

**TREE HAUS METROPOLITAN DISTRICT**

Financial Statements

December 31, 2017

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Office of the State Auditor

July 30, 2018

# 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, 2017, 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, 2017, 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, 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 20, 2017. In our opinion, the summarized comparative financial information presented herein as of and for the year ended December 31, 2016 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 3-6 and the General Fund Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual on page 25 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 26 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  
July 25, 2018

## 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 2017. 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 7).

### 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 7 and 8) 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 9. 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 7. 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 9. The fund financial statements begin on page 9 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

	Governmental Activities	Business-Type Activities	Total	Total
	2017	2017	2017	2016
<b>Assets:</b>				
Cash and cash equivalents	\$ 36,834	\$ 437,681	\$ 474,515	\$ 457,596
Accounts receivable	-	8,902	8,902	4,887
Due from other governments	-	1,468	1,468	1,377
Interfund balances	37,029	(37,029)	-	-
Property taxes receivable	99,054	-	99,054	-
Capital assets, net	891,835	998,981	1,890,816	933,713
<b>Total assets</b>	<b>1,064,752</b>	<b>1,410,003</b>	<b>2,474,755</b>	<b>1,397,573</b>
<b>Liabilities:</b>				
Accounts payable	-	10,218	10,218	6,315
Accrued interest payable	2,594	2,214	4,808	2,355
Road damage deposits	3,500	-	3,500	14,000
Noncurrent liabilities				
Due within one year	33,762	52,744	86,506	51,612
Due in more than one year	881,779	687,599	1,569,378	740,343
<b>Total liabilities</b>	<b>921,635</b>	<b>752,775</b>	<b>1,674,410</b>	<b>814,625</b>
<b>Deferred inflows of resources:</b>				
Deferred property taxes	99,054	-	99,054	-
<b>Total deferred inflows of resources</b>	<b>99,054</b>	<b>-</b>	<b>99,054</b>	<b>-</b>
<b>Net position:</b>				
Net investment in capital assets	(23,706)	258,638	234,932	141,758
Restricted for:				
Emergencies	-	11,493	11,493	9,931
Operations and maintenance reserve	-	34,000	34,000	43,000
Unrestricted	67,769	353,097	420,866	388,259
<b>Total net position</b>	<b>\$ 44,063</b>	<b>\$ 657,228</b>	<b>\$ 701,291</b>	<b>\$ 582,948</b>

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 \$800,345 in 2017, indicating an ability to pay debts as they become due. The District's net position increased \$118,343 from \$582,948 to \$701,291. In contrast, last year's change in net position increased by \$88,373.

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 \$32,607 from a \$388,259 surplus at December 31, 2016 to a \$420,866 surplus at the end of 2017.

Table 2  
Changes in Net Position

	Governmental & Business-Type Activities	
	2017	2016
<b>Revenues:</b>		
Program revenues:		
Charges for service	\$ 145,659	\$ 116,310
General revenues:		
Property taxes	218,323	218,884
Specific ownership	17,423	15,529
Interest	1,690	1,609
Total revenues	<u>383,095</u>	<u>352,332</u>
<b>Program expenses:</b>		
General government	73,235	42,040
Business-type	191,517	221,919
Total expenses	<u>264,752</u>	<u>263,959</u>
Change in net position	118,343	88,373
Net position, beginning of year	<u>582,948</u>	<u>494,575</u>
Net position, end of year	<u>\$ 701,291</u>	<u>\$ 582,948</u>

The District's total revenues increased by \$1,414 or 0.6 percent from the previous year. The total cost of all programs and services decreased by \$28,556 or 19.3 percent. Revenues exceeded expenses by \$118,343 in 2017. The District was able to cover the year's costs with the revenues collected in 2017.

### Governmental and Business-Type Activities

Property tax revenues of the District decreased by \$561 from the previous year. Charges for services exceeded the cost of operations this year by \$11,991.

### THE DISTRICT'S FUNDS

As the District completed the year, its general fund reported a combined fund balance of \$70,363, as compared to last year's balance of \$0.

