



ASPEN HIGHLANDS COMMERCIAL
METROPOLITAN DISTRICT

FINANCIAL STATEMENTS AND REPORT OF
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

December 31, 2016



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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

May 1, 2017

The Board of Directors
Aspen Highlands Commercial Metropolitan District

We have audited the accompanying financial statements of the governmental activities and each major fund of Aspen Highlands Commercial Metropolitan District as of and for the year ended December 31, 2016, 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 of material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Aspen Highlands Commercial Metropolitan District, as of December 31, 2016, and the respective changes in financial position thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.



Board of Directors
Aspen Highlands Commercial Metropolitan District
Page Two

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Aspen Highlands Commercial Metropolitan District's basic financial statements. The property tax statistical schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The property tax statistical schedule 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 it.

Chadwick, Steinkirchner, Davis & Co., P.C.

**ASPEN HIGHLANDS COMMERCIAL METROPOLITAN DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2016**

The establishment of Aspen Highlands Commercial Metropolitan District (the "District") was approved by voters on November 10, 1998 and formally organized by judicial decree on November 23, 1998 for the purpose of providing certain public infrastructure and municipal services for the benefit of the residents and property owners within the District. The District is located within the corporate boundary of the City of Aspen, Colorado, and serves an 83-acre residential and commercial community at the base of the Aspen Highlands ski area.

The Aspen Highlands Commercial Metropolitan District and the Aspen Highlands Residential Metropolitan District, by intergovernmental agreement, and for reasons of cost effectiveness, operate as a combined Metropolitan District with the Commercial District providing and coordinating all operations, maintenance, and administration for both Districts. The Residential District provides the primary funding for these services in the form of "intergovernmental service fees," pursuant to the Regional Facilities Construction Agreement.

As the managers of Aspen Highlands Commercial Metropolitan District, Beach Resource Management offers readers of the District's financial statements this narrative overview and analysis of the District's financial activities for the fiscal year ended December 31, 2016.

OVERVIEW OF THE FINANCIAL STATEMENTS

This *discussion and analysis* is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) Government-wide financial statements; 2) fund financial statements; and 3) notes to the financial statements.

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *other information* that further explains and supports the information in the financial statements and enhances the reader's understanding of the financial statements.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business. Current-year to prior-year comparisons are presented below to help users evaluate the results of the District over the past two years.

The Statement of Net Position presents information on all the District's assets, liabilities, and deferred inflows of resources, with the difference reported as Net Position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The Statement of Activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements can be found on pages 7 thru 8.

**ASPEN HIGHLANDS COMMERCIAL METROPOLITAN DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2016**

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The District has one fund that is reported as a governmental fund, which focuses on how money flows into and out of this fund and the balances left at year-end that are available for spending.

Governmental Fund financial statements are prepared on a modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a short-term view of the District's general government operations and the basic services it provides.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The Notes to the Financial Statements can be found starting on page 12 of this report.

THE DISTRICT AS A WHOLE

Statement of Net Position

The perspective of the Statement of Net Position is of the District as a whole. Following is a summary of the District's net position for the fiscal year 2016 compared to 2015.

(In Thousands)

	<u>2016</u>	<u>2015</u>
<u>ASSETS:</u>		
Cash and Other Assets	\$ 5,443	\$ 5,345
Capital Assets, Net	4,643	4,759
Total Assets	<u>10,086</u>	<u>10,105</u>
<u>LIABILITIES & DEFERRED INFLOWS:</u>		
Current and other liabilities	141	145
Deferred Inflows	218	217
Total Liabilities & Deferred Inflows	<u>359</u>	<u>362</u>
<u>NET POSITION:</u>		
Net Investment, Capital Assets	4,643	4,759
Restricted for emergencies	36	36
Unrestricted	5,048	4,947
Total Net Position	<u>\$ 9,727</u>	<u>\$ 9,743</u>

**ASPEN HIGHLANDS COMMERCIAL METROPOLITAN DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2016**

The District's Net Position decreased from 2015 to 2016 by \$15,858 or approximately 0.2%, which is primarily due to the decrease of \$19,033 in Total Assets. Total current liabilities decreased by \$3,545, and total deferred inflows increased by \$370. Net Investment in Capital Assets decreased by \$116,648 due to the net of annual depreciation, disposals and current year additions, where depreciation was more than current year additions.

