

GATEWAY METROPOLITAN DISTRICT
FINANCIAL STATEMENTS AND REPORT OF
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

December 31, 2016



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**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

August 28, 2017

To the Board of Directors
Gateway Metropolitan District

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of Gateway 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.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of Gateway Metropolitan District as of December 31, 2016, and the respective changes in its financial position and, where applicable, cash flows 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
Gateway 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The proprietary fund budgetary comparison schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements. The proprietary fund budgetary comparison schedule 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 proprietary fund budgetary comparison schedule is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

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

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

The Gateway Metropolitan District (the "District") was formally organized by judicial decree in 2003 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 Pitkin County, Colorado. The District serves the Gateway of Snowmass Mesa Subdivision.

The management's discussion and analysis of the Gateway Metropolitan District's financial performance provides an overview of the District's financial activities for the year ending December 31, 2016. The intent of this discussion and analysis is to look at the District's financial performance as a whole; it should be read in conjunction with the basic financial statements and the auditor's notes to enhance the reader's understanding of the District's overall financial performance.

FINANCIAL HIGHLIGHTS

Key financial highlights for the fiscal year 2016 are as follows:

- In total, the District's overall net position increased by \$76,683, or 22.4% higher than the prior fiscal year. The Statement of Net Position can be found on page 7 of this report, and the Change in Net Position from 2015 to 2016 can be seen in the Statement of Activities on page 8.
- Total revenues increased by \$123,423 or 60%, from the prior fiscal year. This is primarily due to an increase in property tax revenue/increased road mill levy and charges for water services.
- The overall expenses in 2016 decreased by \$40,375 compared to 2015. This is primarily due to a decrease in general fund expenditures relating to road maintenance and administrative costs.

Government-wide Statements

The government-wide statements consist of the Statement of Net Position and the Statement of Activities. These statements report information about the District as a whole and include *all* assets, liabilities, and deferred inflows of resources using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are considered regardless of when cash is received or paid.

These two statements report the District's *net position* and changes in them. The District's net position – the difference between assets and liabilities and deferred inflows of resources – are one way to measure the District's financial health, or *financial position*. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating. Other non-financial factors, however, such as changes in the District's property tax base and the condition of the infrastructure, are needed to assess the overall health of the District.

In the Statement of Net Position and the Statement of Activities, the District is divided into two kinds of activities:

- *Governmental activities* – The activity of the District's Road Fund is reported here, including interest and principal paid on outstanding bonds. Property taxes, specific ownership taxes, and interest income finance most of these activities.

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

- *Business-type activities* – The activity of the District's Water Enterprise is reported here, including interest and principal paid on outstanding bonds. Property taxes, specific ownership taxes, water usage charges, and interest income finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's *funds*, focusing on its most significant funds – not the District as a whole. The District's funds – governmental and proprietary – use different accounting approaches.

Governmental fund – The General (Road) Fund's activity 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. This fund is reported using an accounting method called *modified accrual* accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statement provides a detailed *short-term view* of the District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

Proprietary funds – When the Enterprise (Water) Fund charges users for the services it provides, these services are reported in the proprietary fund. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. In fact, the District's enterprise fund is the same as the business-type activities reported in the government-wide statements, but provide more detail and additional information, such as cash flows, for proprietary funds.

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

THE DISTRICT AS A WHOLE

Statement of Net Position

The perspective of the Statement of Net Position is of the District as a whole. Both the governmental activities (Road Fund) and the business-type activities (Water Fund) are presented, along with a total of the two, which represents the total primary government. Following is a summary of the District's net position for the fiscal year 2016 compared to 2015.

