
HEATHER GARDENS
METROPOLITAN DISTRICT
FINANCIAL STATEMENTS
DECEMBER 31, 2016

Contents

	Page
Independent Auditors' Report	1 - 3
Management's Discussion And Analysis	4 - 7
Basic Financial Statements	
Statement Of Net Position	8
Statement Of Revenues, Expenses And Changes In Net Position.....	9
Statement Of Cash Flows.....	10 - 11
Notes To Basic Financial Statements	12 - 24
Other Supplementary Information	
Schedule Of Revenues, Expenditures And Changes In Funds Available - Budget And Actual (Budgetary Basis)	25
Note To Budgetary Comparison Schedule	26

Independent Auditors' Report

Board of Directors
Heather Gardens Metropolitan District
Aurora, Colorado

Report On The Financial Statements

We have audited the accompanying financial statements of the Heather Gardens Metropolitan District (the District) as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility For The Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of December 31, 2016, and the changes in its net position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The budget schedule and note on pages 25 and 26, respectively, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Report On Summarized Comparative Information

We have previously audited the District's 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 4, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

RubinBrown LLP

September 21, 2017

HEATHER GARDENS METROPOLITAN DISTRICT

MANAGEMENT DISCUSSION AND ANALYSIS

December 31, 2016

Our discussion and analysis of Heather Gardens Metropolitan District's (District) financial performance provides an overview of the District's financial activities for the fiscal year ended December 31, 2016. Please read it in conjunction with the District's financial statements, which begin on page 8.

Overview of the Financial Statements

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

The Statement of Net Position presents information on all of the District's assets and liabilities, with the difference between the two reported as net position as of December 31, 2016. This statement provides useful information regarding the financial position of the District. Over time, increases and decreases in net position can serve as a useful indicator of whether the financial position of the District is improving or deteriorating. Nonfinancial factors should also be considered to assess the overall position of the District.

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

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

HEATHER GARDENS METROPOLITAN DISTRICT

Management's Discussion And Analysis (*Continued*)

Financial Highlights

- The District's net position decreased by \$55,901 or 0.9% as a result of this year's operations.
- During the year, the District's expenses increased \$203,351 or 6.8% from expenses in 2015. The District's operating revenues increased by \$122,429 or 5.6% from revenues in 2015.
- Non-operating revenues increased by \$133,060 or 18.9% primarily as a result of the increase in insurance proceeds and donations.
- The District's change in net position becomes part of unrestricted reserve.

Financial Summary and Analysis

Capital Assets

	2016	2015	2014
Land	\$ 1,725,000	\$ 1,725,000	\$ 1,725,000
Other intangible asset	133,190	133,190	133,190
Property, furniture and equipment	15,680,894	15,381,964	15,303,709
Less accumulated depreciation	(4,385,472)	(3,759,936)	(3,143,035)
Total Capital Assets - Net	\$ 13,153,612	\$ 13,480,218	\$ 14,018,864

For additional information, see note 4.

HEATHER GARDENS METROPOLITAN DISTRICT

Management's Discussion And Analysis (*Continued*)

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

	2016	2015	2014
Current asset	\$ 2,444,347	\$ 2,348,623	\$ 2,120,275
Noncurrent assets	343,267	397,550	405,239
Capital assets, net of accumulated depreciation	13,153,612	13,480,218	14,018,864
Total Assets	15,941,226	16,226,391	16,544,378
Total current liabilities	625,122	645,025	579,530
Long-term liabilities	8,557,179	8,768,147	8,983,525
Total Liabilities	9,182,301	9,413,172	9,563,055
Deferred Inflows of Resources			
Unearned property tax revenue	551,855	550,248	610,313
Invested in capital assets, net of related debt	4,729,700	4,906,123	5,252,992
Restricted	1,024,306	814,070	761,323
Unrestricted	453,064	542,778	356,695
Total Net Position	6,207,070	6,262,971	6,371,010
Operating revenues	2,303,909	2,181,480	1,676,614
Nonoperating revenues	837,467	704,407	652,476
Total Revenues	3,141,376	2,885,887	2,329,090
Operating expenses	2,752,620	2,542,701	1,781,054
Nonoperating expenses	444,657	451,225	460,894
Total Expenses	3,197,277	2,993,926	2,241,948
Changes In Net Position	(55,901)	(108,039)	87,142
Ending Net Position	\$ 6,207,070	\$ 6,262,971	\$ 6,371,010

Long-Term Debt Outstanding

	2016	2015	2014
General obligation bonds	\$ 8,780,000	\$ 8,985,000	\$ 9,185,000

Bond payments are made twice yearly (June 1 and December 1). The June payment includes only interest and the December payment includes both interest and principal. As of December 31, 2016, the District has paid down the principal by \$1,020,000. The bond payments are funded by the property tax revenue and specific ownership tax revenue received by the District.

