

TREE HAUS METROPOLITAN DISTRICT

Financial Statements

December 31, 2016



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TREE HAUS METROPOLITAN DISTRICT

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Independent Auditor's Report

To the Board of Directors
Tree Haus Metropolitan District
Routt County, Colorado

Report on the Financial Statements

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, and each major fund of the Tree Haus Metropolitan District as of December 31, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Financial Information

We have previously audited the District's December 31, 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 3, 2016. In our opinion, the summarized comparative financial 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.

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 3-7 and the General Fund Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual on page 27 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 the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Enterprise Fund Schedule of Revenues, Expenditures and Changes in Net Position – Budget and Actual on page 28 is presented for purpose of additional analysis and is not a required part of the basic financial statements.

This supplementary 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 the basic financial statement themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, this supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Catterson + Company, P.C.

Steamboat Springs, Colorado
June 20, 2017

MANAGEMENT'S DISCUSSION & ANALYSIS

The Tree Haus Metropolitan District discussion and analysis provides an overview of the District's financial activities for the fiscal year ended 2016. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the District's financial statements (beginning on page 8).

USING THIS ANNUAL REPORT

This annual report consists of three parts: management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include a series of financial statements. The Statement of Net Position and the Statement of Activities (on pages 8 and 9) provide information about the activities of the District as a whole and present a longer-term view of the District's finances. Fund financial statements start on page 10. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds.

The Statement of Net Position and the Statement of Activities

Our analysis of the District as a whole begins on page 8. One of the most important questions asked about the District's finances is, "Is the District as a whole better or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the District as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using 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 taken into account regardless of when cash is received or paid.

These two statements report the District's net position and changes in them. You can think of the District's net position — the difference between assets and liabilities—as 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. You will need to consider other nonfinancial factors, however, such as changes in the District's property tax base and the condition of District water and sewer systems and its roads, to assess the overall health of the District.

In the Statement of Net Position and the Statement of Activities, the District presents Governmental and Business-Type Activities. All of the District's basic services are reported here. Appropriations from the county and state finance most activities.

Reporting the District's General Fund

Fund Financial Statements

Our analysis of the District's general fund begins on page 10. The fund financial statements begin on page 10 and provide detailed information about the general fund—not the District as a whole. The District presents only a general fund, which is a governmental fund. The fund is reported using an accounting method called modified accrual accounting. This method measures cash and all other financial assets that can be readily converted to cash. The general fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in a reconciliation included with the financial statements.

THE DISTRICT AS A WHOLE

Our analysis below focuses on the net position (Table 1) and changes in net position (Table 2) of the District's governmental and business-type activities.

Table 1
Net Position

	<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>	2016 Total	2015 Total
	<u>2016</u>	<u>2016</u>		
Assets:				
Cash and Cash equivalents	-	457,596	457,596	437,782
Accounts Receivable	-	4,887	4,887	5,431
Due from other governments	-	1,377	1,377	934
Accrued interest receivable	-	-	-	-
Interfund balances	14,000	(14,000)	-	-
Capital assets, net	38,904	894,809	933,713	919,186
Total assets	52,904	1,344,669	1,397,573	1,363,333
Liabilities:				
Accounts payable		6,315	6,315	13,304
Accrued interest payable		14,350	12,369	52,604
Road damage deposits	14,000	-	14,000	10,500
Other current liabilities	-	-	-	-
Noncurrent liabilities				
Due within one year	-	51,612	51,612	50,505
Due in more than one year	-	740,343	740,343	791,955
Total liabilities	14,000	800,625	814,625	868,758
Net position:				
Net investment in capital assets	38,904	102,854	141,758	76,726
Restricted for:				
Emergencies	-	9,931	9,931	7,111
Operations and maintenance reserve	-	43,000	43,000	39,000
Unrestricted	-	388,259	388,259	371,738
Total net position	38,904	544,044	582,948	494,575

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$582,948 in 2016, indicating an ability to pay debts as they become due. The District's net position increased \$88,373 from \$494,575 to \$582,948. In contrast, last year's change in net position increased by \$56,766.

Unrestricted net position—the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements—increased \$16,521 from a \$371,738 surplus at December 31, 2015 to a \$388,259 surplus at the end of 2016.

TABLE 2
Changes in Net Position

	Governmental & Business-Type Activities	
	<u>2016</u>	<u>2015</u>
Revenues		
Program revenues:		
Charges for service	116,310	116,160
Grant Proceeds		-
General revenues		
Property taxes	218,884	178,953
Specific Ownership	15,529	12,767
Interest	1,609	1,409
Total revenues	352,332	309,289
Program expenses		
General government	42,040	46,696
Business-Type	221,919	205,825
Total expenses	263,959	252,523
Change in net position	88,373	56,766
Net position, beginning of year	494,575	437,809
Net assets, end of year	582,948	494,575

The District's total revenues increased by \$43,043 or 13.9 percent from the previous year. The total cost of all programs and services increased by \$11,436 or 4.5 percent. Revenues exceeded expenses by \$88,373 in 2016. The District was able to cover the year's costs with the revenues collected in 2016. Our analysis below separately considers the operations of governmental and business-type activities.