	Governmental Activities		Business-type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
ASSETS:						
Current & Other Assets	\$ 191,703	\$ 209,866	\$ 154,045	\$ 160,586	\$ 345,748	\$ 370,452
Capital Assets, Net	914,020	292,876	372,137	394,929	1,286,157	687,805
Total Assets	<u>1,105,723</u>	<u>502,742</u>	<u>526,182</u>	<u>555,515</u>	<u>1,631,905</u>	<u>1,058,257</u>
LIABILITIES:						
Current & Other Liabilities	8,790	89,571	2,726	1,504	11,516	91,075
Long-term Debt - Current	34,861	-	28,829	28,829	63,690	28,829
Long-term Debt - Non-current	604,254	-	360,359	389,188	964,613	389,188
Total Liabilities	<u>647,905</u>	<u>89,571</u>	<u>391,914</u>	<u>419,521</u>	<u>1,039,819</u>	<u>509,092</u>
DEFERRED INFLOWS OF RESOURCES:						
Property Taxes	173,835	207,597	-	-	173,835	207,597
NET POSITION:						
Invested in Capital Assets, Net of Related Debt	274,905	292,876	(17,051)	70,654	257,854	363,530
Restricted for Emergencies	7,000	7,000	-	10,962	7,000	17,962
Unrestricted (Deficit)	2,078	(94,302)	151,319	54,378	153,397	(39,924)
Total Net Position	<u>\$ 283,983</u>	<u>\$ 205,574</u>	<u>\$ 134,268</u>	<u>\$ 135,994</u>	<u>\$ 418,251</u>	<u>\$ 341,568</u>

Total Assets increased by \$572,648 from 2015 to 2016, primarily due to increases in net capital assets due to the road paving project.

Total Liabilities increased by \$530,727 from 2015 to 2016, primarily due to an increase in bond debt relating to the road project.

Deferred Inflows of Resources decreased by \$33,762 from 2015 to 2016 (property taxes assessed, which are expected to be received in 2017). This was the result of lower debt service on the road bond due to below budget costs.

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

Total Net Position for the District reflects an overall increase of approximately \$76,683 or 22.4% from 2015 to 2016. This is due to a \$78,409 increase in net position in Governmental Activities (Road Fund) and \$1,796 decrease in net position in the Business-type Activities (Water Fund). The amount reported as *Net Investment in Capital Assets*, is computed by adding Capital Asset costs (net of depreciation and amortization) and subtracting the outstanding bonds that were used to purchase the capital improvements.

Statement of Activities

The perspective of the Statement of Activities is of the District as a whole. 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:

	GOVERNMENTAL ACTIVITIES		BUSINESS-TYPE ACTIVITIES		TOTAL PRIMARY GOVERNMENT	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
REVENUES:						
Charges for Services	\$ -	\$ -	\$101,927	\$98,340	\$101,927	\$ 98,340
Property & Ownership Taxes	225,428	106,006	-	-	225,428	106,006
Capital Contributions	-	-	-	-	-	-
Interest Earnings & Other	732	318	-	-	732	318
Total Revenues	<u>226,160</u>	<u>106,324</u>	<u>101,927</u>	<u>98,340</u>	<u>328,087</u>	<u>204,664</u>
EXPENSES:						
Operations/Maintenance	70,971	123,662	67,296	51,712	138,267	175,374
Prof. Fees & Admin	26,918	57,825	13,565	16,475	40,483	74,300
County Treasurer's Fees	10,432	4,542	-	-	10,432	4,542
Capital Outlay	-	-	-	20	-	20
Amortization & Depreciation	29,376	15,041	22,792	22,462	52,168	37,503
Interest & Fiscal Charges	10,054	-	-	40	10,054	40
Total Expenses	<u>147,751</u>	<u>201,070</u>	<u>103,653</u>	<u>90,709</u>	<u>251,404</u>	<u>291,779</u>
CHANGE IN NET POSITION	<u>\$78,409</u>	<u>\$(94,746)</u>	<u>\$ (1,726)</u>	<u>\$ 7,631</u>	<u>\$ 76,683</u>	<u>\$(87,115)</u>

Overall revenues increased by approximately \$123,423 or 60%, from 2015 to 2016. This is primarily due to increases in property tax revenues from the increase in the road mill levy as well as increases in charges for services (metered water).

Overall expenses in 2016 decreased by approximately \$40,375 compared to 2015. This is primarily due to a decrease in general fund expenditures relating to the road and decreased administrative costs.