HEATHER GARDENS METROPOLITAN DISTRICT

Management's Discussion And Analysis (*Continued*)

Budgetary Discussion

The District increased the 2016 homeowner's dues by approximately \$35,139 (3.07%) over 2015. Most of this increase resulted from increases in expenses for the golf course as well as increased insurance costs. Increased insurance costs resulted from claims in 2013 and 2014 for significant hail damage to HGMD property.

The District's non-operating revenue increased by \$133,060 mainly from increased donations to the Foundation as well as unspent insurance proceeds and income on certificates of deposit. Income from property taxes decreased from 2015. The slight decrease in non-operating expenses resulted from less interest paid for the bonds.

Economic Factors and Rates

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

Contacting the District's Financial Management

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

HEATHER GARDENS METROPOLITAN DISTRICT

STATEMENT OF NET POSITION

December 31, 2016

(With Comparative Totals As Of December 31, 2015)

Assets

	2016	2015
Current Assets		
Cash and cash equivalents (Note 3)	\$ 769,596	\$ 687,866
Certificates of deposit	1,011,245	1,000,000
Property tax receivable	551,855	550,248
Accounts receivable, net of allowance for doubtful accounts of \$3,149 and \$3,149 in 2016 and 2015, respectively	33,239	33,097
Prepaid expenses	44,662	43,195
Inventory	14,627	15,174
Other current assets	19,123	19,043
Total Current Assets	2,444,347	2,348,623
Noncurrent Assets		
Cash restricted (Note 3)	343,267	397,550
Nondepreciable assets (Note 4)	1,725,000	1,725,000
Other intangible assets (Note 4)	133,190	133,190
Depreciable assets, net of accumulated depreciation of \$4,385,472 in 2016 and \$3,759,936 in 2015 (Note 4)	11,295,422	11,622,028
Total Noncurrent Assets	13,496,879	13,877,768
Total Assets	15,941,226	16,226,391

Liabilities, Deferred Inflows Of Resources And Net Position

Current Liabilities		
Accounts payable	29,597	7,353
Interest payable	37,513	37,513
Deposits	9,083	6,605
Due to the Association (Note 8)	140,597	143,626
Unearned revenue	91,064	17,919
Unspent insurance claim (Note 12)	107,110	216,103
Current portion of capital lease (Note 11)	158	10,906
Current portion of bonds payable (Note 5)	210,000	205,000
Total Current Liabilities	625,122	645,025
Long-Term Liabilities		
Capital lease obligation (Note 5)	—	1,502
Bonds payable (Note 5)	8,557,179	8,766,645
Total Long-Term Liabilities	8,557,179	8,768,147
Total Liabilities	9,182,301	9,413,172
Deferred Inflows Of Resources		
Unearned property tax revenue	551,855	550,248
Net Position		
Net investment in capital assets (Note 6)	4,729,700	4,906,123
Restricted (Note 6)	1,024,306	814,070
Unrestricted	453,064	542,778
Total Net Position	\$ 6,207,070	\$ 6,262,971

HEATHER GARDENS METROPOLITAN DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For The Year Ended December 31, 2016

(With Comparative Totals For The Year Ended December 31, 2015)

