31, 2015**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Receipts from customers	\$ 450,842
Other receipts	8,235
Payments to suppliers	(316,436)
Payments to employees	(53,548)
Net cash provided (required) by operating activities	89,093

**CASH FLOWS FROM CAPITAL AND RELATED  
FINANCING ACTIVITIES**

Water tap fees	12,250
Sewer tap fees	13,050
Transfer to other funds	(12,250)
Debt interest paid	(7)
Leases principal reduction	(1,175)
Facilities fees - Woodmen Hills	(11,000)
Net cash provided (required) by capital and related financing activities	868

**NET INCREASE IN CASH AND CASH EQUIVALENTS**

**CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR**

**CASH AND CASH EQUIVALENTS - END OF YEAR**

	89,961
	228,161
	\$ 318,122

**Reconciliation of operating income (loss) to net cash provided  
(required) by operating activities**

Operating income (loss)	\$ (101,447)
Adjustments to reconcile operating income (loss) to net cash provided (required) by operating activities	
Depreciation	202,490
Accounts receivable	2,019
Accounts payable	(11,987)
Payroll liabilities	(1,982)
Net cash provided (required) by operating activities	\$ 89,093

These financial statements should be read only in connection with  
the accompanying notes to financial statements.

**FALCON HIGHLANDS METROPOLITAN DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2015**

**NOTE 1 - DEFINITION OF REPORTING ENTITY**

Falcon Highlands Metropolitan District (the District), a quasi-municipal corporation and political subdivision of the State of Colorado, was organized by order and decree of the District Court of El Paso County, Colorado on November 14, 2002, and is governed pursuant to provisions of the Colorado Special District Act (Title 32, Article 1, Colorado Revised Statutes). The District operates under a Service Plan approved by El Paso County Commissioners on July 25, 2002. The District's boundaries and service area is located in unincorporated El Paso County, Colorado. The District was established to provide water, sanitary sewage, drainage, landscaping, public transportation, street improvements, traffic and safety controls, parks and recreation facilities, mosquito control and television relay and translation systems.

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 financially accountable for any other organization, nor is the District a component unit of any other primary governmental entity.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**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. The effect of interfund activity has been removed from these statements. Both statements distinguish between governmental activities, which normally are supported by taxes and intergovernmental revenues, and business-type activities, which rely to a significant extent on fees and charges for support.

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

**FALCON HIGHLANDS METROPOLITAN DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2015**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is 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 and proprietary funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

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 collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government 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 property taxes and specific ownership taxes. 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:

- The *General Fund* is the District's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The *Conservation Trust Fund* is used to account for conservation trust revenues and expenditures incurred for eligible costs.
- The *Debt Service Fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of the governmental funds.

**FALCON HIGHLANDS METROPOLITAN DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2015**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

The District reports the following major proprietary funds:

- The *Enterprise Fund* accounts for the water and sanitary sewage operations that are financed and operated in a manner where the intent of the District is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are other charges between the District's water and sanitary sewage function and various other functions of the District. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include: 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating revenues consist of charges to customers for service provided. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses or capital contributions.

**Budgets**

In accordance with the State Budget Law, the District's Board of Directors holds a public hearing 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 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 and investments.

**FALCON HIGHLANDS METROPOLITAN DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2015**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Investments are carried at fair value.

**Cash Equivalents**

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.

**Interfund Balances**

The District reports interfund balances that are representative of lending/borrowing arrangements between funds in the fund financial statements as due to/from other funds. The interfund balances have been eliminated in the government-wide statements except for the residual balances between the governmental activities and business-type activities, which are reported as internal balances.

**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 by certification to the County Commissioners to put the tax lien on the individual properties as of January 1 of the following year. The County Treasurer collects the determined taxes during the ensuing calendar year. The taxes are payable by April or if in equal installments, at the taxpayer's election, in February and June. 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 monthly to the District.

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

**Capital Assets**

Capital assets, which include property, water rights, equipment, and infrastructure assets (e.g. roads, bridges, sidewalks, water and sanitary sewage facilities, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. 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 fair value at the date of donation.

Capital assets which are anticipated to be conveyed to other governmental entities are recorded as construction in progress, and are not included in the calculation of net investment in capital assets component of the District's net position.

**FALCON HIGHLANDS METROPOLITAN DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2015**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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 expense has been computed using the straight-line method over the following estimated economic useful lives:

Water and sanitary sewage facilities	30 - 40 years
Machinery, equipment and vehicles	5 - 10 years

**Tap Fees and Contributed Lines**

Tap fees are recorded as capital contributions when received. Lines contributed to the District by developers are recorded as capital contributions and additions to the systems at estimated fair value when received.

**Water Rights**

The cost of water rights includes acquisition cost, legal and engineering costs related to the development and augmentation of those rights. Since the rights have a perpetual life, they are not amortized. All other costs, including costs incurred for the protection of those rights, are expensed.

**Amortization**

**Original Issue Discount/Premium**

In the government-wide financial statements, bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

**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 government has only one item that qualifies for reporting in this category. Accordingly, the item, *property tax revenue*, is deferred and recognized as an inflow of resources in the period that the amounts become available.

**FALCON HIGHLANDS METROPOLITAN DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2015**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Equity**

***Net Position***

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

In the government-wide financial statements, fund equity is classified as net position. Net position may be classified into three components: net investment in capital assets, restricted and unrestricted. These classifications are defined as follows:

- Net investment in capital assets – this component of net position consists of capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any debt that is attributable to the acquisition, construction or improvement of those assets. If there are significant unspent debt proceeds at year end, the portion of the debt attributable to the unspent proceeds is not included in this component.
- Restricted – this component of net position consists of assets that are restricted for use as imposed by external parties such as creditors, grantors or contributors, or as imposed by laws or regulations of other governments, or as imposed through constitutional provisions or enabling legislation.
- Unrestricted – the component of net position that does not meet the definitions above.

***Fund Balance***

Fund balance for governmental funds should be 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 legally or contractually required to be maintained intact.
- *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.

**FALCON HIGHLANDS METROPOLITAN DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2015**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

- *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 practice to use the most restrictive classification first.

**NOTE 3 - CASH AND INVESTMENTS**

Cash and investments as of December 31, 2015, are classified in the accompanying financial statements as follows:

Statement of net position:

Cash and investments - FDIC	\$ 738,189
Cash and investments - Restricted - FDIC and PDPA	<u>1,024,427</u>
Total cash and investments	<u><u>\$ 1,762,616</u></u>

Cash and investments as of December 31, 2015, consist of the following:

Deposits with financial institutions	\$ 1,347,742
Investments	<u>414,874</u>
Total cash and investments	<u><u>\$ 1,762,616</u></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. 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 at least 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, 2015, the District’s cash deposits had a bank balance of \$1,344,032 and a carrying balance of \$1,347,742.