Statement of Activities

The Statement of Activities reflects general property taxes and service revenues and the cost of providing services to the District. The following summary reflects the overall change in net position for the fiscal year 2016 compared to 2015:

<i>(In Thousands)</i>	<u>2016</u>	<u>2015</u>
<u>REVENUES:</u>		
Property Taxes	\$ 217	\$ 177
Specific Ownership Taxes	7	6
Interest earnings	32	9
Intergovernmental service fees	952	952
Other fees & charges	<u>5</u>	<u>50</u>
Total Revenues	<u>1,213</u>	<u>1,193</u>
<u>EXPENSES:</u>		
General Government	108	103
Public Works (Snowmelt, Road, & Irrigation Maint.)	329	362
Transportation	378	373
Culture and recreation	79	60
Capital Outlay	23	134
Contingency	12	28
Depreciation	289	287
County Treasurer's Fees	<u>11</u>	<u>9</u>
Total Expenses	<u>1,229</u>	<u>1,357</u>
Change in Net Position	<u>\$ (16)</u>	<u>\$ (164)</u>

FINANCIAL ANALYSIS OF THE DISTRICT'S FUND

As mentioned earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Fund

For 2016 revenues and expenditures in the Governmental Fund, please see page 10, and also refer to the table shown above, which is substantially the same as the fund level activity except for the treatment of capital asset additions and depreciation expense, for a comparison to the prior year. Property tax revenues increased substantially in 2016, due to a \$1.1 million or 22.8% increase in assessed valuation compared to only \$56 thousand or 1.1% increase in 2015.

**ASPEN HIGHLANDS COMMERCIAL METROPOLITAN DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2016**

Intergovernmental service fee revenue in 2016 remained the same compared to 2015. Overall total revenues for 2016 increased by \$19,922 compared to 2015. All surplus funds for the Residential and Commercial Districts are considered available for use by the Commercial District for operations, according to the Regional Facilities Construction Agreement (intergovernmental service agreement) between the Districts. Increased costs in general government expenses, transportation (bus & DAR program), and capital outlay were offset by reduced public works (snowmelt), and contingency which resulted in an overall expenditure increase of \$42,599 for 2016 when compared to 2015.

BUDGET VARIANCES

A summary of budget to actual expenditures for the governmental fund can be found on page 11 of this report. The District's total 2016 revenues in the amount of \$1,212,987 were greater than budget expectations of \$1,202,110 by \$10,877, or .9%. The primary reasons for this variance is the increases in specific ownership taxes and interest income totaling \$26,647 (due to an increase in ColoTrust interest rates), reduced by less than anticipated Other Fees & Charges of \$15,770. As stated above, all surplus funds for the Residential and Commercial Districts are considered available for use by the Commercial District for operations. Total expenditures were less than budgeted by \$193,833, or 14.8%. Budget overages occurred in the expense category of culture and recreation (due to increased level of service requested). Budget savings were realized in the expense categories of general government, public works, transportation, capital outlay, and contingency.

CAPITAL ASSETS

The District's net capital assets decreased by \$116,648 as a net result of current-year depreciation being more than current year capital purchases. Additional information as well as a detailed classification of the District's net capital assets can be found in the Notes to the Financial Statements, Note C, on page 18.

REQUEST FOR INFORMATION

This financial report is designed to provide our residents, customers, taxpayers, investors, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have any questions regarding this report or need additional financial information, please contact the:

Aspen Highlands Commercial Metropolitan District Manager
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Basalt, CO 81621-4100
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Aspen Highlands Commercial Metropolitan District

STATEMENT OF NET POSITION

December 31, 2016

	Governmental Activities
ASSETS	
Cash and investments	\$ 5,204,668
Receivables	
Accounts receivable	7,802
Property taxes	217,625
Prepaid expenses	12,635
Capital assets, net of accumulated depreciation	4,642,812
Total Assets	10,085,542
LIABILITIES	
Accounts payable	141,200
Total Liabilities	141,200
DEFERRED INFLOWS	
Property taxes	217,625
Total Deferred Inflows	217,625
Total Liabilities and Deferred Inflows	358,825
NET POSITION	
Net investment in capital assets	4,642,812
Restricted for emergencies	36,390
Unrestricted	5,047,515
Total Net Position	\$ 9,726,717

The accompanying notes are an integral part of this statement.