Gateway Metropolitan District
STATEMENT OF NET POSITION

December 31, 2016

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Assets			
Equity in pooled cash and investments	\$ 104,298	\$ 28,625	\$ 132,923
Receivables			
Accounts receivable	1,799	37,191	38,990
Property taxes	173,835	-	173,835
Interfund balances	(88,229)	88,229	-
Capital assets (net of accumulated depreciation)			
Capital assets	914,020	372,137	1,286,157
Total assets	<u>1,105,723</u>	<u>526,182</u>	<u>1,631,905</u>
Liabilities			
Accounts payable	8,790	2,726	11,516
Non-current liabilities, due within one year			
Notes payable	34,861	28,829	63,690
Non-current liabilities, due after one year			
Notes payable	604,254	360,359	964,613
Total liabilities	<u>647,905</u>	<u>391,914</u>	<u>1,039,819</u>
Deferred inflows of resources			
Property taxes	173,835	-	173,835
Total deferred inflows of resources	<u>173,835</u>	<u>-</u>	<u>173,835</u>
Net position			
Net investment in capital assets	274,905	(17,051)	257,854
Restricted for emergencies	7,000	-	7,000
Unrestricted	2,078	151,319	153,397
Total net position	<u>\$ 283,983</u>	<u>\$ 134,268</u>	<u>\$ 418,251</u>

The accompanying notes are an integral part of this statement.

Gateway Metropolitan District

STATEMENT OF ACTIVITIES

Year ended December 31, 2016

Function/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
	Expenses	Operating Grants and Contributions		Governmental Activities	Business-type Activities	Total
		Charges for Services	Capital Grants and Contributions			
Governmental activities:						
General government	\$ 137,697	\$ -	\$ -	\$ (137,697)	\$ -	\$ (137,697)
Interest on long-term debt	10,054	-	-	(10,054)	-	(10,054)
Total governmental activities	<u>147,751</u>	<u>-</u>	<u>-</u>	<u>(147,751)</u>	<u>-</u>	<u>(147,751)</u>
Business-type activities:						
Water	103,653	101,927	-		(1,726)	(1,726)
Total business-type activities	<u>103,653</u>	<u>101,927</u>	<u>-</u>		<u>(1,726)</u>	<u>(1,726)</u>
Total	<u>\$ 251,404</u>	<u>\$ 101,927</u>	<u>\$ -</u>	<u>(147,751)</u>	<u>(1,726)</u>	<u>(149,477)</u>
General revenues:						
Property taxes				225,428	-	225,428
Interest earnings				732	-	732
Total general revenues				<u>226,160</u>	<u>-</u>	<u>226,160</u>
Change in net position				78,409	(1,726)	76,683
Net position - beginning				205,574	135,994	341,568
Net position - ending				<u>\$ 283,983</u>	<u>\$ 134,268</u>	<u>\$ 418,251</u>

The accompanying notes are an integral part of this statement.

Gateway Metropolitan District

BALANCE SHEET - GENERAL FUND

December 31, 2016

Assets	
Equity in pooled cash and investments	\$ 104,298
Receivables	
Accounts receivable	1,799
Property taxes	173,835
Total assets	279,932
Liabilities	
Accounts payable	8,790
Due to water fund	88,229
Total liabilities	97,019
Deferred inflows of resources	
Property taxes	173,835
Total deferred inflows of resources	173,835
Fund balance	
Restricted for emergencies	7,000
Unassigned	2,078
Total fund balance	\$ 9,078
Fund balance (as reported above)	\$ 9,078
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets, net of accumulated depreciation, are not financial resources, and therefore, are not reported in the fund.	914,020
Long-term debt is not due and payable in the current period, and therefore, is not reported in the fund.	(639,115)
Net position of governmental activities	\$ 283,983

The accompanying notes are an integral part of this statement.

Gateway Metropolitan District

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GENERAL FUND

Year ended December 31, 2016

Revenues		
Taxes	\$	225,428
Interest		732
		Total revenues
		226,160
Expenditures		
General government		108,321
Debt service		
Principal		220,885
Interest		10,054
Capital outlay		650,520
		Total expenditures
		989,780
	Excess of revenues over (under) expenditures	(763,620)
Other financing sources (uses)		
Loan proceeds		860,000
	Total other financing sources (uses)	860,000
	Excess of revenues and other financing sources over (under) expenditures and other financing uses	96,380
Fund Balance - beginning		(87,302)
Fund Balance - ending	\$	9,078

The accompanying notes are an integral part of this statement.

