



ASPEN HIGHLANDS RESIDENTIAL  
METROPOLITAN DISTRICT

FINANCIAL STATEMENTS AND REPORT OF  
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

December 31, 2016



**RECEIVED**

*By the Office of the State Auditor at 3:14 pm, May 31, 2017*

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**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

April 21, 2017

The Board of Directors  
Aspen Highlands Residential Metropolitan District

We have audited the accompanying financial statements of the governmental activities and each major fund of Aspen Highlands Residential 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 Residential 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 Residential Metropolitan District  
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**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 Residential 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 RESIDENTIAL METROPOLITAN DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended December 31, 2016**

The Aspen Highlands Residential 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 limits of the City of Aspen, Colorado, and serves an 83-acre commercial and residential 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 the Aspen Highlands Residential Metropolitan District, we offer 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, with the difference among the total assets and total liabilities & deferred inflows of resources reported as Total 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 and 8 of this report.

**ASPEN HIGHLANDS RESIDENTIAL 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 14 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:

	2016	2015
<b><u>ASSETS:</u></b>		
Cash, investments, other assets	\$ 1,829,378	\$ 1,825,938
Total Assets	1,829,378	1,825,938
<b><u>LIABILITIES &amp; DEFERRED INFLOWS:</u></b>		
Current Liabilities	8,604	9,504
Long-Term Debt, Current	559,480	549,480
Long-Term Debt, Non Current	3,556,880	4,116,359
Deferred Inflows	1,628,429	1,628,402
Total Liabilities & Deferred Inflows	5,753,393	6,303,745
<b><u>NET POSITION:</u></b>		
Restricted for Emergencies	31,100	30,849
Restricted for Capital Projects	118,386	117,622
Unrestricted	(4,073,501)	(4,626,278)
Total Net Position	\$ (3,924,015)	\$ (4,477,807)

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

The Net Position increased by \$553,792 from 2015 to 2016 and this is primarily due to principal payments on long-term debt of \$540,000 which are not included in expenses at the government-wide level. The amount in Total Assets (Cash, Investments and Other Assets) is comprised of cash including thaw wire or capital project reserves and receivables. The amount in Current Liabilities for 2016 is accrued interest payable of \$8,604.

The deficit balance shown in Total Net Position does not mean that the District does not have resources available to pay its bills. Rather, it is the result of having *long-term* commitments (bonded indebtedness) that are greater than *currently* available resources, and State law prevents special Districts from levying or showing tax revenues for debt service in future years. Another way to look at this is that the District must disclose the entire outstanding long-term debt amount on the Liabilities side of the Statement of Net Position, but is only permitted to show current-year resources on the Assets side of the Statement of Net Position.

***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:

	<u>2016</u>	<u>2015</u>
<b><u>REVENUES:</u></b>		
Property Taxes	\$ 1,628,402	\$ 1,628,575
Specific Ownership Taxes	54,234	52,055
Interest earnings	8,077	2,324
Total Revenues	<u>1,690,713</u>	<u>1,682,954</u>
<b><u>EXPENSES:</u></b>		
Treasurer's Fees	81,605	81,480
Intergovernmental service fees	951,645	951,645
Other fees	-	330
Debt Service		
Interest Expense	113,150	123,933
Amortization Expense - 2012 Bond Premium	(9,479)	(9,480)
Total Expenses*	<u>1,136,921</u>	<u>1,147,908</u>
Change in Net Position*	<u>\$ 553,792</u>	<u>\$ 535,046</u>

\* Total Expenses do not include debt service principal payments. This amount is not shown on the Statement of Activities, above, per GASB (Governmental Accounting Standards Board) financial reporting principles. Instead, this amount is recorded in the Statement of Net Position as a reduction of liabilities.

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

***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, see the table above, which is substantially the same as the fund level activity, and page 11 of this report. Revenues, consisting of property taxes, specific ownership taxes, and interest income, increased by \$7,759, less than 1%, from 2015. This is primarily due to an increase in ColoTrust interest rates for 2016. Expenditures, consisting of intergovernmental service fees paid to Aspen Highlands Commercial Metropolitan District, debt service interest payments, and other fiscal charges, decreased by \$805, less than 1%, compared to 2015. This is primarily due to the decrease in the scheduled interest expense offset by an increase in scheduled principal payments.