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

The District's fiscal-year 2017 capital budget calls for expenditures for capital projects. At the end of 2017, the District had \$862,338 in capital outlays for roads and the water and sewer system. In 2017 the District was approved for a \$932,000 loan from Citywide Banks at an interest rate of 3.4% until July 1, 2027 and then resets to a fixed rate at the 10-year LIBOR Rate plus 1.25%, with a floor of 3.4% and a ceiling of 5.75% through maturity on June 1, 2037. The proceeds from the loan were used to repave the District's roads.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The District's elected and appointed officials considered many factors when setting the fiscal-year 2018 budget, tax rates, and fees that will be charged for the for the business-type activities. In 2017 the District increased water and sewer service fees from \$480 per quarter to \$600 per quarter to more accurately reflect the cost of those services.

## **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 Rummel, at PO Box 770159, Steamboat Springs, CO, 80477, telephone number 970-846-7582.

**TREE HAUS METROPOLITAN DISTRICT**  
**Statement of Net Position**  
**December 31, 2017**  
(with comparative financial information as of December 31, 2016)

	2017			2016 Total
	Governmental Activities	Business-Type Activities	Total	
<b>Assets:</b>				
Cash and cash equivalents	\$ 36,834	\$ 437,681	\$ 474,515	\$ 457,596
Accounts receivable	-	8,902	8,902	4,887
Due from other governments	-	1,468	1,468	1,377
Interfund balances	37,029	(37,029)	-	-
Property taxes receivable	99,054	-	99,054	-
Capital assets, net	891,835	998,981	1,890,816	933,713
<b>Total assets</b>	<b>1,064,752</b>	<b>1,410,003</b>	<b>2,474,755</b>	<b>1,397,573</b>
<b>Liabilities:</b>				
Accounts payable	-	10,218	10,218	6,315
Accrued interest payable	2,594	2,214	4,808	2,355
Road damage deposits	3,500	-	3,500	14,000
Noncurrent liabilities:				
Due within one year	33,762	52,744	86,506	51,612
Due in more than one year	881,779	687,599	1,569,378	740,343
<b>Total liabilities</b>	<b>921,635</b>	<b>752,775</b>	<b>1,674,410</b>	<b>814,625</b>
<b>Deferred inflows of resources:</b>				
Deferred property taxes	99,054	-	99,054	-
<b>Total deferred inflows of resources</b>	<b>99,054</b>	<b>-</b>	<b>99,054</b>	<b>-</b>
<b>Net position:</b>				
Net investment in capital assets	(23,706)	258,638	234,932	141,758
Restricted for:				
Emergencies	-	11,493	11,493	9,931
Operations and maintenance reserve	-	34,000	34,000	43,000
Unrestricted	67,769	353,097	420,866	388,259
<b>Total net position</b>	<b>\$ 44,063</b>	<b>\$ 657,228</b>	<b>\$ 701,291</b>	<b>\$ 582,948</b>

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

**TREE HAUS METROPOLITAN DISTRICT**  
**Statement of Activities**  
**For the Year Ended December 31, 2017**  
**(with summarized financial information for the year ended December 31, 2016)**

2017							
<b>Functions/Programs</b>	Program Revenues			Net (Expense) Revenue and Changes in Net Position			2016 Total
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-type Activities	Total	
<b>Governmental activities:</b>							
Snowplowing	\$ 12,777	\$ -	\$ -	\$ (12,777)	\$ -	\$ (12,777)	\$ (26,236)
Road maintenance	15,497	-	-	(15,497)	-	(15,497)	(15,804)
Debt issuance costs	30,660	-	-	(30,660)	-	(30,660)	-
Interest on long-term debt	14,301	-	-	(14,301)	-	(14,301)	-
Total governmental activities	73,235	-	-	(73,235)	-	(73,235)	(42,040)
<b>Business-type activities:</b>							
Operations	133,668	145,659	-	-	11,991	11,991	(47,440)
Administrative	57,849	-	-	-	(57,849)	(57,849)	(58,169)
Total business-type activities	191,517	145,659	-	-	(45,858)	(45,858)	(105,609)
Total primary government	\$ 264,752	\$ 145,659	\$ -	(73,235)	(45,858)	(119,093)	(147,649)
<b>General revenues:</b>							
Taxes:							
Property				78,394	139,929	218,323	218,884
Specific ownership				-	17,423	17,423	15,529
Interest				-	1,690	1,690	1,609
Transfers				-	-	-	-
Total general revenues				78,394	159,042	237,436	236,022
Change in net position				5,159	113,184	118,343	88,373
Net position, beginning of year				38,904	544,044	582,948	494,575
Net position, end of year				\$ 44,063	\$ 657,228	\$ 701,291	\$ 582,948