Gateway Metropolitan District

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - GENERAL FUND TO THE STATEMENT OF ACTIVITIES

Year ended December 31, 2016

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

Net Change in Fund Balance - General Fund	\$ 96,380
Governmental funds do not report capital outlays as expenditures; however, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation. This is the amount by which current year capitalized capital outlay was more than the current year depreciation. (\$650,520-\$29,376)	621,144
Proceeds from debt issuance provide current financial resources to governmental funds, but increase liabilities in the statement of net position.	(860,000)
Governmental funds report principal payments on long-term debt as reductions in fund balance. These payments reduce long-term debt in the Statement of Net Position.	<u>220,885</u>
Change in net position of governmental activities	<u><u>\$ 78,409</u></u>

The accompanying notes are an integral part of this statement.

Gateway Metropolitan District

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

Year ended December 31, 2016

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Tax revenue	\$ 224,304	\$ 224,304	\$ 225,428	\$ 1,124
Interest earnings	300	300	732	432
Total revenues	<u>224,604</u>	<u>224,604</u>	<u>226,160</u>	<u>1,556</u>
Expenditures				
Management fees and office	5,515	5,515	10,826	(5,311)
Accounting and auditing	6,000	6,000	4,493	1,507
Insurance	4,497	4,497	6,806	(2,309)
Legal	1,500	1,500	11,599	(10,099)
Repairs and maintenance	45,510	45,510	40,990	4,520
Treasurer fees	6,150	6,150	10,432	(4,282)
Theft loss	-	-	23,175	(23,175)
Interest expense	-	-	10,054	(10,054)
Debt service principal	89,887	89,887	220,885	(130,998)
Capital outlay	-	835,000	650,520	184,480
Total expenditures	<u>159,059</u>	<u>994,059</u>	<u>989,780</u>	<u>4,279</u>
Excess of revenues over (under) expenditures	65,545	(769,455)	(763,620)	(829,165)
Other financing sources (uses)				
Loan proceeds	-	-	860,000	860,000
Excess of revenues and other financing sources over (under) expenditures and other financing (uses)	65,545	(769,455)	96,380	30,835
Fund balance, beginning	<u>(87,302)</u>	<u>(87,302)</u>	<u>(87,302)</u>	<u>-</u>
Fund balance, ending	<u>\$ (21,757)</u>	<u>\$ (856,757)</u>	<u>\$ 9,078</u>	<u>\$ 30,835</u>

The accompanying notes are an integral part of this statement.

Gateway Metropolitan District

STATEMENT OF NET POSITION - WATER FUND

December 31, 2016

Assets	
Current assets	
Equity in pooled cash and investments	\$ 28,625
Receivables	
Accounts receivable	37,191
Due from general fund	88,229
	Total current assets 154,045
Noncurrent assets	
Capital assets, net of depreciation	372,137
	Total assets 526,182
Liabilities	
Current liabilities	
Accounts payable	2,726
Current portion of loan payable	28,829
	Total current liabilities 31,555
Loan payable, less current portion	360,359
	Total liabilities 391,914
Net position	
Net investment in capital assets	(17,051)
Unrestricted	151,319
	Total net position \$ 134,268

The accompanying notes are an integral part of this statement.

Gateway Metropolitan District

STATEMENT OF REVENUE, EXPENSES, AND CHANGES
IN FUND NET POSITION - WATER FUND

Year ended December 31, 2016

Operating revenues		
Water service charges		\$ 101,927
	Total operating revenues	<u>101,927</u>
Operating expenses		
Operations and maintenance		36,939
Depreciation and amortization		22,792
Management fees and office		8,568
Accounting and auditing		3,827
Legal fees		1,170
Insurance		4,315
Miscellaneous expenses		6,300
Theft loss		19,742
	Total operating expenses	<u>103,653</u>
	Operating income (loss)	(1,726)
	Change in net position	(1,726)
Net position - beginning		135,994
Net position - ending		<u><u>\$ 134,268</u></u>

The accompanying notes are an integral part of this statement.