Aspen Highlands Commercial Metropolitan District

STATEMENT OF ACTIVITIES

Year ended December 31, 2016

Function/Programs	Expenses	Program Revenues		Total Governmental Activities	
		Charges for Services	Operating Grants and Contributions		Capital Grants and Contribution
Governmental activities:					
General government	\$ 119,110	\$ 106,851	\$ -	\$ -	\$ (12,259)
Public works	652,626	458,607	-	-	(194,019)
Transportation	378,371	323,751	-	-	(54,620)
Culture and recreation	78,738	67,372	-	-	(11,366)
Total governmental activities	\$ 1,228,845	\$ 956,580	\$ -	\$ -	(272,265)
General revenues:					
Property taxes					224,360
Interest earnings					32,047
Total general revenues					<u>256,407</u>
Change in net position					(15,858)
Net position - beginning					<u>9,742,575</u>
Net position - ending					<u>\$ 9,726,717</u>

The accompanying notes are an integral part of this statement.

Aspen Highlands Commercial Metropolitan District

BALANCE SHEET - GOVERNMENTAL FUNDS

December 31, 2016

	<u>General</u>	<u>Total Governmental Funds</u>
ASSETS		
Cash and investments	\$ 5,204,668	\$ 5,204,668
Receivables		
Accounts receivable	7,802	7,802
Property taxes	217,625	217,625
Prepaid expenses	12,635	12,635
Total Assets	<u>\$ 5,442,730</u>	<u>\$ 5,442,730</u>
LIABILITIES, DEFERRED INFLOWS, AND FUND EQUITY		
Liabilities		
Accounts payable	\$ 141,200	\$ 141,200
Total Liabilities	<u>141,200</u>	<u>141,200</u>
Deferred inflows		
Property taxes	217,625	217,625
Total Deferred Inflows	<u>217,625</u>	<u>217,625</u>
Fund equity		
Nonspendable	12,635	12,635
Restricted for emergencies	36,390	36,390
Assigned - reserve fund	1,617,383	1,617,383
Assigned - capital projects reserve fund	3,316,570	3,316,570
Unassigned	100,927	100,927
Total Fund Equity	<u>5,083,905</u>	<u>5,083,905</u>
Total Liabilities, Deferred Inflows, and Fund Equity	<u>\$ 5,442,730</u>	<u>\$ 5,442,730</u>
	Fund equity (as reported above)	\$ 5,083,905
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 in the funds		<u>4,642,812</u>
Net position of governmental activities		<u>\$ 9,726,717</u>

The accompanying notes are an integral part of this statement.

Aspen Highlands Commercial Metropolitan District

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS**

Year ended December 31, 2016

	General	Total Governmental Funds
Revenues		
Property taxes	\$ 217,255	\$ 217,255
Specific ownership taxes	7,105	7,105
Intergovernmental service fees	951,645	951,645
Interest earnings	32,047	32,047
Other fees and charges	4,935	4,935
Total revenues	1,212,987	1,212,987
Expenditures		
Current		
General government	119,110	119,110
Public works	329,107	329,107
Transportation	378,371	378,371
Culture and recreation	78,738	78,738
Capital outlay	194,908	194,908
Contingency	11,963	11,963
Total expenditures	1,112,197	1,112,197
Excess of Revenues Over (Under) Expenditures	100,790	100,790
Fund Balance - beginning	4,983,115	4,983,115
Fund Balance - ending	\$ 5,083,905	\$ 5,083,905
Net Change in Fund Balance (above)		\$ 100,790
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and depreciated. This is the amount by which depreciation exceeded capital outlay in the current period. (\$288,656-\$172,008)		(116,648)
Change in net position of governmental activities		\$ (15,858)

The accompanying notes are an integral part of this statement.