**FALCON HIGHLANDS METROPOLITAN DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2015**

**NOTE 3 - CASH AND INVESTMENTS (CONTINUED)**

**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 noted 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 formally approved by the Board of Directors. Such actions are generally associated with a debt service reserve or sinking fund requirements.

Colorado statutes specify investment instruments meeting defined rating and risk criteria in which local governments may invest which include:

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

As of December 31, 2015, the District had the following investments:

<b>Investment</b>	<b>Maturity</b>	<b>Fair Value</b>
Colorado Surplus Asset Fund Trust (CSAFE)	Weighted average under 60 days	<u>\$ 414,874</u>

**FALCON HIGHLANDS METROPOLITAN DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2015**

**NOTE 3 - CASH AND INVESTMENTS (CONTINUED)**

**CSAFE**

The District invested in the Colorado Surplus Asset Fund Trust (CSAFE), which is an investment vehicle established by state statute for local government entities to pool surplus assets. The State Securities Commissioner administers and enforces all State statutes governing CSAFE. CSAFE is similar to a money market fund, with each share valued at \$1.00. CSAFE may invest in U.S. Treasury securities, repurchase agreements collateralized by U.S. Treasury securities, certain money market funds and highest rated commercial paper. A designated custodial bank serves as custodian for CSAFE's portfolio pursuant to a custodian agreement. The custodian acts as safekeeping agent for CSAFE's investment portfolio and provides services as the depository in connection with direct investments and withdrawals. The custodian's internal records segregate investments owned by CSAFE. CSAFE is rated AAAM by Standard & Poor's.

**FALCON HIGHLANDS METROPOLITAN DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2015**

**NOTE 4 - CAPITAL ASSETS**

An analysis of the changes in capital assets for the year ended December 31, 2015, follows:

	<b>Balance at December 31, 2014</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance at December 31, 2015</b>
<b>Governmental Activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 1,345,302	\$ -	\$ -	\$ 1,345,302
CIP	-	9,653	-	9,653
Total capital assets, not being depreciated	<u>1,345,302</u>	<u>9,653</u>	<u>-</u>	<u>1,354,955</u>
Capital assets, being depreciated:				
Equipment and systems	7,804	-	-	7,804
Less accumulated depreciation for:				
Equipment and systems	3,122	1,561	-	4,683
Total capital assets, being depreciated, net	<u>4,682</u>	<u>(1,561)</u>	<u>-</u>	<u>3,121</u>
Governmental activities capital assets, net	<u>\$ 1,349,984</u>	<u>\$ 8,092</u>	<u>\$ -</u>	<u>\$ 1,358,076</u>
<b>Business-type Activities:</b>				
Capital assets, not being depreciated:				
Water rights	\$ 402,786	\$ -	\$ -	\$ 402,786
Total capital assets, not being depreciated	<u>402,786</u>	<u>-</u>	<u>-</u>	<u>402,786</u>
Capital assets, being depreciated:				
Equipment and systems	5,905,866	-	-	5,905,866
Vehicles	36,459	-	-	36,459
Total capital assets, being depreciated	<u>5,942,325</u>	<u>-</u>	<u>-</u>	<u>5,942,325</u>
Less accumulated depreciation for:				
Equipment and systems	2,023,826	198,844	-	2,222,670
Vehicles	32,813	3,646	-	36,459
Total accumulated depreciation	<u>2,056,639</u>	<u>202,490</u>	<u>-</u>	<u>2,259,129</u>
Total capital assets, being depreciated, net	<u>3,885,686</u>	<u>(202,490)</u>	<u>-</u>	<u>3,683,196</u>
Business-type activities capital assets, net	<u>\$ 4,288,472</u>	<u>\$ (202,490)</u>	<u>\$ -</u>	<u>\$ 4,085,982</u>

**FALCON HIGHLANDS METROPOLITAN DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2015**

**NOTE 5 - LONG-TERM OBLIGATIONS**

The following is an analysis of the changes in the District's long-term obligations for the year ended December 31, 2015:

	<u>Balance at December 31, 2014</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at December 31, 2015</u>	<u>Due Within One Year</u>
<b>Governmental activities:</b>					
G.O. Limited Tax Senior					
Series 2004A (1)	\$ 7,125,000	\$ -	\$ 140,000	\$ 6,985,000	\$ -
Series 2004 B-1 Subordinate Notes	1,000,000	-	-	1,000,000	-
Series 2006 B-2 Subordinate Notes	1,500,000	-	-	1,500,000	-
Series 2006 B-3 Subordinate Notes	440,000	-	-	440,000	-
G.O. Limited Tax Subordinate					
Series 2007 (1)	4,935,000	-	-	4,935,000	-
Cygnnet, LLC - Note Payable	4,025,291	-	-	4,025,291	-
RDS, LLC - Note Payable	128,682	-	-	128,682	-
Tamlin Ventures, LLC - Note Payable	447,534	-	-	447,534	-
Cygnnet, LLC - Letter of Credit	265,000	-	-	265,000	-
2013 John Deere Lease	5,366	-	1,529	3,837	1,597
Subtotal	<u>19,871,873</u>	<u>-</u>	<u>141,529</u>	<u>19,730,344</u>	<u>1,597</u>
Original Issue Discount					
Series 2004A (1)	52,717	-	3,820	48,897	-
Total long-term liabilities	<u>\$ 19,819,156</u>	<u>\$ -</u>	<u>\$ 137,709</u>	<u>\$ 19,681,447</u>	<u>\$ 1,597</u>
<b>Business-type activities:</b>					
2010 John Deere Lease	\$ 1,175	\$ -	\$ 1,175	\$ -	\$ -
Total long-term liabilities	<u>\$ 1,175</u>	<u>\$ -</u>	<u>\$ 1,175</u>	<u>\$ -</u>	<u>\$ -</u>

(1) Based on failure to make water tap and infrastructure improvement fees as identified in Note 5, the District may be in default on various bond obligations and therefore they are shown as current liabilities in the statement of net position.

**FALCON HIGHLANDS METROPOLITAN DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2015**

**NOTE 5 - LONG-TERM OBLIGATIONS (CONTINUED)**

The following is an analysis of the changes in the District's accrued interest obligations for the year ended December 31, 2015:

	<b>Balance at December 31, 2014</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance at December 31, 2015</b>
<b>Accrued Interest:</b>				
G.O. Limited Tax Senior				
Series 2004A	\$ 22,637	\$ 542,836	\$ 543,281	\$ 22,192
Series 2004 B-1 Subordinate Notes	349,500	45,000	-	394,500
Series 2006 B-2 Subordinate Notes	436,917	67,500	-	504,417
Series 2006 B-3 Subordinate Notes	128,162	19,800	-	147,962
G.O. Limited Tax Subordinate				
Series 2007	4,263,208	798,462	-	5,061,670
Total long-term liabilities	<u>\$ 5,200,424</u>	<u>\$ 1,473,598</u>	<u>\$ 543,281</u>	<u>\$ 6,130,741</u>

Accrued interest payable for the Cygnet, LLC, RDS, LLC and Tamlin Ventures, LLC notes payable has not been allocated due to the District not having documentation regarding these obligations to substantiate an interest amount.