Gateway Metropolitan District
STATEMENT OF CASH FLOWS
WATER FUND

Year ended December 31, 2016

Cash flows from operating activities	
Cash received from customers and users	\$ 111,242
Cash paid to suppliers	(59,897)
Theft losses	(19,742)
Net cash provided (used) by operating activities	31,603
Cash flows from non-capital financing activities	
Receipts from other funds	946
Net cash provided (used) by non-capital financing activities	946
Cash flows from capital and related financing activities	
Principal payments on long-term debt	(28,829)
Net cash provided (used) by capital and related financing activities	(28,829)
Net increase (decrease) in cash	
	3,720
Cash - beginning	
	24,905
Cash - ending	
	\$ 28,625
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	\$ (1,726)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation and amortization	22,792
(Increase) decrease in accounts receivable	9,315
Increase (decrease) in accounts payable	1,222
Total adjustments	33,329
Net cash provided (used) by operating activities	\$ 31,603

The accompanying notes are an integral part of this statement.

Gateway Metropolitan District

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Organization

The Gateway Metropolitan District (the “District”) is a quasi-municipal corporation and political subdivision of the State of Colorado organized pursuant to the requirements of the Special District Act. The District was formed to provide water and road maintenance services for the benefit of the residents and property owners within the District. The District is located within Pitkin County, Colorado. The governing body of the District is elected by the eligible electors within the District and consists of a five-member board of directors. The District has no employees and all operations and administrative functions are contracted.

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.

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.

Gateway Metropolitan District

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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 governmental and business-type activities.

Government-wide Financial Statements

In the government-wide Statement of Net Position, the governmental activities column is reported on a full accrual, economic resource basis, which recognizes all long-term assets, deferred outflows of resources, and receivables as well as long-term debts, deferred inflows of resources, 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, deferred outflows of resources, liabilities, deferred inflows of resources, 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 a general fund, which is a governmental fund, and the water fund, which is a proprietary 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 among governmental fund assets, deferred outflows, liabilities, and deferred inflows is reported as fund balance.

Gateway Metropolitan District

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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.

The water fund, the District's only proprietary fund accounts for operations that are financed and operated in a manner similar to a private business enterprise, where the intent is that costs of providing goods or services to the users on a continuing basis be financed or recovered primarily through user charges.

Proprietary funds distinguish between operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

For purposes of the statement of cash flows, the District considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

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.

Gateway Metropolitan District

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Current Financial Focus and Modified Accrual Basis

The governmental fund financial statements use the current financial resources 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. Revenues are considered available if collected within 60 days of year-end. 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.

When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the District's policy is to first apply the expense toward restricted resources and then toward unrestricted resources. In governmental funds, the District's policy is to first apply the expenditure toward restricted fund balance and then to other, less-restrictive classifications—committed and then assigned fund balances before using unassigned fund balances.

The accrual basis of accounting is utilized in the proprietary fund type. Revenue is recognized when earned and expenses are recognized when the liability is incurred. Depreciation is computed and recorded as an operating expense and expenditures for property and equipment are shown as increases in assets.

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 expenditures/expenses during the reporting period. Actual results could differ from those estimates.

7. 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”). The budget for the proprietary fund is adopted on the budgetary basis of accounting, which differs from the GAAP basis in that depreciation and amortization are excluded from expenditures, and outlays for the acquisition of capital assets and debt service principal are included as expenditures.

Gateway Metropolitan District

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

As required by Colorado statutes, the District followed the timetable below in approving and enacting the budgets for the ensuing year:

- (1) For the 2016 budget year, prior to August 25, 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) 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.
- (4) For the 2016 budget, the final budget and appropriating resolution was adopted prior to December 31, 2015.
- (5) 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. Supplemental appropriations were adopted for the general fund and debt service funds for 2016.

Gateway Metropolitan District

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

8. 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 asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are completed. The District's capitalization policy is \$5,000.

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

	<u>Estimated Lives</u>
Road system	7 to 30 years
Water system	7 to 30 years

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 inflows of resources on the statement of net position in the amount of the assessed taxes. The County Treasurer remits taxes collected monthly to the District.

10. Accounts Receivable

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

Gateway Metropolitan District

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

11. Fund Equity

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 classifications on the following page 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 inventory) 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. Assigned fund balances in special revenue funds will also include any remaining fund balance that is not restricted or committed. This classification is necessary to indicate that those funds are, at a minimum intended to be used for the purpose of that particular fund.
- *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.