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

**TREE HAUS METROPOLITAN DISTRICT**  
**General Fund**  
**Balance Sheet**  
**December 31, 2017**

(with summarized financial information as of December 31, 2016)

	2017	2016
<b>Assets:</b>		
Cash and cash equivalents	\$ 36,834	\$ -
Interfund balance	37,029	14,000
Property taxes receivable	99,054	-
Total assets	\$ 172,917	\$ 14,000
<b>Liabilities, deferred inflows of resources, and fund balance:</b>		
<b>Liabilities:</b>		
Road damage deposits	\$ 3,500	\$ 14,000
Total liabilities	3,500	14,000
<b>Deferred inflows resources:</b>		
Deferred property taxes	99,054	-
Total deferred inflows of resources	99,054	-
<b>Fund balance:</b>		
Unassigned	70,363	-
Total fund balance	70,363	-
Total liabilities, deferred inflows of resources, and fund balance	\$ 172,917	\$ 14,000

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, 2017**

Governmental fund balance	\$	70,363
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and, therefore are not reported in the general fund:		
Costs of capital assets, net of accumulated depreciation		891,835
Long-term liabilities and accrued interest payable within governmental activities are not due and payable in the current period and, therefore, are not reported in the general fund:		
General obligation loan		(915,541)
Accrued interest payable		(2,594)
		44,063
Net position of governmental activities	\$	44,063

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, 2017**  
(with summarized financial information for the year ended December 31, 2016)

	2017	2016
<b>Revenues:</b>		
Property taxes	\$ 78,394	\$ -
Total revenues	78,394	-
<b>Expenditures:</b>		
Snowplowing	12,777	26,236
Road maintenance	6,090	13,583
Debt issuance costs	30,660	-
Debt service:		
Principal	16,459	-
Interest	11,707	-
Capital outlay	862,338	-
Total expenditures	940,031	39,819
Excess (deficiency) of revenues over expenditures	(861,637)	(39,819)
<b>Other financing sources (uses):</b>		
Loan proceeds	932,000	-
Transfers in	-	39,819
Net change in fund balance	70,363	-
Fund balance, beginning of year	-	-
Fund balance, end of year	\$ 70,363	\$ -

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, 2017**

Changes in fund balance - governmental fund	\$	70,363
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>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:</p>		
Capital outlays		862,338
Depreciation		(9,407)
<p>Proceeds from the general obligation loan are reported as an other financing source in the general fund. However, the loan proceeds are reported as a noncurrent liability in the statement of net position.</p>		
		(932,000)
<p>Principal repayments of long-term debt are expenditures in the general fund, but the repayment reduces long-term liabilities in the statement of net position.</p>		
		16,459
<p>Interest expense in the statement of activities is reported on the accrual basis while interest payments are reported as expenditures in the general fund.</p>		
		(2,594)
Change in net position of governmental activities	<u>\$</u>	<u>5,159</u>

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

**TREE HAUS METROPOLITAN DISTRICT**  
**Enterprise Fund**  
**Statement of Net Position**  
**December 31, 2017**  
(with summarized financial information as of December 31, 2016)

	2017	2016
<b>Assets:</b>		
Current assets:		
Cash and cash equivalents	\$ 437,681	\$ 457,596
Accounts receivable	8,902	4,887
Due from other government	1,468	1,377
Total current assets	448,051	463,860
Noncurrent assets:		
Capital assets, net of depreciation	998,981	894,809
Total noncurrent assets	998,981	894,809
Total assets	1,447,032	1,358,669
<b>Liabilities:</b>		
Current liabilities:		
Accounts payable	10,218	6,315
Accrued interest payable	2,214	2,355
Interfund balance	37,029	14,000
Current portion of notes payable	52,744	51,612
Total current liabilities	102,205	74,282
Noncurrent liabilities:		
Notes payable	687,599	740,343
Total liabilities	789,804	814,625
<b>Net position:</b>		
Net investment in capital assets	258,638	102,854
Restricted for:		
Emergencies	11,493	9,931
Operations and maintenance reserve	34,000	43,000
Unrestricted	353,097	388,259
Total net position	\$ 657,228	\$ 544,044

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, 2017**  
(with summarized financial information for the year ended December 31, 2016)