The details of the District's long-term obligations are as follows:

**General Obligation Bonds and Notes**

On June 16, 2004, the District issued and authorized the following Bonds and Notes: 1) \$9,465,000 General Obligation Limited Tax Bonds, Series 2004A (the "Bonds"), 2) \$1,000,000 General Obligation Limited Tax Notes, Series 2004 B-1 (the "Series 2004 B-1 Notes"); and authorized the issuance of the 3) \$1,500,000 General Obligation Limited Tax Notes, Series 2006B-2 (the "Series 2006 B-2 Notes"), 4) \$440,000 Subordinate General Obligation Limited Tax Notes, Series 2006 B-3 (the "Series 2006 B-3 Notes") upon fulfillment of certain conditions and authorization by the Board of Directors of the District. The Series 2006 B-2 and the Series 2006 B-3 Notes were issued during 2006. The Series 2004 B-1 Notes, the Series 2006 B-2 Notes and the Series 2006 B-3 Notes (collectively the "Notes") and the Bonds, were issued for the purposes of: (i) constructing certain infrastructure improvements within the District; (ii) reimbursing the Developer for funds expended by the Developer for organizational costs of the District and construction of certain infrastructure improvements completed by the Developer within the District; (iii) funding the Reserve Account for the Bonds, which Reserve Account is available to pay debt service on the Bonds under certain circumstances; (iv) paying approximately one and one-fourth year's capitalized interest on the bonds; and (v) paying the issuance expenses and Underwriter's fees with respect to the Bonds and Notes.

**FALCON HIGHLANDS METROPOLITAN DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2015**

**NOTE 5 - LONG-TERM OBLIGATIONS (CONTINUED)**

**General Obligation Limited Tax Bonds, Series 2004A**

The Bonds bear interest at 7.625%, calculated on the basis of a 360 day year of twelve 30 day months, payable semi-annually on June 15 and December 15, beginning on December 15, 2004. Annual mandatory sinking fund principal payments are due on December 15, beginning on December 15, 2005. The Bonds mature on December 15, 2034. The Bonds are subject to redemption prior to maturity at the option of the District beginning June 15, 2014, at a premium of 102%; which premium reduces to zero after June 15, 2016.

**General Obligation Limited Tax Notes, Series 2004 B-1, Series 2006 B-2 and Series 2006 B-3**

The Notes bear interest at 2.000% - 8.000%, calculated on the basis of a 360 day year of twelve 30 day months, payable annually on December 15, to the extent funds are available for payment. The Notes shall bear interest at the rates established from the date of issuance until paid and shall mature, unless paid sooner, as to the Series 2004 B-1 Notes, on December 15, 2035, and, as to the Series 2006 B-2 and Series 2006 B-3 Notes, on December 15, 2037.

During 2011, the 2006 B-2 Notes were assigned to Enterprise Bank & Trust Co. in a civil case, No. 11-CV-00026-CV-W-DW, pursuant to a Commercial Pledge Agreement executed by Cygnet Land, LLC.

The Bonds and the Notes constitute limited tax obligations of the District. The principal of, premium if any, and interest on or in connection with the Bonds, and the principal of and interest on or in connection with the Notes, are payable solely from and to the extent of the revenues of the District pledged to the payment of the Bonds and the Notes. Pledged revenues, consisting of monies derived from the District from: (i) its Limited Mill Levy, except for that portion thereof levied for operations and maintenance expense of the District, (ii) Infrastructure Improvement Fees, (iii) Facility Fees, (iv) Water Tap Fees and (v) with respect to the Notes only, any monies received from the District not pledged to the payment of the Bonds or operations and maintenance expenses of the District, are pledged to the payment of the Bonds and the Notes. The Pledged Revenues are first applied to the Bond Accounts then to the Note Accounts as monies are available.

**\$4,935,000 General Obligation Limited Tax Subordinate Bonds, Series 2007**

On February 26, 2007, the District issued the \$4,935,000 General Obligation Limited Tax Subordinate Bonds, Series 2007 (the "Series 2007 Bonds"). The Series 2007 Bonds were issued for the following purposes: (i) to construct certain infrastructure improvements within the District; (ii) to reimburse the Developer for construction of certain infrastructure improvements completed, (iii) to pay a portion of approximately twenty months of capitalized interest on the Series 2007 Bonds; and (iv) to pay the issuance expenses and underwriter's fees with respect to the Series 2007 Bonds.

**FALCON HIGHLANDS METROPOLITAN DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2015**

**NOTE 5 - LONG-TERM OBLIGATIONS (CONTINUED)**

The Series 2007 Bonds bear interest at 8.500%, payable semi-annually on June 15 and December 15, beginning on June 15, 2007. To the extent interest on the Series 2007 Bonds is not paid when due, such interest compounds semi-annually on June 15 and December 15 at the rate of the bonds. The Series 2007 Bonds are subject to optional and extraordinary redemption. The Series 2007 Bonds are subordinate in all respects to the District's 2004A Bonds but senior to the payment of debt service on the Notes. Principal of, and interest on the Series 2007 Bonds payable on any interest payment date will be made only to the extent that the District has revenue in excess of debt service requirements of the Series 2004A Bonds or from sources not pledged to the payment of the Series 2004A Bonds. Unpaid principal and interest on the Series 2007 Bonds due on any date will accrue until such time as the Series 2004A Bonds are no longer outstanding or the District's revenues exceed then current debt service on the Series 2004A Bonds. Furthermore, owners of the Series 2007 Bonds have no power to exercise, or to direct the Trustee to exercise, any remedy upon default or otherwise while the Series 2004A Bonds are outstanding.

The Series 2007 Bonds share the same pledged revenue sources as the 2004A Bonds and the Notes. In addition to said pledged revenue, the Series 2007 Bonds and the Notes are also payable from drainage and other credits (if, and to the extent received by the District, the "Credits") paid to the District by El Paso County, Colorado, which Credits are not pledged to the payment of debt service on the Series 2004A Bonds.

**Water Tap Fee and Infrastructure Improvement Fee Resolutions**

Pursuant to the Trust Indenture dated June 1, 2004, related to the District's: 1) Series 2004A Bonds, (ii) its Series 2004B-1 Notes, (iii) its Series 2006B-2 Notes, (iv) its Series 2006B-3 Notes, and also related to the Supplemental Trust Indenture dated February 15, 2007, issued in connection with the (v) Series 2007 Bonds, by and among the District, Cygnet Land, LLC (the "Developer"), and U.S. Bank National Association, as successor to SunTrust Bank (the "Trustee"), it was agreed that the District would pledge certain fee revenue to the repayment of the bonds as adopted with the June 16, 2004, Water Tap Fee Resolution imposing water tap fees (the "Water Tap Fees") on single-family and multi-family residences to be constructed within the District and the District also adopted an Infrastructure Improvement Fee Resolution imposing infrastructure improvement fees (the "Infrastructure Improvement Fees") on such residences to be constructed in the District and also imposing facility fees (the "Facility Fees") on office, commercial and light industrial buildings to be constructed within the District, (collectively the "Resolutions").