Governmental and Business-Type Activities

Property tax revenues of the District increased by \$39,931 from the previous year. Net position increased by \$88,373 in 2016 as compared to the \$56,766 increase in 2015.

The cost of all business-type activities this year was \$221,919 compared to \$205,825 last year, an increase of \$16,094. However, as shown in the Statement of Activities on page 9, the amount that our taxpayers ultimately financed for these activities through District taxes was \$89,665 because some of the cost (\$116,310) was paid by those who directly benefitted from the programs. Overall, the District's revenues, including fees for services, increased to \$352,332 in 2016 from \$309,289 in 2015.

Table 3 presents the cost of each of the District's four largest programs—water & sewer services, road maintenance, snowplowing and mosquito control—as well as each program's net cost (total cost less revenues generated by the activities). The net cost shows the financial burden that was placed on the District's taxpayers by each of these functions.

**Table 3
Governmental Activities**

	Total Cost of Services		Net Cost of Services	
	2016	2015	2016	2015
Water & Sewer services	\$163,750	\$154,410	\$(47,440)	\$(38,250)
Road maintenance	15,804	32,895	(15,804)	(32,895)
Snowplowing	26,236	13,803	(26,236)	(13,803)
Mosquito control	0	0	0	0
All others	58,169	51,415	(58,169)	(51,415)
Totals	<u>\$ 263,959</u>	<u>\$ 252,523</u>	<u>(\$ 147,649)</u>	<u>(\$ 136,363)</u>

THE DISTRICT'S FUNDS

As the District completed the year, its general fund (as presented in the balance sheet on page 10) reported a combined fund balance of \$0, the same as last year's balance of \$0.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2016, the District had \$933,713 net of depreciation invested in a broad range of capital assets, including roads and the water and sewer system. (See Table 4 below.) This amount represents a net increase of \$14,527 including additions to the water and sewer system of \$44,330 over last year.

**Table 4
Capital Assets at Year-end
(Net of Depreciation)**

	Governmental & Business-Type Activities	
	2016	2015
Roads	\$ 38,904	\$ 41,125
Water and sewer system	885,807	869,059
Land	9,002	9,002
Totals	<u>\$ 933,713</u>	<u>\$919,186</u>

The District's fiscal-year 2016 capital budget calls for expenditures for capital projects. The District was approved for a \$100,000 loan from the National Rural Water Association at an interest rate of 3% in 2015. The proceeds from the loan are to be used for improvements to the District's sewer siphon system. More detailed information about the District's capital assets is presented in Note 3 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District's elected and appointed officials considered many factors when setting the fiscal-year 2017 budget, tax rates, and fees that will be charged for the for the business-type activities. The District increased water and sewer service fees from \$480 per quarter to \$600 per quarter in 2017 to more accurately reflect the cost of those services.

The District plans to take on additional debt of approximately \$1,000,000 to finance the repaving of the District's roads. Voters approved \$1,250,000 for that purpose in the November 2016 election. The District did not need to raise taxes in 2017 to finance this debt.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the district's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's Administrative Secretary, Sandra Rummler, at PO Box 770159, Steamboat Springs, CO, 80477, telephone number 970-846-7582.

TREE HAUS METROPOLITAN DISTRICT
Statement of Net Position
December 31, 2016

(with comparative financial information as of December 31, 2015)

	2016			2015 Total
	Governmental Activities	Business-Type Activities	Total	
Assets:				
Cash and cash equivalents	\$ -	\$ 457,596	\$ 457,596	\$ 437,782
Accounts receivable	-	4,887	4,887	5,431
Due from other governments	-	1,377	1,377	934
Interfund balances	14,000	(14,000)	-	-
Capital assets, net	38,904	894,809	933,713	919,186
Total assets	52,904	1,344,669	1,397,573	1,363,333
Liabilities:				
Accounts payable	-	6,315	6,315	13,304
Accrued interest payable	-	2,355	2,355	2,494
Road damage deposits	14,000	-	14,000	10,500
Noncurrent liabilities:				
Due within one year	-	51,612	51,612	50,505
Due in more than one year	-	740,343	740,343	791,955
Total liabilities	14,000	800,625	814,625	868,758
Net position:				
Net investment in capital assets	38,904	102,854	141,758	76,726
Restricted for:				
Emergencies	-	9,931	9,931	7,111
Operations and maintenance reserve	-	43,000	43,000	39,000
Unrestricted	-	388,259	388,259	371,738
Total net position	\$ 38,904	\$ 544,044	\$ 582,948	\$ 494,575

The accompanying notes are an integral part of these financial statements.