	<u>2017</u>	<u>2016</u>
<b>Operating revenues:</b>		
Charges for services	\$ 145,659	\$ 116,310
Total operating revenues	<u>145,659</u>	<u>116,310</u>
<b>Operating expenses:</b>		
Operations	85,149	118,844
Administrative	51,287	51,591
Depreciation	<u>32,305</u>	<u>27,582</u>
Total operating expenses	<u>168,741</u>	<u>198,017</u>
Operating income (loss)	(23,082)	(81,707)
<b>Non-operating revenues (expenses):</b>		
Tax revenues	157,352	234,413
Interest income	1,690	1,609
Interest expense	(16,214)	(17,324)
Tax collection fees	<u>(6,562)</u>	<u>(6,578)</u>
Net non-operating revenues	<u>136,266</u>	<u>212,120</u>
Income before transfers	113,184	130,413
Transfers out	<u>-</u>	<u>(39,819)</u>
Change in net position	113,184	90,594
Net position, beginning of year	<u>544,044</u>	<u>453,450</u>
Net position, end of year	<u>\$ 657,228</u>	<u>\$ 544,044</u>

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, 2017**  
(with summarized financial information for the year ended December 31, 2016)

	2017	2016
<b>Cash flows from operating activities:</b>		
Cash receipts from customers	\$ 141,644	\$ 116,854
Cash payments to suppliers of goods and services	(132,533)	(177,424)
Net cash provided (used) by operating activities	9,111	(60,570)
<b>Cash flows from non-capital financing activities:</b>		
Cash receipts from taxes	157,261	233,970
Cash payments for tax collection fees	(6,562)	(6,578)
Cash payments (to) from other fund	23,029	(36,319)
Net cash provided by non-capital financing activities	173,728	191,073
<b>Cash flows from capital and related financing activities:</b>		
Principal payments on note payable	(51,612)	(50,505)
Interest payments on note payable	(16,355)	(17,463)
Cash payments for capital assets	(136,477)	(44,330)
Net cash provided by (used) capital and related financing activities	(204,444)	(112,298)
<b>Cash flows from investing activities:</b>		
Interest received	1,690	1,609
Net cash provided by investing activities	1,690	1,609
Net change in cash and cash equivalents	(19,915)	19,814
Cash and cash equivalents, beginning of year	457,596	437,782
Cash and cash equivalents, end of year	\$ 437,681	\$ 457,596
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>		
Operating income (loss)	\$ (23,082)	\$ (81,707)
Depreciation	32,305	27,582
(Increase) decrease in:		
Accounts receivable	(4,015)	544
(Decrease) increase in:		
Accounts payable, net of nonoperating portion	3,903	(6,989)
Net cash provided (used) by operating activities	\$ 9,111	\$ (60,570)

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

**TREE HAUS METROPOLITAN DISTRICT**  
**Notes to Financial Statements**  
**December 31, 2017**  
**(with summarized financial information as of and for the year ended December 31, 2016)**

**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 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, 2017**  
(with summarized financial information as of and for the year ended December 31, 2016)

**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, Deferred Inflows of Resources 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 as of December 31, 2017 and 2016. 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	30-50

**TREE HAUS METROPOLITAN DISTRICT**  
**Notes to Financial Statements**  
**December 31, 2017**  
**(with summarized financial information as of and for the year ended December 31, 2016)**

**Note 1: Summary of Significant Accounting Policies (continued)**

*Assets, Liabilities, Deferred Inflows of Resources and Net Position (continued)*

Deferred Inflows of Resources

In addition to liabilities, the statement of net position includes a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time. The District's deferred inflows of resources consist of unavailable revenues from property taxes for its governmental activities.

*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, 2016, from which the summarized information was derived.

**TREE HAUS METROPOLITAN DISTRICT**  
**Notes to Financial Statements**  
**December 31, 2017**  
**(with summarized financial information as of and for the year ended December 31, 2016)**

**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, 2017.

*Compliance*

Expenditures did not exceed appropriations in any fund during the year ended December 31, 2017.