**Water Tap Fee and Infrastructure Improvement Fee Agreement**

On June 24, 2004, the District entered into the Water Tap Fee and Infrastructure Improvement Fee Agreement ("Fee Agreement") with Cygnet Land, LLC (the "Developer") and Falcon Highlands, LLC (the "Primary Property Owner"). This Fee Agreement was amended on May 15, 2009 (see Note 5 - Amendment No. 1 to Water Tap Fee and Infrastructure Fee Agreement and the Amendment No. 1 to Trust Indenture). This information is included for historical purposes. Pursuant to the Resolutions, Water Tap Fees and Infrastructure Improvement Fees are to be paid by builders prior to the issuance of a building permit for a residential unit. To the extent that the number of Water Tap Fees and Infrastructure Improvement Fees paid in each semi-annual

**FALCON HIGHLANDS METROPOLITAN DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2015**

**NOTE 5 - LONG-TERM OBLIGATIONS (CONTINUED)**

period (commencing May 1 and November 1) during the years 2005 to and including 2016 is less than the number of Water Tap Fees and Infrastructure Improvement Fees specified for such semi-annual period, as detailed below, the Primary Property Owner or, under certain circumstances, the Developer, agree to pay the remaining number of Water Tap Fees and Infrastructure Improvement Fees for such semi-annual period.

The amount of the Water Tap Fee for each single-family unit is \$5,000 and the amount for each multi-family unit is \$1,250, as established in the Water Tap Fee Resolution. The amount of the Infrastructure Improvement Fee for each single-family unit is \$2,500 and the amount for each multi-family unit is \$625, as established in the Infrastructure Improvement Fee Resolution; provided, however, the amount of the Water Tap Fee and the Infrastructure Improvement Fees, collectively, shall increase 25% each five years, commencing in 2009.

In order to secure the Developer's obligation to pay Water Tap Fees and Infrastructure Improvement Fees, the Developer provided to the District an irrevocable, stand-by letter of credit (the First Community Bank Irrevocable Letter of Credit No. 1987, "Letter of Credit") in the aggregate amount of \$500,000. Such Letter of Credit permitted the Trustee on behalf of the District, to draw on the Letter of Credit, up to the full amount. Pursuant to the May 15, 2009, Amendment No. 1 to the Water Tap Fee and Infrastructure Improvement Fee Agreement and the Amendment No. 1 to the Trust Indenture, the Letter of Credit expired on June 1, 2009.

The Fee Agreement was filed in the real property records of El Paso County, Colorado, at Reception No. 204105260, as a lien upon the properties identified in the Fee Agreement and can be foreclosed upon, at the option of the bondholders, in the event the Developer defaults in its obligations surrounding the Letter of Credit. The Trustee, on behalf of the District may take any other remedies available to it against the Primary Property Owner and the Developer.

Once the number of Water Tap Fees and Infrastructure Improvement Fees have been reduced to a point that the amount to be received by the District is less than \$500,000, the Developer was to be allowed to reduce the amount available under the Letter of Credit to a corresponding level and continue reducing such amount available as additional Water Tap Fees and Infrastructure Improvement Fees are paid. When all Water Tap Fees and Infrastructure Improvement Fees to be paid under this Fee Agreement have been paid, any remaining property of the Developer pledged under this Fee Agreement will be released from the lien thereon and the Letter of Credit would be terminated. To the extent the Primary Property Owner or the Developer continues to own property within the District, the Primary Property Owner or the Developer (as the case may be) shall be liable for any and all taxes, assessments, rates, fees, tolls, penalties, and charges of the District, as applicable to other property owners in the District, as determined under the District's rules and regulations.

**FALCON HIGHLANDS METROPOLITAN DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2015**

**NOTE 5 - LONG-TERM OBLIGATIONS (CONTINUED)**

Any Water Tap Fees and Infrastructure Improvement Fees which are not paid as scheduled are subject to 12.000% simple interest thereon from the date due, per annum (“Delinquency Interest”). Any Delinquency Interest not paid to the District by the Primary Property Owner or the Developer on or before the next interest payment date shall, at the end of such period, be aggregated with such delinquent Water Tap Fees and Infrastructure Improvement Fees, and such delinquent Water Tap Fees, Infrastructure Improvement Fees and accumulated Delinquency Interest shall all be subject to simple interest thereon at 12.000% interest per annum. The District may also exercise any other remedies available to it under the Fee Agreement or as a matter of law.

Upon the Developer’s default in its obligation to pay Water Tap Fees and Infrastructure Improvement Fees when due, the Letter of Credit was to be drawn upon by the Trustee, on behalf of the District, to the extent of unpaid Water Tap Fees and Infrastructure Improvement Fees. To the extent Letter of Credit would have been fully drawn, or upon bankruptcy of the Primary Property Owner or the Developer, or upon failure of the Primary Property Owner or the Developer to comply with its covenants herein, the District and the Trustee shall have the right and remedy, by any appropriate legal proceedings, to foreclose upon the lien created by the Fee Agreement and to enforce any covenant or agreement contained herein by specific performance or any other legal or equitable remedy for the recovery of damages caused by the breach of the Agreement, including attorneys’ fees and all other costs and expenses incurred as a result thereof.

**FALCON HIGHLANDS METROPOLITAN DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2015**

**NOTE 5 - LONG-TERM OBLIGATIONS (CONTINUED)**

Minimum Water Tap Fee and Infrastructure Improvement Fee Payment Schedule (as presented in the Fee Agreement) actual payments or obligations made by the Developer are unknown at this time.

<b>Period Ending</b>	<b>Single-family Residential Units \$7,500 per Unit</b>	<b>Multi-family Units \$1,875 per Unit</b>	<b>Total Fee</b>
04/30/05	18	-	\$ 135,000
10/31/05	35	-	262,500
04/30/06	48	-	360,000
10/31/06	97	-	727,500
04/30/07	51	-	382,500
10/31/07	101	-	757,500
04/30/08	43	-	322,500
10/31/08	87	-	652,500
04/30/09	19	-	178,125
10/31/09	38	24	412,506
04/30/10	9	-	84,375
10/31/10	17	24	215,631
04/30/12	3	-	28,125
10/31/12	5	-	46,875
04/30/12	3	-	28,125
10/31/12	5	-	46,875
04/30/13	3	-	28,125
10/31/13	6	24	112,506
04/30/14	3	-	35,157
10/31/14	6	24	140,634
04/30/15	3	-	35,157
10/31/15	6	-	70,314
04/30/16	3	-	35,157
10/31/16	7	-	82,033
Total	<u>616</u>	<u>96</u>	<u>\$ 5,179,720</u>

\* The amount of the Water Tap Fee for each single-family unit is \$5,000 and the amount for each multi-family unit is \$1,250, as established in the Water Tap Fee Resolution. The amount of the Infrastructure Improvement Fee for each single-family unit is \$2,500 and the amount for each multi-family unit is \$625, as established in the Infrastructure Improvement Fee Resolution provided, however, the amount of the Water Tap Fee and the Infrastructure Improvement Fees, collectively, shall increase 25% each five years, commencing in 2009.