TREE HAUS METROPOLITAN DISTRICT
Statement of Activities
For the Year Ended December 31, 2016
(with summarized financial information for the year ended December 31, 2015)

Functions/Programs	2016						2015 Total
	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position			
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-type Activities	Total	
Governmental activities:							
Snowplowing	\$ 26,236	\$ -	\$ -	\$ (26,236)	\$ -	\$ (26,236)	\$ (13,803)
Road maintenance	15,804	-	-	(15,804)	-	(15,804)	(32,895)
Total governmental activities	42,040	-	-	(42,040)	-	(42,040)	(46,698)
Business-type activities:							
Operations	163,750	116,310	-	-	(47,440)	(47,440)	(38,250)
Administrative	58,169	-	-	-	(58,169)	(58,169)	(51,415)
Total business-type activities	221,919	116,310	-	-	(105,609)	(105,609)	(89,665)
Total primary government	<u>\$ 263,959</u>	<u>\$ 116,310</u>	<u>\$ -</u>	(42,040)	(105,609)	(147,649)	(136,363)
General revenues:							
Taxes:							
Property				-	218,884	218,884	178,953
Specific ownership				-	15,529	15,529	12,767
Interest				-	1,609	1,609	1,409
Transfers				39,819	(39,819)	-	-
Total general revenues				39,819	196,203	236,022	193,129
Change in net position				(2,221)	90,594	88,373	56,766
Net position, beginning of year				41,125	453,450	494,575	437,809
Net position, end of year				<u>\$ 38,904</u>	<u>\$ 544,044</u>	<u>\$ 582,948</u>	<u>\$ 494,575</u>

The accompanying notes are an integral part of these financial statements.

TREE HAUS METROPOLITAN DISTRICT
General Fund
Balance Sheet
December 31, 2016

(with summarized financial information as of December 31, 2015)

	<u>2016</u>	<u>2015</u>
Assets:		
Interfund balance	\$ 14,000	\$ 10,500
Total assets	<u>\$ 14,000</u>	<u>\$ 10,500</u>
Liabilities and fund balance:		
Liabilities:		
Road damage deposits	\$ 14,000	\$ 10,500
Total liabilities	<u>14,000</u>	<u>10,500</u>
Fund balance:		
Unassigned	<u>-</u>	<u>-</u>
Total fund balance	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements.

TREE HAUS METROPOLITAN DISTRICT
Reconciliation of the General Fund Balance
to the Statement of Net Position
For the Year Ended December 31, 2016

Governmental fund balance	\$	-
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and, therefore are not reported as assets in the governmental fund:		
Costs of capital assets	\$ 111,036	
Less accumulated depreciation	<u>(72,132)</u>	<u>38,904</u>
Net position of governmental activities	\$	<u><u>38,904</u></u>

The accompanying notes are an integral part of these financial statements.

TREE HAUS METROPOLITAN DISTRICT
General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Year Ended December 31, 2016
(with summarized financial information for the year ended December 31, 2015)

	<u>2016</u>	<u>2015</u>
Revenues	<u>\$ -</u>	<u>\$ -</u>
Expenditures:		
Snowplowing	26,236	13,803
Road maintenance	<u>13,583</u>	<u>30,675</u>
Total expenditures	<u>39,819</u>	<u>44,478</u>
Excess (deficiency) of revenues over expenditures	(39,819)	(44,478)
Other financing sources (uses):		
Transfers in	<u>39,819</u>	<u>44,478</u>
Net change in fund balance	-	-
Fund balance, beginning of year	<u>-</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

The accompanying notes are an integral part of these financial statements.

TREE HAUS METROPOLITAN DISTRICT
Reconciliation of the Statement of Revenues, Expenditures and Changes in
General Fund Balance to the Statement of Activities
For the Year Ended December 31, 2016

Changes in fund balance - governmental fund	\$ -
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported as expenditures in the governmental funds. However, in the statement of activities, the cost is allocated over the estimated useful lives of the assets as depreciation expense. The following is the amount by which depreciation exceeded capital outlay in the current period:	
Depreciation	<u>(2,221)</u>
Change in net position of governmental activities	<u>\$ (2,221)</u>

The accompanying notes are an integral part of these financial statements.