	2016	2015
Operating Revenue		
Recreation use fees	\$ 1,181,402	\$ 1,146,026
Restaurant income	609,672	558,335
Golf course fees	316,267	296,918
Community center fees	142,455	137,232
Recreational vehicle lot rentals	41,388	34,202
Other operating revenue	12,725	8,767
Total Operating Revenue	2,303,909	2,181,480
Operating Expenses		
Community center, golf course, recreational vehicle lot	1,121,410	1,144,555
Professional services and insurance	102,882	73,834
Depreciation	625,536	621,598
Restaurant expenses	673,896	676,000
Foundation expenses	217,681	21,805
Other operating expenses	11,215	4,909
Total Operating Expenses	2,752,620	2,542,701
Loss From Operations	(448,711)	(361,221)
Nonoperating Revenue		
Property taxes	550,881	610,997
Donations	98,742	23,087
Specific ownership taxes	41,633	47,552
Income on certificates of deposit	20,076	8,237
Insurance proceeds	108,993	—
Conservation Trust Fund entitlement	17,142	14,534
Total Nonoperating Revenue	837,467	704,407
Nonoperating Expenses		
Interest	435,394	441,560
Gain on disposal of assets	—	(500)
Other nonoperating expenses	9,263	10,165
Total Nonoperating Expenses	444,657	451,225
Change In Net Position	(55,901)	(108,039)
Net Position - Beginning Of Year	6,262,971	6,371,010
Net Position - End Of Year	\$ 6,207,070	\$ 6,262,971

HEATHER GARDENS METROPOLITAN DISTRICT

STATEMENT OF CASH FLOWS

For The Year Ended December 31, 2016

(With Comparative Totals For The Year Ended December 31, 2015)

Page 1 Of 2

	2016	2015
Cash Flows From Operating Activities		
Payments received from customers	\$ 2,379,391	\$ 2,161,315
Payments to suppliers for goods and services	(2,108,870)	(1,895,754)
Net Cash Provided By Operating Activities	270,521	265,561
Cash Flows From Noncapital Financing Activities		
Donations	98,742	23,087
Specific ownership taxes	41,633	47,552
Other nonoperating expenses	(9,263)	(10,165)
Net Cash Provided By Noncapital Financing Activities	131,112	60,474
Cash Flows From Capital And Related Financing Activities		
Cash received from sale of property	—	500
Property taxes levied for debt service, net	550,881	610,997
Principal paid on long-term debt	(205,000)	(200,000)
Principal paid on capital lease obligation	(12,250)	(18,572)
Interest paid on long-term debt	(434,860)	(441,026)
Conservation Trust Fund entitlement	17,142	14,534
Acquisition of property and equipment	(298,930)	(116,674)
Net cash received from insurance claim	—	52,297
Net Cash Used In Capital And Related Financing Activities	(383,017)	(97,944)
Cash Flows From Investing Activities		
Purchases of certificates of deposit	(11,245)	(709,001)
Income on certificates of deposit	20,076	8,237
Net Cash Provided By (Used In) Investing Activities	8,831	(700,764)
Net Increase (Decrease) In Cash And Cash Equivalents	27,447	(472,673)
Cash And Cash Equivalents - Beginning Of Year	1,085,416	1,558,089
Cash And Cash Equivalents - End Of Year	\$ 1,112,863	\$ 1,085,416
Cash and cash equivalents	\$ 769,596	\$ 687,866
Cash restricted	343,267	397,550
Total Cash And Cash Equivalents - End Of Year	\$ 1,112,863	\$ 1,085,416

HEATHER GARDENS METROPOLITAN DISTRICT

STATEMENT OF CASH FLOWS

For The Year Ended December 31, 2016

(With Comparative Totals For The Year Ended December 31, 2015)

Page 2 Of 2

	For The Years Ended December 31,	
	2016	2015
Reconciliation Of Loss From Operations To Net Cash Provided By Operating Activities		
Loss from operations	\$ (448,711)	\$ (361,221)
Adjustments to reconcile loss from operations to net cash provided by operating activities:		
Depreciation	625,536	621,598
Changes in assets and liabilities:		
Increase in receivables	(142)	(25,136)
Decrease in allowance for doubtful accounts	—	(796)
Increase in prepaid expenses	(1,467)	(6,614)
(Increase) decrease in inventory	547	(3,777)
Increase in other assets	(80)	(8,073)
Increase (decrease) in accounts payable	22,244	(11,281)
Increase (decrease) in due to the Association	(3,029)	55,095
Increase in deposits	2,478	5,062
Increase in unearned revenue	73,145	704
Net Cash Provided By Operating Activities	\$ 270,521	\$ 265,561

HEATHER GARDENS METROPOLITAN DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2016

1. Definition Of Reporting Entity

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

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

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

The District has no employees, and all operations and administrative functions are contracted (Note 8).