**FALCON HIGHLANDS METROPOLITAN DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2015**

**NOTE 5 - LONG-TERM OBLIGATIONS (CONTINUED)**

**Amendment No. 1 to Water Tap Fee and Infrastructure Improvement Fee Agreement and the Amendment No. 1 to Trust Indenture**

On May 15, 2009, the District, the Developer and the Primary Property Owner amended the Water Tap Fee and Infrastructure Improvement Fee Agreement dated June 24, 2004. On May 15, 2009, the District, the Developer and the Trustee amended the Trust Indenture dated as of June 1, 2004, and as supplemented by the Supplemental Trust Indenture dated February 15, 2007. The purpose of the amended Fee Agreement and Trust Indenture was to restructure certain unmet obligations as set forth in those agreements such as, the Trustee did not receive sufficient Water Tap Fees and Infrastructure Improvement Fees, such that monies in the Bond Fund were not sufficient to make the debt service payment on the Series 2004A Bonds on December 15, 2008, and such that, pursuant to the Fee Agreement, the Developer was obligated to pay the shortfall. The Developer and the Primary Property Owner asked Allstate Insurance Company as the beneficial holder of 100% of the Bonds outstanding (the "Bondholder"), as an accommodation to those entities, to direct the Trustee to pay the shortfall amount from the Reserve Account to make the debt service payment and not to draw on the Letter of Credit as the Trustee would otherwise have the right to do. The Trustee ultimately withdrew the amount of \$251,180.09 from the Reserve Account.

If the Letter of Credit had been drawn upon and the Bank not reimbursed, and the Trustee notified, the Trustee would have had the right to draw upon the remaining amount under the Letter of Credit and also to foreclose upon and sell the Fee Agreement Properties. The Developer and/or the Primary Property Owner caused the District to deposit the amount of \$250,000 with the Trustee prior to December 31, 2008, and such funds were deposited to partially replenish the Reserve Account, and are property of the trust estate held by the Trustee under the Trust Indenture; further, although such amount may be considered a partial payment of the amount due under the Fee Agreement on or about October 31, 2008, the Trustee's receipt of such amount has no effect on amounts due under the Fee Agreement subsequent to October 31, 2009, and has no effect on any amounts due or to become due under the Promissory Note (defined below).

The Letter of Credit expired on June 1, 2009, which triggered the Developer's obligation, under the Trust Indenture and the Fee Agreement, to provide a substitute facility meeting the requirements of the Trust Indenture; and, since the Developer had not timely met this obligation, an Event of Default may have existed pursuant to Section 7.01(c) of the Indenture and the Trustee may have had the right to draw the full remaining amount of the Letter of Credit and also to foreclose upon and sell the Fee Agreement Properties.

The Developer had asked the Bondholder for certain concessions, as identified below, pertaining to the Trustee's rights and the Developer's obligations with regard to, without limitation, the Bonds, the Trust Indenture, the Letter of Credit, and the Fee Agreement. The Bondholder had directed the Trustee accordingly, provided that the certain conditions (partially described below) were met by the District, the Developer and the Primary Property Owner as agreed upon.

**FALCON HIGHLANDS METROPOLITAN DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2015**

**NOTE 5 - LONG-TERM OBLIGATIONS (CONTINUED)**

- A. The Amendment fully executed no later than May 15, 2009.
- B. The Developer shall be released from its obligation to maintain the Letter of Credit; that the Developer shall execute the Deed of Trust (described below); and that the obligation to the Trustee under the Fee Agreement shall be secured by the Deed of Trust.
- C. The Developer shall execute the Deed of Trust, Assignment of Rents and Leases, Security Agreement and Fixture Filing to the Public Trustee of the County of El Paso, State of Colorado for the benefit of the Trustee, securing all obligations payable to the Trustee, whether directly or indirectly, under the Fee Agreement, including without limitation all Water Tap Fees and all Infrastructure Improvement Fees as scheduled in the Fee Agreement. The Deed of Trust shall be a first and sole deed of trust upon all property pledged, including without limitation the real property described in Exhibit A of the Fee Agreement as the "Greg Timm North Parcel" and as containing 31.69 acres, more or less (the "Deed of Trust Property").
- D. The Developer shall execute a promissory note to the Trustee corresponding to the Deed of Trust (the "Promissory Note").
- E. The District shall deposit \$250,000 with the Trustee on or before May 15, 2009. Such amount shall be in addition to the \$250,000 deposited with the Trustee prior to December 31, 2008. The Trustee shall hold such amount (as well as the amount deposited with the Trustee prior to December 31, 2008) as property of the trust estate and under the Trust Indenture. This amount shall have no effect on amounts due under the Fee Agreement subsequent to October 31, 2009, and shall have no effect on any amounts due or to become due under the Promissory Note.

Upon full execution of the conditions of the Amendment of the Fee Agreement the Letter of Credit was terminated and the Developer had no obligation to provide a replacement or substitute letter of credit facility. All references in the Fee Agreement to any obligation to the Trustee being payable through a draw on the Letter of Credit shall be read as such obligation being secured by the Deed of Trust (as well as by the Fee Agreement Properties). Each of the District, the Developer and the Primary Property Owner shall remain obligated to pay Water Tap Fees and Infrastructure Improvement Fees and all other amounts due to the Trustee pursuant to the Fee Agreement or the Trust Indenture.

Upon any default or Event of Default in the Fee Agreement and/or the Trust Indenture, the Trustee may, without limitation, (i) exercise any and all of its rights under the Deed of Trust, including without limitation foreclosure upon and sale of the Deed of Trust Property, (ii) pursue any available remedy provided in the Fee Agreement to the District, as assignee of the District and for the benefit of the Owners, including suits at law in equity, to enforce the payment of the Water Tap Fees and Infrastructure Improvement Fees and all other amounts due under the Fee Agreement, and foreclosure and sale of the Fee Agreement Properties, and (iii) call and redeem Bonds to the extent of the proceeds of the foreclosure sale of the Deed of Trust Property or the Fee Agreement Properties. Without limitation, any and every failure to make payment of all Water Tap Fees and Infrastructure Improvement Fees due to the Trustee in the amounts and on the dates due shall be a default and Event of Default under the Fee Agreement.