***BUDGET VARIANCES***

A summary of 2016 budget-to-actual revenues and expenditures for the general fund can be found on page 13 of this report. The District's actual revenues in the amount of \$1,690,713 came in above budget expectations of \$1,662,470, by \$28,243. This is primarily due to additional collection of specific ownership taxes of \$21,666. Expenditures came in under budget for 2016, by \$28,864 or 1.7%, which is due primarily to the District's lack of need to spend its budgeted contingency fund of \$28,549.

***DEBT ADMINISTRATION***

As of December 31, 2016, the district had \$4,116,360 in General Obligation Debt. On December 20, 2012, the District issued \$6,150,000 in general obligation refunding bonds with interest rates ranging between 2% and 3%. The District issued the bonds to refund the outstanding series 2007 general obligation refunding bonds. Debt service interest payments are due semi-annually on June 1<sup>st</sup> and December 1<sup>st</sup> of each year, and principal is due on December 1<sup>st</sup> of each year. The final maturity date is December 1, 2023, an extension of two years over the original 2001 series bonds. With the refinancing of the bonds, the District realized an economic gain (difference between the present values of the old and new debt service payments) of \$513,093 as of December 31, 2012. See page 19 of this report for more detailed information on the District's long-term debt.

***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 Residential Metropolitan District Manager  
c/o The Romero Group, LLC  
208 Midland Avenue, PO Box 4100  
Basalt, CO 81621-4100  
Telephone: (970) 273-3100  
E-Fax: (970) 797-1851

Aspen Highlands Residential Metropolitan District

STATEMENT OF NET POSITION

December 31, 2016

	Governmental Activities
<b>ASSETS</b>	
Cash and investments	\$ 200,949
Receivables	
Property taxes	1,628,429
Total Assets	1,829,378
<b>LIABILITIES</b>	
Accrued interest payable	8,604
Long-term liabilities	
Portion due and payable within one year	
Bonds payable	559,480
Portion due and payable after one year	
Bonds payable	3,556,880
Total Liabilities	4,124,964
<b>DEFERRED INFLOWS</b>	
Property taxes	1,628,429
Total Deferred Inflows	1,628,429
Total Liabilities and Deferred Inflows	5,753,393
<b>NET POSITION</b>	
Restricted for emergencies	31,100
Restricted for capital projects	118,386
Unrestricted	(4,073,501)
Total Net Position	\$ (3,924,015)

The accompanying notes are an integral part of this statement.

Aspen Highlands Residential Metropolitan District

STATEMENT OF ACTIVITIES

Year ended December 31, 2016

Function/Programs	Expenses	Program Revenues			Total Governmental Activities
		Charges Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
General government	\$ 1,033,250	\$ -	\$ -	\$ -	\$ (1,033,250)
Interest on long-term debt	<u>103,671</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(103,671)</u>
<b>Total governmental activities</b>	<b><u>\$ 1,136,921</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b>(1,136,921)</b>
General revenues:					
Property and specific ownership taxes					1,682,636
Interest earnings					<u>8,077</u>
Total general revenues					<u>1,690,713</u>
Change in net position					<u>553,792</u>
Net position - beginning					<u>(4,477,807)</u>
Net position - ending					<u><u>\$ (3,924,015)</u></u>

The accompanying notes are an integral part of this statement.