Gateway Metropolitan District

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE B – CASH AND INVESTMENTS

The District maintains a cash pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the statement of net position as "Equity in pooled cash and investments."

Deposits

At year-end, the carrying amount of the District's cash deposits was \$132,923 and the bank balance was \$136,774. The bank balance was covered by federal depository insurance.

Statutes require that any public depository which accepts and holds public funds maintain, as security for public deposits accepted and held by it, not insured by federal depository insurance, eligible collateral having a market value, at all times, equal to at least 102 percent of the amount of public deposits. Banking institutions are monitored by the State of Colorado Banking Commission and must report monthly on all public deposits held. Pledged collateral must be held in joint custody of the bank and of the Public Deposit Protection Act in a safekeeping account held by a third party, usually the Federal Reserve Bank. The pledged collateral cannot be released unless approval is obtained by the banking commission. Savings and Loan institutions are monitored by the State of Colorado Commissioner of Savings and Loan Associations and must report quarterly on all public deposits held. Pledged collateral, usually in the form of mortgages, must be held by a third party institution for the benefit of the commissioner.

NOTE C – CAPITAL ASSETS

A summary of changes in capital assets follows:

	Balance <u>12/31/15</u>	Additions	Dispositions	Balance <u>12/31/16</u>
Governmental activities				
Road system	\$ 560,107	\$ 650,520	\$ –	\$ 1,210,627
Less: accumulated depreciation	<u>(267,231)</u>	<u>(29,376)</u>	<u>–</u>	<u>(296,607)</u>
Governmental activities capital assets, net	<u>\$ 292,876</u>	<u>\$ 621,144</u>	<u>\$ –</u>	<u>\$ 914,020</u>
Business-type activities				
Capital assets being depreciated				
Water system	\$ 770,736	\$ –	\$ –	\$ 770,736
Less: accumulated depreciation	<u>(375,807)</u>	<u>(22,792)</u>	<u>–</u>	<u>(398,599)</u>
Business-type activities capital assets, net	<u>\$ 394,929</u>	<u>\$ (22,792)</u>	<u>\$ –</u>	<u>\$ 372,137</u>

Depreciation expense for the governmental activities and business-type activities for 2016 was \$29,376 and \$22,792, respectively. All governmental activity depreciation is allocated to the general government function.

Gateway Metropolitan District

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE D – LONG-TERM OBLIGATIONS

On December 17, 2009, the District was granted a loan of \$576,575, without interest, repayable in equal semiannual payments over 20 years, by the Colorado Water Resources and Power Development Authority (CWRPDA) through the State of Colorado’s Drinking Water Revolving Fund to assist in funding the replacement of two existing steel water storage tanks, system looping with additional valves, and replacement of problematic water distribution lines. The loan is secured by and to be paid from the net revenues (as defined by the loan agreement) of the District’s water fund through the maturity of the loan in 2030. Under the loan agreement, net revenues represent the gross revenue of the water fund less all reasonable and necessary expenses of the water fund for operating, maintaining, and repairing the District’s water system excluding (1) depreciation, (2) payments in lieu of taxes or franchise fees, (3) expenses incurred in connection with capital improvements, (4) payments on any other debt obligations of the District, and (5) expenses that are otherwise paid from ad valorem property taxes.

On July 27, 2016, the District borrowed \$860,000, at an interest rate of 3.36%, repayable in semiannual payments over 15 years, from a bank to assist in funding a road repaving project. An excess of \$194,394 that was borrowed, but was not needed to pay the final project cost, was repaid to the bank during 2016 for a net amount borrowed of \$665,606.