TREE HAUS METROPOLITAN DISTRICT
Enterprise Fund
Statement of Net Position
December 31, 2016
(with summarized financial information as of December 31, 2015)

	2016	2015
Assets:		
Current assets:		
Cash and cash equivalents	\$ 457,596	\$ 437,782
Accounts receivable	4,887	5,431
Due from other government	1,377	934
Total current assets	463,860	444,147
Noncurrent assets:		
Capital assets, net of depreciation	894,809	878,061
Total noncurrent assets	894,809	878,061
Total assets	1,358,669	1,322,208
Liabilities:		
Current liabilities:		
Accounts payable	6,315	13,304
Accrued interest payable	2,355	2,494
Interfund balance	14,000	10,500
Current portion of notes payable	51,612	50,505
Total current liabilities	74,282	76,803
Noncurrent liabilities:		
Notes payable	740,343	791,955
Total liabilities	814,625	868,758
Net position:		
Net investment in capital assets	102,854	35,601
Restricted for:		
Emergencies	9,931	7,111
Operations and maintenance reserve	43,000	39,000
Unrestricted	388,259	371,738
Total net position	\$ 544,044	\$ 453,450

The accompanying notes are an integral part of these financial statements.

TREE HAUS METROPOLITAN DISTRICT
Enterprise Fund
Statement of Revenues, Expenses, and Changes in Fund Net Position
For the Year Ended December 31, 2016
(with summarized financial information for the year ended December 31, 2015)

	2016	2015
Operating revenues:		
Charges for services	\$ 116,310	\$ 116,160
Total operating revenues	116,310	116,160
Operating expenses:		
Operations	118,844	108,270
Administrative	51,591	46,040
Depreciation	27,582	27,582
Total operating expenses	198,017	181,892
Operating income (loss)	(81,707)	(65,732)
Non-operating revenues (expenses):		
Tax revenues	234,413	191,720
Interest income	1,609	1,409
Interest expense	(17,324)	(18,558)
Tax collection fees	(6,578)	(5,375)
Net non-operating revenues	212,120	169,196
Income before transfers	130,413	103,464
Transfers out	(39,819)	(44,478)
Change in net position	90,594	58,986
Net position, beginning of year	453,450	394,464
Net position, end of year	\$ 544,044	\$ 453,450

The accompanying notes are an integral part of these financial statements.

TREE HAUS METROPOLITAN DISTRICT
Enterprise Fund
Statement of Cash Flows
For the Year Ended December 31, 2016
(with summarized financial information for the year ended December 31, 2015)

	2016	2015
Cash flows from operating activities:		
Cash receipts from customers	\$ 116,854	\$ 115,374
Cash payments to suppliers of goods and services	(177,424)	(154,505)
Net cash provided (used) by operating activities	(60,570)	(39,131)
Cash flows from non-capital financing activities:		
Cash receipts from taxes	233,970	191,840
Cash payments for tax collection fees	(6,578)	(5,375)
Cash payments to other fund	(36,319)	(40,978)
Net cash provided by non-capital financing activities	191,073	145,487
Cash flows from capital and related financing activities:		
Proceeds from issuance of note payable	-	100,000
Refund from return of capital assets	-	15,000
Principal payments on note payable	(50,505)	(48,866)
Interest payments on note payable	(17,463)	(19,165)
Cash payments for capital assets	(44,330)	(8,134)
Net cash provided by (used) capital and related financing activities	(112,298)	38,835
Cash flows from investing activities:		
Interest received	1,609	1,409
Net cash provided by investing activities	1,609	1,409
Net change in cash and cash equivalents	19,814	146,600
Cash and cash equivalents, beginning of year	437,782	291,182
Cash and cash equivalents, end of year	\$ 457,596	\$ 437,782
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ (81,707)	\$ (65,732)
Depreciation	27,582	27,582
(Increase) decrease in:		
Accounts receivable	544	(786)
(Decrease) increase in:		
Accounts payable, net of nonoperating portion	(6,989)	(195)
Net cash provided (used) by operating activities	\$ (60,570)	\$ (39,131)

The accompanying notes are an integral part of these financial statements.

TREE HAUS METROPOLITAN DISTRICT
Notes to Financial Statements
December 31, 2016
(with summarized financial information as of and for the year ended December 31, 2015)

Note 1: Summary of Significant Accounting Policies

The Tree Haus Metropolitan District (the District) is incorporated as a separate local government entity under Colorado Revised Statutes (CRS) and is governed by an elected Board of Directors that reside within the District. The District provides water, sewer and road maintenance services in the geographical area organized as the Tree Haus Metropolitan District in Routt County, Colorado.

The District's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP). The Governmental Accounting Standards Board (GASB) is the standard-setting body for the establishment of US GAAP in governmental entities. The following summary of the more significant accounting policies of the District is presented to assist the reader in interpreting these financial statements and should be viewed as an integral part of this report.

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 does not have any component units for which it is financially accountable.

Measurement Focus and Basis of Accounting

The government-wide financial statements and proprietary (enterprise) fund financial statements use a flow of economic resources measurement focus to determine net income and financial position. The accounting principles used are similar to those applicable to businesses in the private sector and, thus, maintained on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

Governmental fund financial statements use a current financial resources measurement focus, and are maintained on the modified accrual basis of accounting. Revenues are recognized when they become susceptible to accrual; that is, when they become both measurable and available to finance expenditures of the current period. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. The District considers revenues collected within 60 days after year end to be available and thus recognizes them as revenues in the current year.

Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Financial Statement Presentation

Government-wide Financial Statements

The statement of net position and the statement of activities report information about the nonfiduciary activities of the District. The District's activities are categorized as either governmental activities or business-type activities.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental functions and business-type activities. The governmental functions are supported by general revenues (e.g., taxes, interest). The statement of activities reduces gross expenses (including depreciation) by related program revenues. Direct expenses are those that are clearly identified with a specific program. Program revenues include (a) charges for services, and (b) grants and contributions that are restricted for the operating or capital requirements of a specific program. All taxes and other revenues not meeting the criteria for classification as program revenues are reported as general revenues.

TREE HAUS METROPOLITAN DISTRICT
Notes to Financial Statements
December 31, 2016
(with summarized financial information as of and for the year ended December 31, 2015)

Note 1: Summary of Significant Accounting Policies (continued)

Fund Financial Statements

The fund financial statements report information about the District's funds.

The District reports the following major governmental fund:

The *General Fund* is used to account for the District's road maintenance activities.

The District reports the following major proprietary or business-type fund:

The *Enterprise Fund* accounts for the activities of the water and sewer services provided to the District's residents. The major sources of revenue are from charges for services and property taxes.

Fund Balance Presentation

Fund balances of the governmental fund are classified as follows:

- Non-spendable – includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.
- Restricted – includes amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation, or because of constraints that are externally imposed by creditors, grantors, contributors or the laws or regulations of other governments.
- Committed – includes amounts that can be spent only for specific purposes pursuant to constraints imposed by formal action of the District. Such formal action may be in form of an ordinance or resolution and may only be modified or rescinded by a subsequent formal action.
- Assigned – includes amounts that are intended by the District to be used for specific purposes, but are neither restricted nor committed. Assignments may be made only by the Board of Directors.
- Unassigned – represents the residual positive balance within the General Fund, which has not been restricted, committed or assigned.

Assets, Liabilities and Net Position

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents include cash on hand, demand deposits, and certificates of deposit.

Accounts Receivable

Accounts receivable consists of charges for services due from District residents. Receivables are reviewed periodically to establish an allowance for uncollectible accounts. The District considers all receivables to be fully collectible at December 31, 2016 and 2015. Therefore, no allowance for uncollectible accounts has been established.

Capital Assets

Capital assets include property, water and sewer systems, equipment and infrastructure assets. Capital assets are defined by the District as assets with an initial cost of \$1,000 or more and an estimated useful life in excess of one year. Such assets are recorded at historical cost. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Water and sewer systems	10-40
Infrastructure	50

TREE HAUS METROPOLITAN DISTRICT
Notes to Financial Statements
December 31, 2016
(with summarized financial information as of and for the year ended December 31, 2015)

Note 1: Summary of Significant Accounting Policies (continued)

Operating and Non-Operating Revenues and Expenses

The proprietary fund financial statements distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses are those that result from providing services associated with the principal activities of the District's business-type activities. Operating expenses include the cost of ongoing operations, related administrative expenses, and depreciation expense. Non-operating revenues and expenses are all those that do not meet the criteria described previously.

Property Taxes

Property taxes are levied on December 15 of each year and attach as an enforceable lien on property on January 1. Taxes are payable in full on April 30 or in two installments on February 28 and June 15. The Routt County Treasurer's office collects property taxes and remits collections to the District on a monthly basis.

Use of Estimates

The preparation of financial statements in conformity with US GAAP requires the District's management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Comparative Financial Statements

The financial statements include certain prior-year summarized comparative information in total. Such information does not include sufficient detail to constitute a presentation in conformity with US GAAP. Accordingly, such information should be read in conjunction with the District's audited financial statements for the year ended December 31, 2015, from which the summarized information was derived.

New Accounting Pronouncements

Effective January 1, 2016, the District adopted the provisions of the following GASB Statements:

- GASB Statement No. 72, "*Fair Value Measurement and Application*." The effect of this adoption is to improve financial reporting by clarifying the definition of fair value for financial reporting purposes, establishing general principles for measuring fair value, and enhancing disclosures about fair value measurements.
- GASB Statement No. 77, "*Tax Abatement Disclosures*." The effect of this adoption is to improve disclosure of tax abatement information about (1) the District's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the District's tax revenues. This Statement defines a tax abatement as resulting from an agreement between a government and an individual or entity in which the government promises to forgo tax revenues and the individual or entity promises to subsequently take a specific action that contributes to the economic development or otherwise benefits the government or its citizens.

The District has not entered into any tax abatement agreements nor has any other government that reduces the District's tax revenues.