Aspen Highlands Commercial Metropolitan District

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

Year ended December 31, 2016

	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Property taxes	\$ 217,255	\$ 217,255	\$ -
Specific ownership taxes	4,345	7,105	2,760
Intergovernmental service fees	951,645	951,645	-
Interest earnings	8,160	32,047	23,887
Other fees and charges	20,705	4,935	(15,770)
Total revenues	<u>1,202,110</u>	<u>1,212,987</u>	<u>10,877</u>
Expenditures			
General government			
Management fees	52,000	46,618	5,382
Professional fees	37,050	32,455	4,595
Treasurer's fees	10,863	10,863	-
Insurance	13,306	15,120	(1,814)
Office	13,795	11,335	2,460
Miscellaneous	500	2,719	(2,219)
Public works			
Snowmelt system operations	155,800	126,774	29,026
Road and general maintenance	78,400	74,943	3,457
Irrigation, drainage, landscape maintenance	131,500	123,346	8,154
Small equipment and tools	5,000	4,044	956
Transportation			
Intravillage operations	83,005	83,093	(88)
Transit operations	322,400	295,278	27,122
Culture and recreation			
Village parks and trails maintenance	56,103	78,738	(22,635)
Capital outlay	268,976	194,908	74,068
Contingency	77,332	11,963	65,369
Total expenditures	<u>1,306,030</u>	<u>1,112,197</u>	<u>193,833</u>
Excess of Revenues Over (Under) Expenditures	<u>\$ (103,920)</u>	<u>\$ 100,790</u>	<u>\$ 204,710</u>

The accompanying notes are an integral part of this statement.

Aspen Highlands Commercial Metropolitan District

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Organization

The Aspen Highlands Commercial Metropolitan District (the District) was approved by voters on November 10, 1998 and formally organized by judicial decree on November 23, 1998, pursuant to provisions set forth in the Colorado Special District Act. The governing body of the District consists of a five member Board of Directors, which is elected by the registered voters within the District. The purpose of the District is to provide drainage, street, park and recreation, transportation facilities, programs and services for the Aspen Highlands Village community.

The financial statements of the District have been prepared in accordance with generally accepted accounting principles (“GAAP”) as applied to governmental units. The Governmental Accounting Standards Board (“GASB”) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District’s accounting policies are described below.

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

2. Reporting Entity

The reporting entity consists of (a) the primary government; i.e., the District, and (b) organizations for which the District is financially accountable. The District is considered financially accountable for legally separate organizations if it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the District. Consideration is also given to other organizations which are fiscally dependent; i.e., unable to adopt a budget, levy taxes, or issue debt without approval by the District. Organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete are also included in the reporting entity.

Based on the criteria above, the District is not financially accountable for any other entity, nor is the District a component unit of any other government.

3. Government-wide and Fund Financial Statements

The District’s basic financial statements include both government-wide (reporting the District as a whole) and fund financial statements (reporting the District’s major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business type. Currently, the District has only governmental activities.

Aspen Highlands Commercial Metropolitan District

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Government-wide Financial Statements

In the government-wide Statement of Net Position, the governmental activities columns are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net position is reported as net investment in capital assets, restricted for emergencies, and unrestricted.

The government-wide focus is on the sustainability of the District as an entity and the change in the District's net position resulting from the current year's activities.

Fund Financial Statements

The financial transactions of the District are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues and expenditures/expenses.

The fund focus is on current available resources and budget compliance.

4. Fund Accounting

The District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The District currently has one General Fund, which is a governmental fund.

Governmental Funds

Governmental funds are those through which most governmental functions typically are financed. Governmental funds reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets, liabilities, and deferred inflows is reported as fund balance.

The District reports the following major governmental fund:

General Fund – The General Fund is used to account for all financial resources of the District except those required to be accounted for in another fund. The general fund balance is available to the District for any purpose provided it is expended or transferred according to the general laws of Colorado and the bylaws of the District.