*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 \$11,493 of the December 31, 2017 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, 2017**  
(with summarized financial information as of and for the year ended December 31, 2016)

**Note 3: Detailed Notes on the Funds**

*Deposits*

The carrying amount of the District's deposits as of December 31, 2017 and 2016 was \$474,515 and \$457,597, respectively and bank balances were \$477,835 and \$468,033, respectively. Of the bank balances, \$448,323 and \$410,659 as of December 31, 2017 and 2016, respectively, was covered by federal deposit insurance and \$29,512 and \$57,374, 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, 2017 is summarized below:

	Beginning Balance	Additions	Retirements	Ending Balance
<b>Governmental activities:</b>				
Roads	\$ 111,036	\$ 862,338	\$ -	\$ 973,374
Less accumulated depreciation	(72,132)	(9,407)	-	(81,539)
Governmental activities capital assets, net	<u>\$ 38,904</u>	<u>\$ 852,931</u>	<u>\$ -</u>	<u>\$ 891,835</u>
<b>Business-type activities:</b>				
Land	\$ 9,002	\$ -	\$ -	\$ 9,002
Other capital assets:				
Water and sewer system	1,527,819	136,477	-	1,664,296
Total other capital assets at cost	1,527,819	136,477	-	1,664,296
Less accumulated depreciation for:				
Water and sewer system	(642,012)	(32,305)	-	(674,317)
Total accumulated depreciation	(642,012)	(32,305)	-	(674,317)
Other capital assets, net	885,807	104,172	-	989,979
Business-type activities capital assets, net	<u>\$ 894,809</u>	<u>\$ 104,172</u>	<u>\$ -</u>	<u>\$ 998,981</u>

**TREE HAUS METROPOLITAN DISTRICT**  
**Notes to Financial Statements**  
**December 31, 2017**  
(with summarized financial information as of and for the year ended December 31, 2016)

**Note 3: Detailed Notes on the Funds (continued)**

*Capital Assets (continued)*

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

	Beginning Balance	Additions	Retirements	Ending Balance
<b>Governmental activities:</b>				
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>
<b>Business-type activities:</b>				
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	<u>1,483,489</u>	<u>44,330</u>	<u>-</u>	<u>1,527,819</u>
Less accumulated depreciation for:				
Water and sewer system	(614,430)	(27,582)	-	(642,012)
Total accumulated depreciation	<u>(614,430)</u>	<u>(27,582)</u>	<u>-</u>	<u>(642,012)</u>
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>

Depreciation expense was charged to functions of the District as follows for the years ended December 31, 2017 and 2016:

	2017	2016
<b>Governmental activities:</b>		
Road maintenance	<u>\$ 9,407</u>	<u>\$ 2,221</u>
<b>Business-type activities:</b>		
Operations	<u>\$ 32,305</u>	<u>\$ 27,582</u>

**TREE HAUS METROPOLITAN DISTRICT**  
**Notes to Financial Statements**  
**December 31, 2017**  
(with summarized financial information as of and for the year ended December 31, 2016)

**Note 3: Detailed Notes on the Funds (continued)**

*Long-Term Debt*

The District had the following long-term debt outstanding as of December 31, 2017:

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 \$34,000 for this purpose as of December 31, 2017.

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 (NRWA) Note Payable

On March 23, 2015 the District entered into a \$100,000 loan from the NRWA. 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 were 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.

Citywide Banks General Obligation Loan Series 2017

The District entered into a \$932,000 general obligation loan agreement with Citywide Banks on July 18, 2017. The loan carries an annual interest rate of 3.4% until July 1, 2027 then resets to a fixed rate at the 10-Year LIBOR Rate +1.25%, with a floor of 3.4% and ceiling of 5.75% through maturity on June 1, 2037. The first loan payment of \$28,166, including principal and interest, was paid on December 1, 2017. Remaining principal and interest payments of \$32,303 are due semi-annually on June 1 and December 1 until maturity. The proceeds from the loan were used for paving and resurfacing of the District's roadways. The loan is secured by a pledge of property tax revenues.

Long-term debt activity for the year ended December 31, 2017 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
<b>Business-type activities:</b>					
CWRPDA note payable	\$ 706,612	\$ -	\$ (42,460)	\$ 664,152	\$ 43,313
NRWA note payable	85,343	-	(9,152)	76,191	9,431
	<u>791,955</u>	<u>-</u>	<u>(51,612)</u>	<u>740,343</u>	<u>52,744</u>
<b>Governmental activities:</b>					
Citywide Banks general obligation loan	-	932,000	(16,459)	915,541	33,762
	<u>-</u>	<u>932,000</u>	<u>(16,459)</u>	<u>915,541</u>	<u>33,762</u>
<b>Total long-term debt</b>	<u>\$ 791,955</u>	<u>\$ 932,000</u>	<u>\$ (68,071)</u>	<u>\$ 1,655,884</u>	<u>\$ 86,506</u>