**FALCON HIGHLANDS METROPOLITAN DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2015**

**NOTE 5 - LONG-TERM OBLIGATIONS (CONTINUED)**

The District has computed preliminary calculations related to the obligations of the Developer pursuant to this agreement as of December 31, 2015. There is a principal obligation of \$753,605 and accrued interest of \$447,644 related to the obligations that are owed for the years of 2009 through 2015. The District is currently evaluating the process for which to proceed with the collection of this obligation to and from the responsible party or parties. As such, these amounts have not been recorded in the District's financial statements at this time.

The annual requirement to amortize the District's bonds is as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 150,000	\$ 532,606	\$ 682,606
2017	165,000	521,169	686,169
2018	175,000	508,588	683,588
2019	190,000	495,244	685,244
2020	205,000	480,756	685,756
2021-2025	1,275,000	2,145,294	3,420,294
2026-2030	1,840,000	1,579,901	3,419,901
2031-2034	<u>2,985,000</u>	<u>691,588</u>	<u>3,676,588</u>
	<u>\$ 6,985,000</u>	<u>\$ 6,955,146</u>	<u>\$ 13,940,146</u>

\* This debt maturity schedule only represents senior general obligations of the District. See Note 5, page 20, for more information regarding the long-term obligations of the District.

**Capital Leases**

**2010 John Deere Lease**

On February 15, 2010, the District entered into a Master - Lease Purchase Agreement for the purpose of financing a 2010 John Deere 3520 Tractor, a 2009 John Deere 300CX Loader and a 2010 MX5 Rotary Cutter. The total amount financed was \$31,475, with a payment interest rate of approximately 4.95%. Upon the termination date of the payment in full of all timely payments, the District may exercise its option to purchase the leased equipment for \$1.00. This lease qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the inception date; however, the lease agreement is subject to annual appropriations by the District. During 2015, the final payment was made on this lease.

**FALCON HIGHLANDS METROPOLITAN DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2015**

**NOTE 5 - LONG-TERM OBLIGATIONS (CONTINUED)**

**2013 John Deere Lease**

On May 9, 2013, the District entered into a Master - Lease Purchase Agreement for the purpose of financing a 2013 John Deere Z925M EFI Commercial ZTrak Mower. The total amount financed was \$7,804, with a payment interest rate of 4.30%. Upon the termination date of the payment in full of all timely payments, the District may exercise its option to purchase the leased equipment for \$1.00. This lease qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payment as of the inception date; however, the lease agreement is subject to annual appropriations by the District.

The assets acquired through capital leases are as follows:

Assets:	
Equipment and systems	\$ 39,279
Vehicles	36,459
Total assets	<u>75,738</u>
Less: accumulated depreciation	(72,617)
Total	<u><u>\$ 3,121</u></u>

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2015, were as follows:

Year ending December 31,	
2016	\$ 1,731
2017	1,731
2018	578
Total minimum lease payments	<u>4,040</u>
Less: amount representing interest	(203)
Present value of minimum lease payments	3,837
Current portion	<u>(1,597)</u>
Long-term portion	<u><u>\$ 2,240</u></u>

**FALCON HIGHLANDS METROPOLITAN DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2015**

**NOTE 5 - LONG-TERM OBLIGATIONS (CONTINUED)**

**Authorized Debt**

On November 5, 2002, a majority of the qualified electors of the District authorized the issuance of indebtedness in an amount not to exceed \$40,750,000 at an interest rate not to exceed 16% per annum. At December 31, 2015, the District had authorized but unissued indebtedness in the following amounts allocated for the following purposes:

	<u>Authorized on November 5, 2002</u>	<u>Authorized on November 7, 2006</u>	<u>Rescinded on November 7, 2006</u>	<u>Series 2004A Senior G.O. Bonds</u>	<u>Series 2004 and 2006 Subordinate G.O. Notes</u>	<u>Series 2007 Subordinate G.O. Bonds</u>	<u>Authorized but Unissued at December 31, 2015</u>
Streets	\$ 6,000,000	\$ 4,800,000	\$ -	\$ -	\$ -	\$ -	\$ 10,800,000
Water supply	5,000,000	-	-	-	-	-	5,000,000
Storm and sanitation	5,000,000	-	-	-	-	-	5,000,000
Traffic and safety controls	1,000,000	-	-	-	-	-	1,000,000
Parks and recreation facilities	1,000,000	-	-	-	-	-	1,000,000
Mosquito control	1,000,000	-	-	-	-	-	1,000,000
Television relay	1,000,000	-	(800,000)	-	-	-	200,000
Public transportation	250,000	-	-	-	-	-	250,000
Operations and maintenance	500,000	-	-	-	-	-	500,000
Debt refunding	20,000,000	-	-	-	-	-	20,000,000
General Obligation issuances	-	-	-	9,465,000	2,940,000	4,935,000	(17,340,000)
	<u>\$ 40,750,000</u>	<u>\$ 4,800,000</u>	<u>\$ (800,000)</u>	<u>\$ 9,465,000</u>	<u>\$ 2,940,000</u>	<u>\$ 4,935,000</u>	<u>\$ 27,410,000</u>

\* This table does not include detailed information related to authorized indebtedness, as allocated by District purpose (i.e. streets, water supply, etc.) for the various debt issuances. Information by category is unavailable at this time. The Developer notes payable are not reflected in the above presentation of authorized debt usage.

Pursuant to the Service Plan, the District is permitted to issue bonded indebtedness of up to \$25,000,000. The Mill Levy is limited to 35.000 per the Service Plan.

**FALCON HIGHLANDS METROPOLITAN DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2015**

**NOTE 5 - LONG-TERM OBLIGATIONS (CONTINUED)**

**Developer Advances**

The District has entered into Funding and Reimbursement Agreement(s) with the Developer as follows:

**Capital Funding and Reimbursement Agreement**

On June 15, 2005, the District entered into a Capital Funding and Reimbursement Agreement with Cygnet Land, LLC (“Developer”) to repay advances made by the Developer for capital infrastructure costs. The District agreed to repay the Developer for such capital advances plus accrued interest at the rate of 8.0%. The maximum capital loan amount shall not exceed the aggregate total of \$750,000 and is subject to annual renewal by the Developer. As of December 31, 2015, the current status of the Reimbursement Agreement, the balance of any outstanding advances and any accrued interest is unavailable.

**NOTE 6 - NET POSITION**

The District has 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, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. As of December 31, 2015, the District had net investment in capital assets calculated as follows:

	<b>Governmental Activities</b>	<b>Business- type Activities</b>
Net investment in capital assets		
Capital assets, net	\$ 1,358,076	\$ 4,085,982
Long-term obligations	(3,837)	-
Net investment in capital assets	\$ 1,354,239	\$ 4,085,982

**FALCON HIGHLANDS METROPOLITAN DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2015**

**NOTE 6 - NET POSITION (CONTINUED)**

Restricted net position includes assets that are 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 restricted net position as of December 31, 2015, as follows:

	<b>Governmental Activities</b>	<b>Business- type Activities</b>
Restricted Net Position:		
Emergencies	\$ 8,700	\$ -
Conservation trust	4,027	-
Total Restricted Net Position	\$ 12,727	\$ -

The District's unrestricted net position as of December 31, 2015, is as follows:

	<b>Governmental Activities</b>	<b>Business- type Activities</b>
Unrestricted Net Position	\$ (24,385,701)	\$ 315,235

This deficit amount was a result of the District being responsible for the repayment of bonds issued for public improvements which were conveyed to other governmental entities and which costs were removed from the District's financial records.