Aspen Highlands Commercial Metropolitan District

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

5. Measurement Focus and Basis of Accounting

Measurement focus refers to whether financial statements measure changes in current resources only (current financial focus) or changes in both current and long-term resources (long-term economic focus). Basis of accounting refers to the point at which revenues, expenditures, or expenses are recognized in the accounts and reported in the financial statements.

Long-Term Economic Focus and Accrual Basis

Governmental activities in the government-wide financial statements use the long-term economic focus and are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of the related cash flows.

Current Financial Focus and Modified Accrual Basis

The governmental fund financial statements use the current financial focus and are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. “Available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are generally recognized when the related liability is incurred. The exception to this general rule is that principal and interest on long-term debt, if any, is recognized when due.

6. Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, deferred inflows, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Aspen Highlands Commercial Metropolitan District

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

7. Inter-Governmental Service Fees

Quasi-external transactions are accounted for as revenues, expenditures or expenses. In 1999, the District entered into an agreement with the Aspen Highlands Residential Metropolitan District (the Residential District) adopting a policy whereby the Commercial District pays for all operational expenses associated with both Districts and charges the Residential District a service fee for administering the operations of the Residential District. The service fee is an expenditure for the Residential District and a revenue for the District.

To the extent that service fees between the District and the Residential District had not been paid or received as of year-end, balances of intergovernmental amounts receivable or payable are recorded.

8. Stewardship, Compliance, and Accountability

Budgets and Budgetary Accounting

In the fall of each year, the District's Board of Directors formally adopts a budget with appropriations by fund for the ensuing year pursuant to the Colorado Local Budget Law. The budget for the governmental fund is adopted on a basis consistent with generally accepted accounting principles ("GAAP").

As required by Colorado statutes, the District followed the timetable below in approving and enacting a budget for the ensuing years:

- (1) For the 2016 budget year, prior to August 23, 2015, the County Assessor sent the District the assessed valuation of all taxable property within the District's boundaries.
- (2) On or before October 15, 2015, the District's accountant submitted to the District's Board of Directors a recommended budget which detailed the necessary property taxes needed along with other available revenues to meet the District's operating requirements.
- (3) The Board held a public hearing on the proposed budget and capital program no later than 45 days prior to the close of the fiscal year.
- (4) For the 2016 budget, prior to December 15, 2015, the District computed and certified to the County Commissioners a rate of levy that derived the necessary property taxes as computed in the proposed budget.
- (5) For the 2016 budget, the final budget and appropriating resolution was adopted prior to December 31, 2015.

Aspen Highlands Commercial Metropolitan District

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

- (6) After adoption of the budget resolution, the District may make the following changes: a) it may transfer appropriated monies between funds or between spending agencies within a fund, as determined by the original appropriation level; b) supplemental appropriations to the extent of revenues in excess of those estimated in the budget; c) emergency appropriations; and d) reduction of appropriations for which originally estimated revenues are insufficient.

The level of control in the budget at which expenditures exceed appropriations is at the fund level. All appropriations lapse at year end.

9. Capital Assets

Capital assets are reported in the applicable governmental activities columns in the Government-wide Financial Statements. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are completed for amounts of \$5,000 or greater.

Depreciation is computed using the straight-line method over estimated useful lives, as follows:

	<u>Estimated Lives</u>
Roads	25 to 40 years
Irrigation system	25 years
Furniture and equipment	5 to 25 years
Land improvements	30 years

10. Property Taxes

Property taxes for 2016, collectible in 2017, were certified by the Pitkin County Commissioners before December 31, 2016. Property taxes attached as an enforceable lien on January 1, 2017 and are due in total April 30, 2017 or in equal installments February 28, 2017 and June 15, 2017, at the option of the taxpayer. Property taxes for 2016, collectible in 2017, are shown as property taxes receivable and deferred inflow in the amount of the assessed taxes. The County Treasurer remits taxes collected monthly to the District.

11. Accounts Receivable

The District considers accounts receivable to be fully collectible. Accordingly, no allowance for doubtful accounts is required.

Aspen Highlands Commercial Metropolitan District

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE B – CASH AND INVESTMENTS

Cash Deposits

The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulators. Amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is 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 equal to 102% of the aggregate uninsured deposits. As of December 31, 2016, the District had cash deposits of \$163,040, of which 100% was covered by federal depository insurance.