A summary of the District’s Long-Term Debt Obligations follows:

	<u>Balance</u> <u>12/31/15</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>12/31/16</u>	<u>Amounts</u> <u>Due Within</u> <u>One Year</u>
Governmental activities					
Note payable	\$ —	\$ 860,000	\$ 220,885	\$ 639,115	\$ 34,861
Total governmental activities	—	860,000	220,885	639,115	34,861
Business-type activities					
Loan payable to CWRPDA	<u>418,017</u>	<u>—</u>	<u>28,829</u>	<u>389,188</u>	<u>28,829</u>
Total business-type activities	<u>418,017</u>	<u>—</u>	<u>28,829</u>	<u>389,188</u>	<u>28,829</u>
 Total Long-Term Debt	 <u>\$ 418,017</u>	 <u>\$ 860,000</u>	 <u>\$ 249,714</u>	 <u>\$ 1,028,303</u>	 <u>\$ 63,690</u>

Debt service requirements are as follows:

Loan Payable to CWRPDA:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 28,829	\$ —	\$ 28,829
2018	28,829	—	28,829
2019	28,829	—	28,829
2020	28,829	—	28,829
2021	28,829	—	28,829
2022-2026	144,144	—	144,144
2027-2030	<u>100,899</u>	<u>—</u>	<u>100,899</u>
	<u>\$ 389,188</u>	<u>\$ —</u>	<u>\$ 389,188</u>

Gateway Metropolitan District

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE D – LONG-TERM OBLIGATIONS – CONTINUED

Note payable:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 34,861	\$ 21,184	\$ 56,045
2018	36,042	20,003	56,045
2019	37,263	18,782	56,045
2020	38,526	17,519	56,045
2021	39,831	16,214	56,045
2022-2026	220,336	59,887	280,223
2027-2031	<u>232,256</u>	<u>19,943</u>	<u>252,199</u>
	<u>\$ 639,115</u>	<u>\$ 173,532</u>	<u>\$ 812,647</u>

Total:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 63,689	\$ 21,184	\$ 84,873
2018	64,870	20,003	84,873
2019	66,091	18,782	84,873
2020	67,354	17,519	84,873
2021	68,659	16,214	84,873
2022-2026	364,479	59,887	424,366
2027-2031	<u>333,161</u>	<u>19,943</u>	<u>353,104</u>
	<u>\$ 1,028,303</u>	<u>\$ 173,532</u>	<u>\$ 1,201,835</u>

NOTE E – 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 F – 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.

Gateway Metropolitan District

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE F – RISK MANAGEMENT – CONTINUED

A summary of audited statutory basis financial information for the Pool as of and for the year ended December 31, 2016 is as follows:

Assets	<u>\$ 52,645,796</u>
Liabilities	\$ 28,757,242
Capital and surplus	<u>23,888,554</u>
Total	<u>\$ 52,645,796</u>
Revenues	\$ 18,932,979
Investment income and other	<u>405,790</u>
Total revenue	<u>19,338,769</u>
Expenses	<u>14,100,230</u>
Net income (loss)	<u>\$ 5,238,539</u>

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 \$7,000 is included in as restricted fund balance in the general fund.

Under TABOR, the initial base for local government spending and revenue limits is December 31, 1992 fiscal year spending. 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.

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.

SUPPLEMENTARY INFORMATION

Gateway Metropolitan District

SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) - WATER FUND

Year ended December 31, 2016

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Operating revenues				
Water service charges	\$ 102,606	\$ 102,606	\$ 101,927	\$ (679)
Total operating revenues	<u>102,606</u>	<u>102,606</u>	<u>101,927</u>	<u>(679)</u>
Operating expenses				
Operations and maintenance	48,360	48,360	36,939	11,421
Management fees and office	3,735	3,735	8,568	(4,833)
Accounting and auditing	6,000	6,000	3,827	2,173
Legal	900	900	1,170	(270)
Insurance	3,830	3,830	4,315	(485)
Theft loss	-	-	19,742	(19,742)
Miscellaneous expenses	6,600	18,600	6,300	12,300
Total operating expenses	<u>69,425</u>	<u>81,425</u>	<u>80,861</u>	<u>564</u>
Excess of operating revenues over (under) operating expenses	33,181	21,181	21,066	(115)
Nonoperating expenses				
Debt service principal	28,829	28,829	28,289	540
Total nonoperating expenses	<u>28,829</u>	<u>28,829</u>	<u>28,289</u>	<u>540</u>
Excess of revenues over (under) expenses	<u>\$ 4,352</u>	<u>\$ (7,648)</u>	<u>(7,223)</u>	<u>\$ 425</u>
Adjustments to GAAP basis				
Depreciation and amortization			(22,792)	
Debt service principal			28,289	
Change in net position			<u>\$ (1,726)</u>	