Aspen Highlands Residential Metropolitan District

BALANCE SHEET - GOVERNMENTAL FUNDS

December 31, 2016

	General	Total Governmental Funds
<b>ASSETS</b>		
Cash and investments	\$ 200,949	\$ 200,949
Receivables		
Property taxes	1,628,429	1,628,429
<b>Total Assets</b>	<b>1,829,378</b>	<b>1,829,378</b>
<b>LIABILITIES, DEFERRED INFLOWS, AND FUND EQUITY</b>		
Deferred inflows		
Property taxes	1,628,429	1,628,429
<b>Total Deferred Inflows</b>	<b>1,628,429</b>	<b>1,628,429</b>
<b>Total Liabilities and Deferred Inflows</b>	<b>1,628,429</b>	<b>1,628,429</b>
Fund equity		
Restricted for emergencies	31,100	31,100
Restricted for thaw wires	118,386	118,386
Unassigned	51,463	51,463
<b>Total Fund Equity</b>	<b>\$ 200,949</b>	<b>\$ 200,949</b>

The accompanying notes are an integral part of this statement.

Aspen Highlands Residential Metropolitan District

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET POSITION

December 31, 2016

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

Total fund balance - governmental funds	\$ 200,949
Long-term liabilities such as bonds are not due and payable in the current period and, therefore, are not reported in the funds.	(4,116,360)
Accrued interest and fees are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(8,604)</u>
Net Position of Governmental Activities	<u>\$ (3,924,015)</u>

The accompanying notes are an integral part of this statement.

Aspen Highlands Residential Metropolitan District

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

Year ended December 31, 2016

	General	Total Governmental Funds
<b>Revenues</b>		
Property taxes	\$ 1,628,402	\$ 1,628,402
Specific ownership taxes	54,234	54,234
Interest earnings	8,077	8,077
Total revenues	<u>1,690,713</u>	<u>1,690,713</u>
<b>Expenditures</b>		
Current		
General government	1,033,250	1,033,250
Debt service		
Principal	540,000	540,000
Interest	114,050	114,050
Total expenditures	<u>1,687,300</u>	<u>1,687,300</u>
Excess of Revenues Over (Under) Expenditures	3,413	3,413
Fund Balance - beginning	<u>197,536</u>	<u>197,536</u>
Fund Balance - ending	<u><u>\$ 200,949</u></u>	<u><u>\$ 200,949</u></u>

The accompanying notes are an integral part of this statement.

Aspen Highlands Residential Metropolitan District

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year ended December 31, 2016

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

Net Change in Fund Balances - Governmental Funds \$ 3,413

Governmental funds report the repayment of principal on long-term debt as expenditures. However, these repayments are not reported as expenses in the Statement of Activities, but rather as a reduction of debt in the Statement of Net Position. This amount is the difference in the treatment of these repayments. 540,000

Governmental funds do not record the amount of interest on long-term debt that has accrued since the end of the year. However, these liabilities are reported in the Statement of Net Position and the related expense is reported in the Statement of Activities. This is the amount by which accrued interest decreased over the prior year. 900

Governmental funds record premiums on bonds as revenue in the year issued. However, these premiums are reported in the Statement of Net Position as part of debt and these amounts are deferred and amortized in the Statement of Activities. This is the amount of current year amortization. 9,479

Change in Net Position of Governmental Activities \$ 553,792

The accompanying notes are an integral part of this statement.

Aspen Highlands Residential 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)
<b>Revenues</b>			
Property taxes	\$ 1,628,402	\$ 1,628,402	\$ -
Specific ownership taxes	32,568	54,234	21,666
Interest earnings	1,500	8,077	6,577
Total revenues	<u>1,662,470</u>	<u>1,690,713</u>	<u>28,243</u>
<b>Expenditures</b>			
Treasurer's fees	81,420	81,605	(185)
Intergovernmental service fees	951,645	951,645	-
Other fees	500	-	500
Interest expense	139,050	114,050	25,000
Debt service principal	515,000	540,000	(25,000)
Contingency	28,549	-	28,549
Total expenditures	<u>1,716,164</u>	<u>1,687,300</u>	<u>28,864</u>
Excess of Revenues Over (Under) Expenditures	<u>\$ (53,694)</u>	<u>\$ 3,413</u>	<u>\$ 57,107</u>

The accompanying notes are an integral part of this statement.

Aspen Highlands Residential Metropolitan District

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

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**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

1. Organization

The Aspen Highlands Residential 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 sanitation, 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 Residential Metropolitan District

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

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**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 restricted for emergencies and capital projects 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, deferred outflows, liabilities, deferred inflows, 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 fund 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 and liabilities 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 Residential Metropolitan District

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

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**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, deferred outflows, 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.