Investments

Colorado state statutes authorize the District to invest in U.S. Treasury bills, obligations of any other U.S. agencies, obligations of the World Bank, general obligation bonds of any state or any of their subdivisions, revenue bonds of any state or any of their subdivisions, bankers acceptance notes, commercial paper, repurchase agreements, money market funds and guaranteed investment contracts. All investments must be held by the District, in their name, or in custody of a third party on behalf of the local government.

As of December 31, 2016, the District had \$5,048,068 invested in the Colorado Local Government Liquid Asset Trust, (Colotrust), an investment vehicle established for local government entities in Colorado to pool surplus funds. Colotrust operates similarly to a money market fund and each share is equal in value to \$1.00. A designated custodial bank provides safekeeping and depository services to Colotrust in connection with the direct investment and withdrawal functions of Colotrust. Substantially all securities owned by Colotrust are held by the Federal Reserve Bank in the account maintained for the custodial bank. The custodian's internal records identify the investments owned by Colotrust. Colotrust funds carry a Standard & Poor's AAAM rating. There is no custodial, interest rate or foreign currency risk exposure. Colotrust is a Level 2 investment in the fair value hierarchy established by GASB Statement No. 72 and is valued using significant observable inputs other than quoted market prices in active markets for identical securities.

The balance of \$5,048,068 as of December 31, 2016, is divided among the following Colotrust accounts:

1. General Fund – \$114,115 – This Colotrust account is used to hold operating funds of the district for ongoing annual operations.
2. Reserve Fund – \$1,617,383 – This Colotrust account is used to hold Major Maintenance Reserve Funds tied to the District's most recent reserve study related to specific replacements and repairs that are planned. As of December 31, 2016 the District has a funded reserve balance of 216%, representing a fully funded reserve. The balance in the Reserve Fund Colotrust account is shown as assigned fund equity on the Balance Sheet – Governmental Funds financial statement on page 9.

Aspen Highlands Commercial Metropolitan District

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE B – CASH AND INVESTMENTS – CONTINUED

3. Capital Projects Reserve Fund – \$3,316,570 – This Colotrust account was established in 2013 to hold the funds associated with the GE Johnson construction litigation settlement from 2011. These funds are specifically assigned to cover the capital repairs associated with the following project scopes:

- a. Boomerang road, snowmelt and road capital repairs including the eventual replacement of the stamped concrete walks adjacent to the bus and Highlands Center
- b. Thunderbowl road, snowmelt and road capital repairs
- c. Prospector road, snowmelt and road capital repairs
- d. Elevated Prospector road, snowmelt and road capital repairs

The District’s approach to repairs with the settlement money has been to extend the life of the roads as far out as possible before replacement. The District is taking on the highest need areas first and phasing to minimize impacts to residents and businesses.

The balance in the Capital Projects Reserve Fund Colotrust account is shown as assigned fund equity on the Balance Sheet – Governmental Funds financial statement on page 9.

NOTE C – CAPITAL ASSETS

A summary of changes in capital assets follows:

	<u>Balance 12/31/15</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Balance 12/31/16</u>
Governmental activities				
Capital assets being depreciated				
Roads	\$ 6,513,924	\$ 172,008	\$ –	\$ 6,685,932
Irrigation System	1,170,921	–	–	1,170,921
Furniture and equipment	390,920	–	(650)	390,270
Land improvements	764,259	–	–	764,259
Less: accumulated depreciation	<u>(4,080,564)</u>	<u>(288,656)</u>	<u>650</u>	<u>(4,368,570)</u>
Capital assets, net	<u>\$ 4,759,460</u>	<u>\$ (116,648)</u>	<u>\$ –</u>	<u>\$ 4,642,812</u>

Depreciation expense was charged to functions/programs as follows:

Public works	<u>\$ 288,656</u>
Total depreciation expense – governmental activities	<u>\$ 288,656</u>

Aspen Highlands Commercial Metropolitan District

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE D – COMMITMENTS AND CONTINGENCIES

During the normal course of business, the District may incur claims and other assertions against it from various agencies and individuals. Management of the District and their legal representatives have disclosed that there are no material outstanding claims against the District at December 31, 2016.