TREE HAUS METROPOLITAN DISTRICT
Notes to Financial Statements
December 31, 2016
(with summarized financial information as of and for the year ended December 31, 2015)

Note 2: Stewardship, Compliance and Accountability

Budgetary Information

Annual budgets are adopted on a basis consistent with US GAAP for the General Fund. The Enterprise Fund adopts a budget on a non-US GAAP basis wherein depreciation is not budgeted; capital expenditures and principal payments on capital debt are budgeted and recorded as expenditures. All annual appropriations lapse at year end.

The District conforms to the following procedures, in compliance with CRS, Title 29, Article 1, in establishing the budgetary data reflected in the financial statements:

- Prior to October 15, the District Administrator submits to the Board of Directors a proposed operating budget for the fiscal year commencing the following January 1. The budget includes proposed expenditures and the means of financing them.
- Public hearings are conducted by the Board of Directors to obtain taxpayer comments.
- Prior to December 31, the budget is adopted by formal resolution.
- Expenditures may not legally exceed appropriations at the fund level. Revisions that alter the total expenditures must be approved by the Board of Directors.
- All appropriations lapse at the end of each fiscal year.

The District did not adopt any supplemental appropriations during the year ended December 31, 2016.

Compliance

Expenditures did not exceed appropriations in any fund during the year ended December 31, 2016.

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 tax spending, revenue and debt limitations which apply to the State of Colorado and all local governments, excluding enterprises. TABOR requires, with certain exceptions, advance voter approval for any new tax, tax rate increase, mill levy above that for the prior year, extension of any expiring tax, or tax policy change directly causing a net tax revenue gain to any local government.

Future 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.

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 debt or other financial obligation unless adequate present cash reserves are pledged irrevocably and held for payments in all future fiscal years.

TABOR requires local governments to establish emergency reserves. These reserves must be at least 3% of fiscal year spending (excluding bonded debt service). Local governments are not allowed to use the emergency reserves to compensate for economic conditions, revenue shortfalls, or salary or benefit increases. The District has reserved \$9,931 of the December 31, 2016 fund balance in the Enterprise Fund for this purpose.

The District's voters passed a ballot question on May 2, 2000, authorizing the District to collect, retain and expend the full proceeds of the District's tax levy, non-federal grants and all other revenues for the 2000 fiscal year and every year thereafter.

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 may require judicial interpretation.

TREE HAUS METROPOLITAN DISTRICT
Notes to Financial Statements
December 31, 2016
(with summarized financial information as of and for the year ended December 31, 2015)

Note 3: Detailed Notes on the Funds

Deposits

The carrying amount of the District's deposits at December 31, 2016 and 2015 was \$457,597 and \$437,782, respectively and bank balances were \$468,033 and \$444,755, respectively. Of the bank balances, \$410,659 and \$410,023 at December 31, 2016 and 2015, respectively, was covered by federal deposit insurance and \$57,374 and \$34,732, respectively, was uninsured but collateralized in accordance with provisions of the Colorado Public Deposit Protection Act (PDPA).

The PDPA requires that all units of local government deposit cash in eligible public depositories; eligibility is determined by state regulators. Amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is determined by the PDPA. PDPA allows the institution to create a single collateral pool for all public funds. The collateral pool is to be maintained by another institution or held in trust for all the uninsured public deposits as a group. The market value of the collateral must equal or exceed 102% of the aggregate uninsured deposits.

Capital Assets

Capital asset activity for the year ended December 31, 2016 is summarized below:

	Beginning Balance	Additions	Retirements	Ending Balance
Governmental activities:				
Roads	\$ 111,036	\$ -	\$ -	\$ 111,036
Less accumulated depreciation	(69,911)	(2,221)	-	(72,132)
Governmental activities capital assets, net	<u>\$ 41,125</u>	<u>\$ (2,221)</u>	<u>\$ -</u>	<u>\$ 38,904</u>
Business-type activities:				
Land	\$ 9,002	\$ -	\$ -	\$ 9,002
Other capital assets:				
Water and sewer system	1,483,489	44,330	-	1,527,819
Total other capital assets at cost	1,483,489	44,330	-	1,527,819
Less accumulated depreciation for:				
Water and sewer system	(614,430)	(27,582)	-	(642,012)
Total accumulated depreciation	(614,430)	(27,582)	-	(642,012)
Other capital assets, net	<u>869,059</u>	<u>16,748</u>	<u>-</u>	<u>885,807</u>
Business-type activities capital assets, net	<u>\$ 878,061</u>	<u>\$ 16,748</u>	<u>\$ -</u>	<u>\$ 894,809</u>

TREE HAUS METROPOLITAN DISTRICT
Notes to Financial Statements
December 31, 2016
(with summarized financial information as of and for the year ended December 31, 2015)

Note 3: Detailed Notes on the Funds (continued)

Capital Assets (continued)

Capital asset activity for the year ended December 31, 2015 is summarized below:

	Beginning Balance	Additions	Retirements	Ending Balance
Governmental activities:				
Roads	\$ 111,036	\$ -	\$ -	\$ 111,036
Less accumulated depreciation	(67,691)	(2,220)	-	(69,911)
Governmental activities capital assets, net	<u>\$ 43,345</u>	<u>\$ (2,220)</u>	<u>\$ -</u>	<u>\$ 41,125</u>
Business-type activities:				
Land	\$ 9,002	\$ -	\$ -	\$ 9,002
Other capital assets:				
Water and sewer system	1,490,355	8,134	(15,000)	1,483,489
Total other capital assets at cost	<u>1,490,355</u>	<u>8,134</u>	<u>(15,000)</u>	<u>1,483,489</u>
Less accumulated depreciation for:				
Water and sewer system	(586,848)	(27,582)	-	(614,430)
Total accumulated depreciation	<u>(586,848)</u>	<u>(27,582)</u>	<u>-</u>	<u>(614,430)</u>
Other capital assets, net	<u>903,507</u>	<u>(19,448)</u>	<u>(15,000)</u>	<u>869,059</u>
Business-type activities capital assets, net	<u>\$ 912,509</u>	<u>\$ (19,448)</u>	<u>\$ (15,000)</u>	<u>\$ 878,061</u>

Depreciation expense was charged to functions of the District as follows each year ended December 31, 2016 and 2015:

	2016	2015
Governmental activities:		
Road maintenance	<u>\$ 2,221</u>	<u>\$ 2,220</u>
Business-type activities:		
Operations	<u>\$ 27,582</u>	<u>\$ 27,582</u>

TREE HAUS METROPOLITAN DISTRICT
Notes to Financial Statements
December 31, 2016
(with summarized financial information as of and for the year ended December 31, 2015)

Note 3: Detailed Notes on the Funds (continued)

Long-Term Debt

The District had the following long-term debt outstanding at December 31, 2016:

Colorado Water Resources and Power Development Authority (CWRPDA) Note Payable

The District entered into a \$1,080,000 loan agreement with the CWRPDA on November 3, 2010. Effective June 1, 2015, the loan principal was reduced by the remaining unused project funds of \$137,815. Proceeds were used to upgrade filtration equipment, raw water pumps and disinfection of the District's systems.

The loan agreement requires the District to maintain an operations and maintenance reserve fund equal to three months of operation and maintenance expenses. The District has reserved \$43,000 for this purpose at December 31, 2016.

The first loan payment of \$16,446, including principal and interest, was paid on November 1, 2011. Remaining principal and interest payments of \$33,235 were due semi-annually on May 1 and November 1 until principal reduction on June 1, 2015. After the reduction of principal, the semi-annual loan payments, including interest at 2%, are \$28,190 through maturity on May 1, 2031.

National Rural Water Association (NWRA) Note Payable

On March 23, 2015 the District was approved for a \$100,000 loan from the National Rural Water Association. The loan requires monthly payments of \$966, including interest at 3%, commencing on May 1, 2015 through maturity on April 1, 2025. The proceeds from the loan are to be used for replacement of the District's siphon system. The note is secured by an interest in the assets of the District in the amount of principal owed.

Long-term debt activity for the year ended December 31, 2016 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Business-type activities:					
CWRPDA note payable	\$ 748,235	\$ -	\$ (41,623)	\$ 706,612	\$ 42,460
NWRA note payable	94,225	-	(8,882)	85,343	9,152
	<u>\$ 842,460</u>	<u>\$ -</u>	<u>\$ (50,505)</u>	<u>\$ 791,955</u>	<u>\$ 51,612</u>

Long-term debt activity for the year ended December 31, 2015 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Business-type activities:					
CWRPDA note payable	\$ 791,326	\$ -	\$ (43,091)	\$ 748,235	\$ 41,623
NWRA note payable	-	100,000	(5,775)	94,225	8,882
	<u>\$ 791,326</u>	<u>\$ 100,000</u>	<u>\$ (48,866)</u>	<u>\$ 842,460</u>	<u>\$ 50,505</u>

TREE HAUS METROPOLITAN DISTRICT
Notes to Financial Statements
December 31, 2016
(with summarized financial information as of and for the year ended December 31, 2015)

Note 3: Detailed Notes on the Funds (continued)

Long-Term Debt (continued)

Aggregate debt service requirements at December 31, 2016 were as follows:

Year	Principal	Interest	Total
2017	\$ 51,612	\$ 16,356	\$ 67,968
2018	52,744	15,225	67,969
2019	53,901	14,067	67,968
2020	55,085	12,883	67,968
2021	56,296	11,673	67,969
2022-2026	280,840	39,687	320,527
2027-2031	241,477	12,234	253,711
	<u>\$ 791,955</u>	<u>\$ 122,125</u>	<u>\$ 914,080</u>

Interfund Transfers

The District transfers funds from its Enterprise Fund to its General Fund on an annual basis to cover the expenditures incurred for road maintenance activities. The District transferred \$39,819 and \$44,478, respectively, during the years ended December 31, 2016 and 2015.