**TREE HAUS METROPOLITAN DISTRICT**  
**Notes to Financial Statements**  
**December 31, 2017**  
(with summarized financial information as of and for the year ended December 31, 2016)

**Note 3: Detailed Notes on the Funds (continued)**

*Long-Term Debt (continued)*

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

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

Aggregate debt service requirements as of December 31, 2017 were as follows:

Year	Principal	Interest	Total
2018	\$ 86,506	\$ 46,069	\$ 132,575
2019	88,821	43,753	132,574
2020	91,202	41,372	132,574
2021	93,652	38,923	132,575
2022	96,170	36,404	132,574
2023-2027	489,105	142,865	631,970
2028-2032	442,947	77,415	520,362
2033-2037	267,481	23,245	290,726
	<u>\$ 1,655,884</u>	<u>\$ 450,046</u>	<u>\$ 2,105,930</u>

*Governmental Fund Balance*

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. The District has no restricted, committed, or assigned governmental fund balances as of December 31, 2017.

**TREE HAUS METROPOLITAN DISTRICT**  
**Notes to Financial Statements**  
**December 31, 2017**  
**(with summarized financial information as of and for the year ended December 31, 2016)**

**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.

*Subsequent Events*

The District has evaluated subsequent events through July 25, 2018, 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, 2017**

	Original and Final Budget	Actual	Variance
<b>Revenues:</b>			
Property taxes	\$ 78,394	\$ 78,394	\$ -
Total revenues	<u>78,394</u>	<u>78,394</u>	<u>-</u>
<b>Expenditures:</b>			
Snowplowing	25,000	12,777	12,223
Road maintenance	17,900	6,090	11,810
Debt issuance costs	-	30,660	(30,660)
Debt service:			
Principal	49,550	16,459	33,091
Interest	28,844	11,707	17,137
Capital outlay	<u>1,250,000</u>	<u>862,338</u>	<u>387,662</u>
Total expenditures	<u>1,371,294</u>	<u>940,031</u>	<u>431,263</u>
Excess (deficiency) of revenues over expenditures	(1,292,900)	(861,637)	(431,263)
<b>Other financing sources (uses):</b>			
Loan proceeds	1,250,000	932,000	(318,000)
Transfers in	<u>42,900</u>	<u>-</u>	<u>(42,900)</u>
Change in fund balance - budgetary basis	<u>\$ -</u>	70,363	<u>\$ (792,163)</u>
Fund balance, beginning of year		<u>-</u>	
Fund balance, end of year		<u>\$ 70,363</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, 2017**

	Original and Final Budget	Actual	Variance
<b>Revenues:</b>			
Taxes:			
Property	\$ 218,411	\$ 139,929	\$ (78,482)
Specific ownership	13,018	17,423	4,405
Charges for services:			
Water and sewer	145,776	145,659	(117)
Interest	1,500	1,690	190
Total revenues	<u>378,705</u>	<u>304,701</u>	<u>(74,004)</u>
<b>Expenditures:</b>			
Operations:			
Repairs and maintenance	63,992	34,171	29,821
Sewage transmission	32,599	32,741	(142)
Filters	14,000	7,948	6,052
Other	11,650	10,289	1,361
Administrative:			
Professional fees	35,900	31,735	4,165
Engineers fees	2,000	5,395	(3,395)
Insurance	7,000	6,618	382
Directors' fees	6,000	5,200	800
Tax collection fees	5,500	6,562	(1,062)
Other	1,750	2,339	(589)
Debt service:			
Principal	51,612	51,612	-
Interest	16,356	16,214	142
Capital outlay	135,700	136,477	(777)
Total expenditures	<u>384,059</u>	<u>347,301</u>	<u>36,758</u>
Excess (deficiency) of revenues over expenditures	(5,354)	(42,600)	(110,762)
<b>Other financing sources (uses):</b>			
Transfers out	(42,900)	-	42,900
Excess (deficiency) of revenues and other financing sources (uses) over expenditures	<u>\$ (48,254)</u>	(42,600)	<u>\$ (67,862)</u>
<b>Adjustments to US GAAP basis:</b>			
Capitalized expenditures		136,477	
Debt principal payments		51,612	
Depreciation		<u>(32,305)</u>	
Change in net position - US GAAP basis		113,184	
Net position, beginning of year		<u>544,044</u>	
Net position, end of year		<u>\$ 657,228</u>	