NOTE E – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omission; and general liability. The District is a member of the Colorado Special District Property and Liability Pool (“Pool”) for property and liability insurance.

The Pool was formed by an intergovernmental agreement to provide public officials, property, general and automobile liability coverage for claims up to \$1,000,000, except if the claim falls within the government immunity statute, then the coverage is \$150,000 per person and a \$600,000 aggregate claim. The Pool is reinsured for 80% of the first \$250,000 of all claims and 100% for claims in excess of \$250,000. The District may be required to make additional contributions in the event aggregate losses incurred by the Pool exceed amounts recoverable from reinsurance contracts. 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. Any settled claims are not expected to exceed coverage. A summary of audited statutory basis financial information for the Pool as of and for the year ended December 31, 2015 (latest information available) is as follows:

Assets	<u>\$ 44,054,744</u>
Liabilities	\$ 24,739,781
Capital and surplus	<u>19,314,963</u>
Total	<u>\$ 44,054,744</u>
Revenues	\$ 16,356,266
Investment income and other	<u>205,186</u>
Total revenue	16,561,452
Expenses	<u>14,839,993</u>
Excess of revenues over expenses	<u>\$ 1,721,459</u>

NOTE F – RELATED PARTY TRANSACTIONS

The District has the right to request payment from the developer under certain conditions. During the year ended December 31, 2016, there were no transactions with and there were no outstanding receivables or payables with the developer as of December 31, 2016.

Certain District board members are also members of the Aspen Highlands Village Association (the Association) board. The District has the right to obtain reimbursement of fees, charges, fines, penalties or damages of any kind to District facilities, from construction deposits that have been collected by the Association from each builder. During the year ended December 31, 2016, the Association paid the District a total of \$0. As of December 31, 2016, there were no outstanding receivable amounts due from the Association. During the year ended December 31, 2016, the District paid the Association a total of \$2,468. As of December 31, 2016, \$254 was due from the District to the Association.

Aspen Highlands Commercial Metropolitan District

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE F – RELATED PARTY TRANSACTIONS – CONTINUED

The District and FiveTrees Metropolitan District entered into an intergovernmental agreement for cost sharing of the Maroon Creek Road bus service. During the year ended December 31, 2016 FiveTrees Metropolitan District paid the District a total of \$8,073. As of December 31, 2016 there was an outstanding receivable from the FiveTrees Metropolitan District of \$0.

During the year ended December 31, 2016 the District paid \$6,145 to FiveTrees Metropolitan District, and \$0 was still owed to FiveTrees Metropolitan District as of the year end.

Certain District board members are also members of the Aspen Highlands Village Parking and Loading Dock Facility Association Board. The District's year ended December 31, 2016 includes payments to Aspen Highlands Village Parking and Loading Dock Association for Aspen Highlands Commercial Metropolitan District's share of trash removal costs in the amount of \$13,196, with an outstanding payable of \$0 due to the Association as of December 31, 2016. During 2016, Aspen Highlands Village Parking and Loading Dock Facility Association made payments of \$0 for the rental of the District's street sweeper used in the cleaning of Aspen Highlands Village Parking and Loading Dock Facility Association garage. As of December 31, 2016 there were \$2,775 in outstanding receivables from Aspen Highlands Village Parking and Loading Dock Facility Association.

NOTE G – TABOR AMENDMENT

In November 1992, Colorado voters amended Article X of the Colorado Constitution by adding Section 20, commonly known as the Taxpayer's Bill of Rights ("TABOR"). TABOR contains revenue, spending, tax and debt limitations which apply to the State of Colorado and local governments. TABOR requires, with certain exceptions, advance voter approval for any new tax, tax rate increase, mill levy above that of the prior year, extension of any expiring tax, or tax policy change directly causing a new tax revenue gain to any local government. Except for refinancing bonded debt at a lower interest rate or adding new employees to existing pension plans, TABOR requires advance voter approval for the creation of any multiple fiscal year or other financial obligation unless adequate present cash reserves are pledged irrevocably and held for payments in future years.