2. Summary Of Significant Accounting Policies

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

HEATHER GARDENS METROPOLITAN DISTRICT

Notes To Basic Financial Statements *(Continued)*

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

Measurement Focus And Basis Of Accounting

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

Operating Revenues And Expenses

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

Budgetary Information

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

Cash Equivalents And Certificates Of Deposit

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

Capital Assets

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

HEATHER GARDENS METROPOLITAN DISTRICT

Notes To Basic Financial Statements *(Continued)*

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

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

Property Taxes

Property taxes are levied by the District's Board of Directors. The levy is based on assessed valuations determined by the County Assessor generally as of January 1 of each year. The levy is set by December 15 by certification to the County Commissioners to put the tax lien on the individual properties effective January 1 of the following year. The County Treasurer collects the determined taxes during the ensuing calendar year. The taxes are payable by April or, if in equal installments at the taxpayer's election, in February and June. Delinquent taxpayers are notified in August, and tax sales of the liens on delinquent properties are held in November or December. The County Treasurer remits the taxes collected monthly to the District. Property taxes, net of estimated uncollectible taxes, are recorded initially as unearned revenue in the year they are levied and measureable.

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

Net Position

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

Comparative Data

The financial statements include certain prior-year comparative information in total, but not at the level of detail required for presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the 2015 District financial statements.

HEATHER GARDENS METROPOLITAN DISTRICT

Notes To Basic Financial Statements *(Continued)*

Deferred Outflows Of Resources

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

Deferred Inflows Of Resources

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

3. Cash, Cash Equivalents And Certificates Of Deposits

Cash and cash equivalents as of December 31, 2016 consist of the following:

	Book	Bank
Deposits with financial institutions - unrestricted	\$ 768,596	\$ 771,803
Deposits with financial institutions - restricted	343,267	343,267
Cash on hand	1,000	—
	\$ 1,112,863	\$ 1,115,070

Cash Deposits

The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulators. Amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is specified by PDPA. PDPA allows the institution to create a single collateral pool for all public funds. The pool is to be maintained by another institution or held in trust for all the uninsured public deposits as a group. The State Regulatory Commission for banks and savings and loan associations is required by statute to monitor the naming of eligible depositories and reporting of the uninsured deposits and assets maintained in the collateral pools.

HEATHER GARDENS METROPOLITAN DISTRICT

Notes To Basic Financial Statements *(Continued)*

Federal Deposit Insurance Corporation coverage is \$250,000 per official custodian. At December 31, 2016, the District's cash deposits at financial institutions had a book balance of \$1,112,863 and a corresponding bank balance of \$1,115,070. Of the bank balance, \$500,000 was covered by federal depository insurance. The remainder of the bank balance, \$615,070 was collateralized with securities held by the pledging financial institution and covered by eligible collateral as determined by PDPA.

Credit Risk

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

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

Interest Rate Risk

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

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

HEATHER GARDENS METROPOLITAN DISTRICT

Notes To Basic Financial Statements *(Continued)*

Restricted Cash

At December 31, 2016, cash in the amount of \$343,267 is restricted. This amount has been restricted to make bond principle and interest payments.

4. Capital Assets

An analysis of the changes in capital assets for the year ended December 31, 2016 is as follows:

	Balance - January 1, 2016	Additions/ Transfers	Deletions/ Transfers	Balance - December 31, 2016
Capital Assets				
Nondepreciable Capital Assets				
Land	\$ 1,725,000	\$ —	\$ —	\$ 1,725,000
Intangible asset	133,190	—	—	133,190
Total Nondepreciable Capital Assets	1,858,190	—	—	1,858,190
Depreciable Capital Assets				
Property and equipment	13,070,702	200,518	—	13,271,220
Furniture and equipment	816,171	98,412	—	914,583
Restaurant equipment	71,178	—	—	71,178
Restaurant and pro shop renovation	1,346,537	—	—	1,346,537
Capital lease equipment	77,376	—	—	77,376
Total Depreciable Capital Assets	15,381,964	298,930	—	15,680,894
Total Capital Assets	17,240,154	298,930	—	17,539,084
Accumulated Depreciation	(3,759,936)	(625,536)	—	(4,385,472)
Net Depreciable Capital Assets	11,622,028	(326,606)	—	11,295,422
Total Capital Assets, Net Of Depreciation	\$ 13,480,218	\$ (326,606)	\$ —	\$ 13,153,612

Depreciation expense for the year ended December 31, 2016 is \$625,536.