**NOTE 7 - RELATED PARTY**

The Developers of the property which constitute the District are Cygnet Land, LLC, Tamlin Ventures, LLC, RDS, LLC and Falcon Highlands, LLC and Foursome Development, LLC. In the past, a majority of the members of the Board of Directors and employees of the District were employees, owners or otherwise associated with the Developers, and may have had conflicts of interest in dealing with the District (see Note 5).

As of the date of the audit report, four board members are homeowners within the District and there is one vacant board position.

**FALCON HIGHLANDS METROPOLITAN DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2015**

**NOTE 8 - INTERGOVERNMENTAL AGREEMENTS**

**Woodmen Hills Intergovernmental Agreement**

On April 17, 2003, the District entered into an Intergovernmental Agreement with Woodmen Hills Metropolitan District (“Woodmen Hills”) for the purpose of engaging the services of Woodmen Hills to assist in the delivery of wastewater services for the District. Woodmen Hills has agreed to serve 754 SFE (Single Family Equivalent) on approximately 341 acres within the District. The District is required to charge the users within the District, a sewer tap fee, and pay to Woodmen Hills, based on the Woodmen Hills In-District Tap Rate. Following the one year warranty period, Woodmen Hills shall provide at its expense all normal maintenance and repair to the infrastructure; however, the District shall be responsible for the replacement, upgrade, and improvements to this infrastructure. The District will pay for the cost of enlarging the Woodmen Hills system if such enlargement becomes necessary because of any increase in the number of units (SFEs) served.

The District agreed to pay a connection fee to Woodmen Hills in the amount of \$654,472, which was made up of charges for the aid in construction, line extension fee and a plant investment fee. This agreement is in perpetuity and may not be terminated by the District so long as Woodmen Hills is providing the services contemplated within the agreement.

During April 2012, the District entered into the First Addendum to the Intergovernmental Agreement with Woodmen Hills. The purpose of the addendum is to acknowledge the following: the remaining 380 residential and 92 non-residential sewer SFEs as of January 1, 2011, to which the 2003 Intergovernmental Agreement apply, payment of the connection fee to Woodmen Hills, the amount of the payment to Woodmen Hills for connection to the wastewater system of \$5,500, and a credit of \$19,667.59 owed to Falcon Highlands by Woodmen Hills for payments made in excess of the designated sewer tap fee rate (which was fully applied in 2011).

**NOTE 9 - INTERFUND AND OPERATING TRANSFERS**

The transfer of \$12,250 from the Enterprise Fund to the Debt Service Fund was a result of moving the revenue generated from the water tap fees, which are pledged revenue for the District’s bonds, to the Debt Service Fund for payment of the District’s bonds.

**NOTE 10 - COMMITMENTS AND CONTINGENCIES**

The District has not been provided with all supporting documentation of the District transactions, including those related to the expenditures of the subordinate bond proceeds. Therefore, the District may not be in compliance with covenants and other requirements as required under the Trust Indenture for tax-exempt governmental bonds.

The County has provided the District with a punch list for improvements to roads and/or streets in Filing No. 2 within the District. The costs for these improvements are estimated at approximately \$1,500,000. The District disagrees with the assertions that it is obligated for the costs associated with the necessary repairs.

**FALCON HIGHLANDS METROPOLITAN DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2015**

**NOTE 11 - 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, 2015. 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, workers compensation 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.

**NOTE 12 - 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 that apply to the State of Colorado and all local governments.

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 a significant portion of its operations qualifies for this exclusion.

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

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

The District's management is unable to determine the District's compliance with the provisions of TABOR due to lack of documentation. The financial impact of TABOR is not currently determinable. TABOR is complex and subject to interpretation. Many of the provisions, including the interpretation of how to calculate Fiscal Year Spending limits and qualification as an Enterprise will require judicial interpretation.

**FALCON HIGHLANDS METROPOLITAN DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2015**

**NOTE 12 - TAX, SPENDING AND DEBT LIMITATIONS (CONTINUED)**

On November 5, 2002, a majority of the District's electors authorized the District to collect, retain, and spend any and all amounts annually from any revenue sources other than ad valorem taxes, including but not limited to tap fees, facility fees, services charges, inspection charges, administration charges, grants, or any other fee, rate, toll, penalty, income or charge imposed, collected, or authorized by law to be imposed or collected by the District, and shall such revenues be collected and spent by the District as a voter-approved revenue change without regard to any spending, revenue-raising, or other limitation contained within Article, Section 20 of the Colorado Constitution, and without limiting in any year the amount of other revenues that may be collected and spent by the District.

On November 5, 2002, a majority of the District's electors also authorized the District to increase property taxes by \$450,000 annually to pay for the District's operations and maintenance functions. The authorization also allows the retention of all investment earnings, without limiting the amount of other revenues that may be collected, retained and spent by the District.

This information is an integral part of the accompanying financial statements.

## **SUPPLEMENTARY INFORMATION**

**FALCON HIGHLANDS METROPOLITAN DISTRICT  
DEBT SERVICE FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES - BUDGET AND ACTUAL  
Year Ended December 31, 2015**

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
<b>REVENUES</b>			
Property taxes	\$ 528,020	\$ 527,851	\$ (169)
Infrastructure fees	234,375	6,250	(228,125)
Interest income	1,500	1,967	467
Total revenues	<u>763,895</u>	<u>536,068</u>	<u>(227,827)</u>
<b>EXPENDITURES</b>			
Debt Service			
County Treasurer's fees	7,920	7,944	(24)
Bond interest	543,281	543,281	-
Bond principal	140,000	140,000	-
Contingency	515,569	-	515,569
Paying agent/trustee fees	16,500	8,081	8,419
Total expenditures	<u>1,223,270</u>	<u>699,306</u>	<u>523,964</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(459,375)</u>	<u>(163,238)</u>	<u>296,137</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	459,375	12,250	(447,125)
Total other financing sources (uses)	<u>459,375</u>	<u>12,250</u>	<u>(447,125)</u>
<b>NET CHANGE IN FUND BALANCES</b>	-	(150,988)	(150,988)
<b>FUND BALANCES - BEGINNING OF YEAR</b>	<u>936,650</u>	<u>1,162,708</u>	<u>226,058</u>
<b>FUND BALANCES - END OF YEAR</b>	<u>\$ 936,650</u>	<u>\$ 1,011,720</u>	<u>\$ 75,070</u>