TABOR also requires local governments to establish emergency reserves to be used for declared emergencies only. Emergencies, as defined by TABOR, exclude economic conditions, revenue shortfalls, or salary or fringe benefit increases. These reserves are required to be 3% or more of the fiscal year spending (excluding bonded debt service) for fiscal years ended after December 31, 1994. At December 31, 2016, a reserve of \$36,390 was required.

Under TABOR, the initial base for local government spending and revenue limits is December 31, 1999 fiscal year spending. Future spending and revenue limits are determined based on the prior year's fiscal year spending adjusted for inflation in the prior calendar year plus annual local growth. Fiscal year spending is generally defined as expenditures and reserve increases with certain exceptions. Revenue, if any, in excess of the fiscal year spending limit must be refunded in the next fiscal year unless voters approve retention of such revenue.

In 1998 the District's electorate voted to allow the District to collect, retain and expend revenues notwithstanding any of TABOR's restrictions.

Aspen Highlands Commercial Metropolitan District

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE G – TABOR AMENDMENT – CONTINUED

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

NOTE H – FUND BALANCES

GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions" provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. In the fund financial statements the following classifications describe the relative strength of the spending constraints.

- *Non-spendable fund balance* - The portion of fund balance that cannot be spent because it is either not in spendable form (such as prepaid expense) or is legally or contractually required to be maintained intact.
- *Restricted fund balance* - The portion of fund balance constrained to being used for a specific purpose by external parties (such as grantors or bondholders), constitutional provisions or enabling legislation.
- *Committed fund balance* - The portion of fund balance constrained for specific purposes according to limitations imposed by the District's highest level of decision making authority, the Board, prior to the end of the current fiscal year. The constraint may be removed or changed only through formal action of the Board.
- *Assigned fund balance* - The portion of fund balance set aside for planned or intended purposes. The intended use may be expressed by the Board or other individuals authorized to assign funds to be used for a specific purpose.
- *Unassigned fund balance* - The residual portion of fund balance that does not meet any of the above criteria. The District will only report a positive unassigned fund balance in the General Fund.

Unrestricted fund balance will be used in the following order: committed, assigned, and unassigned. When both restricted and unrestricted funds are available for expenditure, restricted funds are used first.

NOTE I – UNSPENT CAPITAL BUDGET

The capital outlay budget for 2016 was \$268,976 and consisted of 10 projects ranging from \$1,700 to \$115,000. 3 projects were capitalized totaling \$172,008; completed projects totaled \$194,908. Capital contingency budgeted of \$22,000 was not needed, and other significant budgeted projects were postponed and have been re-appropriated in the 2017 budget where appropriate.

OTHER INFORMATION

Aspen Highlands Commercial Metropolitan District

SCHEDULE OF ASSESSED VALUATION, MILL LEVY
AND PROPERTY TAXES COLLECTED

December 31, 2016

Calendar Year Ended December 31	Prior Year Assessed Valuation for Current Year Property Tax Levy	Mills Levied	Total Property Taxes		Percent Collected to Levied
			Levied	Collected	
2006	\$ 4,905,030	34.977	\$ 171,563	\$ 171,193	99.8%
2007	4,858,310	36.565	177,644	177,644	100.0%
2008	5,098,340	33.000	168,245	168,222	99.9%
2009	4,980,330	33.782	168,246	167,984	99.8%
2010	6,223,830	30.850	192,005	191,532	99.8%
2011	5,591,150	31.398	175,551	175,218	99.8%
2012	5,111,670	32.871	168,026	167,938	99.9%
2013	5,099,060	34.320	175,000	174,924	99.9%
2014	4,920,670	35.564	174,999	175,074	100.0%
2015	4,976,060	35.564	176,969	176,969	100.0%
2016	6,108,860	35.564	217,255	217,255	100.0%
2017	6,119,240	35.564	217,625		

Note:

Property taxes collected in any one year include collection of delinquent property taxes levied in prior years. Information received from the County Treasurer does not permit identification of specific year of levy.