HEATHER GARDENS METROPOLITAN DISTRICT

Notes To Basic Financial Statements *(Continued)*

5. Long-Term Obligations

The following is an analysis of changes in long-term obligations for the year ended December 31, 2016:

	Balance - January 1, 2016	Additions	Reductions	Balance - December 31, 2016	Due Within One Year
2010 - \$9,800,000					
General obligation bonds	\$ 8,985,000	\$ —	\$ (205,000)	\$ 8,780,000	\$ 210,000
Capital lease	12,408	—	(12,250)	158	158
Less: Unamortized discount on bonds	13,355	—	(534)	12,821	534
Total Long-Term Obligations	\$ 8,984,053	\$ —	\$ (216,716)	\$ 8,767,337	\$ 209,624

Bonds Payable

The \$9,800,000 General Obligation Bonds Series 2010, dated July 22, 2010, is due annually in increasing amounts through 2040, with remaining interest due semiannually at rates of 1.25% to 5.25%. Bonds maturing on or before December 1, 2020 are not subject to redemption prior to their respective maturity dates. The bonds maturing on December 1, 2021 and thereafter are subject to redemption prior to maturity, at the option of the District, as a whole or in integral multiples of \$5,000, in any order of maturity and in whole or partial maturities, on December 1, 2020 and on any date thereafter, upon payment of par and accrued interest, without redemption premium. The bonds and interest are secured by the District's covenant to levy an ad valorem tax on all of the taxable property in the District.

HEATHER GARDENS METROPOLITAN DISTRICT

Notes To Basic Financial Statements *(Continued)*

The General Obligation Bond Series 2010 principal and interest mature as follows:

Year	Principal	Interest	Total
2017	\$ 210,000	\$ 427,966	\$ 637,966
2018	215,000	421,142	636,142
2019	225,000	413,616	638,616
2020	235,000	405,179	640,179
2021	245,000	395,779	640,779
2022 - 2026	1,390,000	1,802,556	3,192,556
2027 - 2031	1,760,000	1,430,788	3,190,788
2032 - 2036	2,250,000	868,311	3,118,311
2037 - 2040	2,250,000	300,232	2,550,232
	<u>\$ 8,780,000</u>	<u>\$ 6,465,569</u>	<u>\$ 15,245,569</u>

6. Net Position

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

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

As of December 31, 2016, the District had net position invested in capital assets, which is calculated as follows:

Capital assets - net of accumulated depreciation	\$ 13,153,612
Capital related borrowings	<u>(8,423,912)</u>
	<u>\$ 4,729,700</u>

HEATHER GARDENS METROPOLITAN DISTRICT

Notes To Basic Financial Statements (*Continued*)

Restricted assets include net position that is restricted for use either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The District had the following restricted net position as of December 31, 2016:

Restricted	
TABOR emergency reserves	\$ 17,775
Foundation	204,963
Conservation Trust Fund	78,321
Debt service	<u>723,247</u>
Total	<u>\$ 1,024,306</u>

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

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

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

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

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

7. Risk Management

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

The District is a member of the Colorado Special Districts Property and Liability Pool (the Pool) as of December 31, 2016. The Pool is an organization created by intergovernmental agreement to provide property, liability, public official's liability and boiler and machinery insurance coverage to its members.

HEATHER GARDENS METROPOLITAN DISTRICT

Notes To Basic Financial Statements (*Continued*)

Settled claims have not exceeded this coverage in any of the past three fiscal years.

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

8. Heather Gardens Association

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

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

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

The total due to Heather Gardens Association at December 31, 2016 was \$140,597.