**FALCON HIGHLANDS METROPOLITAN DISTRICT  
ENTERPRISE FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN  
FUNDS AVAILABLE - BUDGET AND ACTUAL (BUDGETARY BASIS)  
Year Ended December 31, 2015**

	<b>Original and Final Budget</b>	<b>Actual Amounts</b>	<b>Variance with Final Budget Positive (Negative)</b>
<b>REVENUES</b>			
Water tap fees	\$ 459,375	\$ 12,250	\$ (447,125)
Sewer tap fees	489,375	13,050	(476,325)
Water usage fees	240,000	251,324	11,324
Water treatment fees	95,000	115,415	20,415
Administrative fees	79,277	82,084	2,807
Water meters	29,625	790	(28,835)
Inspection fees	3,375	90	(3,285)
Penalties	6,000	6,855	855
O&M reserve fee	18,750	500	(18,250)
Total revenues	<u>1,420,777</u>	<u>482,358</u>	<u>(938,419)</u>
<b>EXPENDITURES</b>			
General and operations			
Accounting	55,000	42,297	12,703
Contingency	4,475	-	4,475
District management	32,500	27,263	5,237
Dues and membership	1,200	1,388	(188)
Engineering	90,000	55,356	34,644
Equipment expense	500	306	194
Fuel	3,000	1,549	1,451
Insurance	11,750	11,538	212
Legal	37,000	33,588	3,412
Miscellaneous	1,000	283	717
Operating expense	10,000	11,998	(1,998)
Payroll - Wages and taxes	57,000	51,566	5,434
Permits - Fees	700	555	145
Repairs and maintenance	25,000	2,906	22,094
Security	5,500	5,534	(34)
Small tools and supplies	1,500	604	896
Supplies - treatment facility	28,000	15,116	12,884
Telephone	3,000	2,658	342
Utilities	60,000	55,279	4,721
Utility billing	40,000	37,001	2,999
Utility locates	1,000	412	588
Woodmen Hills sewer tap fees	412,500	11,000	401,500
Debt service			
Leases - Principal	1,175	1,175	-
Leases - Interest	7	7	-
Allocation of lease expense	(1,182)	(1,182)	-
Capital projects			
Capital outlay	100,000	-	100,000
Total expenditures	<u>980,625</u>	<u>368,197</u>	<u>612,428</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>440,152</u>	<u>114,161</u>	<u>(325,991)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfer (to) / from other funds	(459,375)	(12,250)	447,125
Total other financing sources (uses)	<u>(459,375)</u>	<u>(12,250)</u>	<u>447,125</u>
<b>NET CHANGE IN FUND BALANCES</b>	(19,223)	101,911	121,134
<b>FUNDS AVAILABLE - BEGINNING OF YEAR</b>	<u>210,765</u>	<u>213,324</u>	<u>2,559</u>
<b>FUNDS AVAILABLE - END OF YEAR</b>	<u>\$ 191,542</u>	<u>\$ 315,235</u>	<u>\$ 123,693</u>

**FALCON HIGHLANDS METROPOLITAN DISTRICT  
RECONCILIATION OF BUDGETARY BASIS (ACTUAL) TO  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
ENTERPRISE FUND  
Year Ended December 31, 2015**

Revenues	\$ 482,358	
Total revenues and other financing sources - Budgetary basis	<u>482,358</u>	
Total revenues per Statement of Revenues, Expenses and Changes in Net Position		\$ 482,358
Expenditures	368,197	
Other financing uses	12,250	
Total expenditures and other financing sources - Budgetary basis	<u>380,447</u>	
Depreciation expense	202,490	
Lease - Principal	<u>(1,175)</u>	
Total expenses per Statement of Revenues, Expenses and Changes in Net Position		<u>581,762</u>
Change in Net Position per Statement of Revenues, Expenses and Changes in Net Position		<u>\$ (99,404)</u>

## **OTHER INFORMATION**

**FALCON HIGHLANDS METROPOLITAN DISTRICT  
SUMMARY OF ASSESSED VALUATION, MILL LEVY,  
AND PROPERTY TAXES COLLECTED  
Year Ended December 31, 2015**

<b>Year Ended December 31,</b>	<b>Prior Year Assessed Valuation for Current Year Property Tax Levy</b>	<b>Mills</b>	<b>Mills</b>	<b>Mills</b>	<b>Total Property Taxes</b>		<b>Percentage Collected to Levied</b>
		<b>Levied General Fund</b>	<b>Levied Debt Service Fund</b>	<b>Levied Refunds/ Abatements</b>	<b>Levied</b>	<b>Collected</b>	
2011	\$ 16,981,450	5.000	30.000	-	\$ 594,351	\$593,707	99.9%
2012	\$ 17,185,970	5.000	30.000	-	\$ 601,509	\$597,506	99.3%
2013	\$ 17,159,730	5.000	30.000	0.216	\$ 604,297	\$604,009	99.9%
2014	\$ 16,855,610	5.000	30.000	-	\$ 589,946	\$566,229	95.9%
2015	\$ 17,600,650	5.000	30.000	-	\$ 616,023	\$615,826	99.9%
Estimated for calendar year December 31, 2016	\$ 18,365,360	5.000	30.000		\$ 642,788		

NOTE: Property taxes shown as collected in any one year include collection of delinquent property taxes or abatements of property taxes assessed in prior years. Information received from the County Treasurer does not permit identification of specific year of levy if delinquent taxes are collected.

**FALCON HIGHLANDS METROPOLITAN DISTRICT  
SCHEDULE OF DEBT SERVICE REQUIREMENTS TO MATURITY  
December 31, 2015**

**\$9,465,000 General Obligation  
Limited Tax Bonds  
Series 2004A  
Dated June 1, 2004  
Interest Rate 7.625%  
Principal Due December 15**

<u>Year Ended December 31,</u>	<u>Interest Payable June 15 and December 15</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 150,000	\$ 532,606	\$ 682,606
2017	165,000	521,169	686,169
2018	175,000	508,588	683,588
2019	190,000	495,244	685,244
2020	205,000	480,756	685,756
2021	220,000	465,125	685,125
2022	235,000	448,350	683,350
2023	255,000	430,431	685,431
2024	270,000	410,988	680,988
2025	295,000	390,400	685,400
2026	315,000	367,906	682,906
2027	340,000	343,888	683,888
2028	365,000	317,963	682,963
2029	395,000	290,131	685,131
2030	425,000	260,013	685,013
2031	455,000	227,606	682,606
2032	490,000	192,913	682,913
2033	525,000	155,550	680,550
2034	1,515,000	115,519	1,630,519
	<u>\$ 6,985,000</u>	<u>\$ 6,955,146</u>	<u>\$ 13,940,146</u>

\* This debt maturity schedule only represents senior general obligations of the District.  
See Note 5 for more information regarding long-term obligations of the District.