Governmental Fund Balance

The District has no governmental fund balances at December 31, 2016 and 2015.

When expenditures are incurred and both restricted and unrestricted resources are available, it is the District's policy to use restricted resources first, then unrestricted resources in the order of committed, assigned, and then unassigned, as they are needed.

Note 4: Other Information

Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees, and natural disasters. The District maintains commercial insurance for these risks by participation in an insurance pool.

The District is a member in the Colorado Special Districts Property and Liability Pool (the Pool). The Pool creates an opportunity for members to control their own insurance costs through the joint pooling of resources, making it possible to self-insure property, liability and workers' compensation insurance. The Pool is member-owned, and all surplus revenues support the stabilization of rates, coverage enhancements, innovation, and technology to bring the most value to its members. The Pool provides property, liability, workers' compensation and associated coverage, and claims and risk management services to its members.

The Pool has contracted with a third party to operate, administer and manage the Pool. In the event aggregated losses incurred by the Pool exceeds amounts recoverable from the reinsurance contracts and capital and surplus accumulated by the Pool, the Pool may require additional contributions from its members.

TREE HAUS METROPOLITAN DISTRICT
Notes to Financial Statements
December 31, 2016
(with summarized financial information as of and for the year ended December 31, 2015)

Note 4: Other Information (continued)

Contingency

Referendum 5B was passed by the District's voters in November 2016. This authorizes the District to increase its debt by \$1,250,000 and annual taxes by up to \$106,000 for repayment of the debt. Proceeds of the debt are to be used for improvements to the District's roads and related capital assets. The maximum net effective interest rate of the debt is not to exceed 5.75% per annum.

Subsequent Events

The District has evaluated subsequent events through June 20, 2017, the date these financial statements were available to be issued.

TREE HAUS METROPOLITAN DISTRICT
General Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended December 31, 2016

	Original and Final Budget	Actual	Variance
Revenues	\$ -	\$ -	\$ -
Expenditures:			
Snowplowing	20,000	26,236	(6,236)
Road maintenance	36,254	13,583	22,671
Total expenditures	56,254	39,819	16,435
Excess (deficiency) of revenues over expenditures	(56,254)	(39,819)	16,435
Other financing sources (uses):			
Transfers in	56,254	39,819	(16,435)
Change in fund balance - budgetary basis	<u>\$ -</u>	-	<u>\$ -</u>
Fund balance, beginning of year		-	
Fund balance, end of year		<u>\$ -</u>	

TREE HAUS METROPOLITAN DISTRICT
Enterprise Fund
Schedule of Revenues, Expenditures and Changes in Net Position
Budget (Non-US GAAP Basis) and Actual With Reconciliation to US GAAP Basis
For the Year Ended December 31, 2016

	Original and Final Budget	Actual	Variance
Revenues:			
Taxes:			
Property	\$ 219,173	\$ 218,884	\$ (289)
Specific ownership	13,055	15,529	2,474
Charges for services:			
Water and sewer	116,520	116,310	(210)
Interest	1,500	1,609	109
Total revenues	<u>350,248</u>	<u>352,332</u>	<u>2,084</u>
Expenditures:			
Operations:			
Repairs and maintenance	69,392	56,813	12,579
Sewage transmission	33,154	33,154	-
Filters	13,000	18,300	(5,300)
Other	10,250	10,577	(327)
Administrative:			
Professional fees	35,800	36,500	(700)
Engineers fees	6,200	571	5,629
Insurance	6,500	6,621	(121)
Directors' fees	5,000	5,100	(100)
Tax collection fees	6,500	6,578	(78)
Other	3,630	2,799	831
Debt service:			
Principal	50,805	50,505	300
Interest	17,463	17,324	139
Capital outlay	180,000	44,330	135,670
Total expenditures	<u>437,694</u>	<u>289,172</u>	<u>148,522</u>
Excess (deficiency) of revenues over expenditures	(87,446)	63,160	(146,438)
Other financing sources (uses):			
Transfers out	<u>(56,254)</u>	<u>(39,819)</u>	<u>16,435</u>
Excess (deficiency) of revenues and other financing sources (uses) over expenditures	<u>\$ (143,700)</u>	23,341	<u>\$ (130,003)</u>
Adjustments to US GAAP basis:			
Capitalized expenditures		44,330	
Debt principal payments		50,505	
Depreciation		<u>(27,582)</u>	
Change in net position - US GAAP basis		90,594	
Net position, beginning of year		<u>453,450</u>	
Net position, end of year		<u>\$ 544,044</u>	