9. Tax, Spending And Debt Limitations

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

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

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

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

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

HEATHER GARDENS METROPOLITAN DISTRICT

Notes To Basic Financial Statements *(Continued)*

10. Operating Lease

The District pays for an operating lease, which is in the name of the Association, for a copier in the club house. Total payments for the copier for the year ended December 31, 2016 were \$4,241. The monthly rental payments are \$353, and the future payments under the lease are as follows:

<u>Year</u>	<u>Amount</u>
2017	\$ 4,240
2018	3,888
Total	\$ 8,128

11. Capital Leases

The District has entered into two noncancelable capital lease agreements under which the related equipment may become the property of the District at the end of the lease under a bargain purchase option for \$1. The cost and accumulated amortization of the fitness equipment under these agreements totaled \$77,376 at December 31, 2016. One lease expired in 2016, while the other lease expires in 2017. The amortization expense for the year ended December 31, 2016 was \$9,248, which is included in depreciation expense for depreciable assets.

Principal and interest payments for the capital leases are as follows:

Total minimum lease payments	\$ 158
Less: Amount representing interest	<u>—</u>
Present value of minimum lease payments	<u>\$ 158</u>

Future minimum lease payments under capital leases are as follows:

<u>Year</u>	<u>Amount</u>
2017	\$ 158

HEATHER GARDENS METROPOLITAN DISTRICT

Notes To Basic Financial Statements *(Continued)*

12. Insurance Claim

During the year ended December 31, 2015, the District received gross insurance proceeds of \$69,639 related to building damage caused by a hail storm, which were recorded as unearned revenue. During the year ended December 31, 2016, the District did not receive any insurance proceeds, but continued repairs of the damaged property. Accordingly, the activity in the unspent insurance claim for the year was as follows:

Unspent Insurance Claim	Amount
Balance - January 1, 2016	\$ 216,103
Gross insurance receipts	—
Insurance expenditures	108,993
Balance - December 31, 2016	\$ 107,110

Other Supplementary Information

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

HEATHER GARDENS METROPOLITAN DISTRICT

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUNDS AVAILABLE - BUDGET AND ACTUAL (BUDGETARY BASIS) For The Year Ended December 31, 2016

	Original And Final Budget	Actual	Variance - Favorable (Unfavorable)
Revenues			
Recreation use fees	\$ 1,180,900	\$ 1,181,402	\$ 502
Restaurant income	569,700	609,672	39,972
Golf course fees	298,570	316,267	17,697
Community center fees	112,442	142,455	30,013
Recreational vehicle lot rentals	34,740	41,388	6,648
Other operating revenues	35,800	12,725	(23,075)
Property taxes	550,248	550,881	633
Donations	—	98,742	98,742
Specific ownership taxes	33,000	41,633	8,633
Income on certificates of deposit	19,488	20,076	588
Insurance proceeds	—	108,993	108,993
Conservation Trust Fund entitlement	15,200	17,142	1,942
Total Revenues	2,850,088	3,141,376	291,288
Expenditures			
Operating			
Community center, golf course, recreational vehicle lot	1,207,358	1,121,410	85,948
Restaurant expenses	683,502	673,896	9,606
Professional services	34,000	60,390	(26,390)
Bad debt expense	2,500	—	2,500
Election expenses	15,000	—	15,000
Insurance	42,900	42,492	408
Other operating expenses	4,830	11,215	(6,385)
Foundation expense	—	217,681	(217,681)
Debt service			
County Treasurer's collection fees	9,227	8,263	964
Principal	205,000	205,000	—
Interest	434,116	435,394	(1,278)
Capital lease payments	—	12,250	(12,250)
Bank payee fee	1,000	1,000	—
Capital outlay	260,442	298,930	(38,488)
Total Expenditures	\$ 2,899,875	3,087,921	\$ (188,046)
Excess Of Revenues Over Expenditures		53,455	
Adjustments to GAAP basis			
Depreciation		(625,536)	
Bond principal payments		205,000	
Capital lease payments		12,250	
Capital outlay		312,354	
Capital outlay - Foundation		(13,424)	
Changes In Net Position Per Statement Of Revenues, Expenses And Changes In Net Position - GAAP Basis		\$ (55,901)	

HEATHER GARDENS METROPOLITAN DISTRICT

NOTE TO BUDGETARY COMPARISON SCHEDULE

Budgets And Budgetary Accounting

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

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