**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 Commercial Metropolitan District (the Commercial District) adopting a policy whereby the Commercial District pays for all operational expenses associated with both Districts and charges the District a service fee for administering the operations for the District. The service fee is an expenditure of the District and revenue for the Commercial District. To the extent that service fees between the Commercial District and the District had not been paid or received as of year-end, balances of intergovernmental amounts receivable or payable are recorded.

Aspen Highlands Residential Metropolitan District

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

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**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**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 year:

- (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.
- (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.

Aspen Highlands Residential Metropolitan District

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

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**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

9. 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.

**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 of 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 \$21,733, 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 \$179,216 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.

Aspen Highlands Residential Metropolitan District

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

**NOTE C – LONG-TERM DEBT**

General Obligation Bonds

On December 20, 2012, the District issued \$6,150,000 in general obligation refunding bonds with interest rates ranging between 2.0% and 3.0%. The District issued the bonds to refund the outstanding series 2007 general obligation refunding bonds of \$6,145,000. The bonds were issued with interest due semiannually on June 1 and December 1 of each year, commencing June 1, 2013. Principal payments are due each December 1. The bonds mature in various amounts through December 1, 2023. All of the taxable property within the District is subject to the levy of general ad valorem property taxes to pay principal and interest on the bonds.

The following is a summary of bond transactions of the District for the year ended December 31, 2016:

	Balance January 1, 2016	Issues	Reductions	Balance December 31, 2016
2012 General Obligation Refunding Bonds	\$ 4,590,000	\$ –	\$ 540,000	\$ 4,050,000
Bond Premium	75,839	–	9,479	66,360
	<u>\$ 4,665,839</u>	<u>\$ –</u>	<u>\$ 549,479</u>	<u>\$ 4,116,360</u>

Debt service requirements are as follows:

Year	Principal	Interest	Total
2017	\$ 550,000	\$ 103,250	\$ 653,250
2018	560,000	92,250	652,250
2019	570,000	81,050	651,050
2020	575,000	68,225	643,225
2021	585,000	53,850	638,850
2022-2023	1,210,000	54,600	1,264,600
	<u>\$ 4,050,000</u>	<u>\$ 453,225</u>	<u>\$ 4,503,225</u>

**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 has disclosed that there are no material outstanding claims against the District at December 31, 2016.

The District entered into an agreement with the City of Aspen to install Thaw Wires when the District repaves the roads at a future date. In 2003, the District deposited developer contributions of \$96,500, which approximated the amount needed to fund installation at a future date, into a reserve account. Management does not expect future costs of installation to exceed the reserve account balance, which currently is \$118,386.

Aspen Highlands Residential Metropolitan District

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

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**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 (the 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 – 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 \$31,100 was required.

Aspen Highlands Residential Metropolitan District

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

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**NOTE F – TABOR AMENDMENT – CONTINUED**

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.

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 G – 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.

**OTHER INFORMATION**

Aspen Highlands Residential 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	
2005	\$ 38,081,850	30.000	\$ 1,142,466	\$ 1,142,814	100.00%
2006	38,271,550	34.977	1,338,624	1,339,001	100.03%
2007	36,150,920	36.565	1,321,858	1,321,735	99.99%
2008	45,901,230	33.000	1,514,741	1,515,287	100.04%
2009	47,136,300	33.782	1,592,359	1,588,493	99.76%
2010	58,827,550	30.850	1,814,830	1,756,501	96.79%
2011	58,325,860	31.398	1,831,315	1,831,315	100.00%
2012	43,709,790	36.794	1,608,258	1,608,263	100.00%
2013	43,532,070	37.597	1,636,676	1,636,675	100.00%
2014	41,893,540	38.925	1,630,706	1,610,167	98.74%
2015	40,885,450	39.885	1,630,716	1,630,068	99.96%
2016	40,583,220	40.125	1,628,402	1,628,402	100.00%
2017	40,402,650	40.305	1,628,429		

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.