
**HEATHER GARDENS
METROPOLITAN DISTRICT
FINANCIAL STATEMENTS
DECEMBER 31, 2015**



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Independent Auditors' Report

Board of Directors
Heather Gardens Metropolitan District
Aurora, Colorado

Report On The Financial Statements

We have audited the accompanying financial statements of the Heather Gardens Metropolitan District (the District) as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility For The Financial Statements

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

Auditors' Responsibility

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

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

Other Information

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

Report On Summarized Comparative Information

We have previously audited the District's 2014 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 9, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2014 is consistent, in all material respects, with the audited financial statements from which it has been derived.

RubinBrown LLP

April 4, 2016

HEATHER GARDENS METROPOLITAN DISTRICT

Management's Discussion And Analysis (Continued)

Financial Highlights

- The District's net position decreased by \$108,039 or 1.7% as a result of this year's operations.
- During the year, the District's operating expenses increased \$761,647 or 43% from expenses in 2014. The District's operating revenues increased by \$504,866 or 30% from revenues in 2014.
- Non-operating revenues increased by \$51,931 or 8% as a result of increase in property taxes and donations.
- The construction account was closed in 2015.
- The District's change in net position becomes part of unrestricted reserve.

Financial Summary and Analysis

Capital Assets

	2015	2014	2013
Land	\$ 1,725,000	\$ 1,725,000	\$ 1,725,000
Other intangible asset	133,190	133,190	133,190
Property, furniture and equipment	15,381,964	15,303,709	14,835,347
Less accumulated depreciation	(3,759,936)	(3,143,035)	(2,573,033)
Total Capital Assets - Net	\$ 13,480,218	\$ 14,018,864	\$ 14,120,504

For additional information, see note 4.

HEATHER GARDENS METROPOLITAN DISTRICT

Management's Discussion And Analysis (*Continued*)

Budgetary Discussion

The District increased the 2015 homeowner's dues by approximately \$71K over 2014. Most of this increase resulted from absorbing the restaurant as a cost center.

All of the increase to operating expenses resulted from the restaurant.

The District's non-operating revenue increased almost \$52K mainly from increased collections of property taxes and increase in donations to the Foundation. The slight decrease in non-operating expenses resulted from less interest paid for the bonds.

The Heather Gardens Restaurant LLC was dissolved and is a cost center under Heather Gardens Metropolitan District effective close of business on December 31, 2014. The District purchased the assets of the restaurant and the liquor license transferred.

Economic Factors and Rates

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

Contacting the District's Financial Management

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

HEATHER GARDENS METROPOLITAN DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For The Year Ended December 31, 2015

(With Comparative Totals For The Year Ended December 31, 2014)

	2015	2014
Operating Revenue		
Recreation use fees	\$ 1,146,026	\$ 1,214,540
Restaurant income	558,335	12,000
Golf course fees	296,918	286,024
Community center fees	137,232	124,757
Recreational vehicle lot rentals	34,202	33,159
Other operating revenue	8,767	6,134
Total Operating Revenue	2,181,480	1,676,614
Operating Expenses		
Community center, golf course, recreational vehicle lot	1,144,555	1,142,181
Professional services and insurance	73,834	48,756
Depreciation	621,598	585,282
Restaurant expenses	676,000	—
Foundation expenses	21,805	3,719
Other operating expenses	4,909	1,116
Total Operating Expenses	2,542,701	1,781,054
Loss From Operations	(361,221)	(104,440)
Nonoperating Revenue		
Property taxes	610,997	592,395
Donations	23,087	3,885
Specific ownership taxes	47,552	41,914
Investment income	8,237	143
Conservation Trust Fund entitlement	14,534	14,139
Total Nonoperating Revenue	704,407	652,476
Nonoperating Expenses		
Interest	441,560	447,289
(Gain) loss on disposal of assets	(500)	3,719
Other nonoperating expenses	10,165	9,886
Total Nonoperating Expenses	451,225	460,894
Changes In Net Assets	(108,039)	87,142
Net Position - Beginning Of Year	6,371,010	6,283,868
Net Position - End Of Year	\$ 6,262,971	\$ 6,371,010

HEATHER GARDENS METROPOLITAN DISTRICT

STATEMENT OF CASH FLOWS

For The Year Ended December 31, 2015

(With Comparative Totals For The Year Ended December 31, 2014)

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	For The Years	
	Ended December 31,	
	2015	2014
Reconciliation Of Loss From Operations To Net Cash Provided By Operating Activities		
Loss from operations	\$ (361,221)	\$ (104,440)
Adjustments to reconcile loss from operations to net cash provided by operating activities		
Depreciation	621,598	585,282
Changes in assets and liabilities		
Increase in receivables	(25,136)	(3,752)
Increase (decrease) in allowance for doubtful accounts	(796)	1,824
Increase in prepaid expenses	(6,614)	(36,581)
Increase in inventory	(3,777)	(11,397)
Increase in other assets	(8,073)	(10,970)
Increase (decrease) in accounts payable	(11,281)	18,634
Increase in due to Heather Gardens Association	55,095	38,640
Increase in deposits	5,062	1,543
Increase (decrease) in unearned revenue	704	(3,888)
Net Cash Provided By Operating Activities	\$ 265,561	\$ 474,895

HEATHER GARDENS METROPOLITAN DISTRICT

Notes To Basic Financial Statements (*Continued*)

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

Measurement Focus And Basis Of Accounting

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

Operating Revenues And Expenses

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

Budgetary Information

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

Cash Equivalents

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

Capital Assets

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

HEATHER GARDENS METROPOLITAN DISTRICT

Notes To Basic Financial Statements (*Continued*)

Deferred Outflows Of Resources

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

Deferred Inflows Of Resources

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

Reclassifications

Certain amounts from the 2014 financial statements have been reclassified, where appropriate, to conform to the presentation used in the 2015 financial statements.

3. Cash And Cash Equivalents

Cash and investments as of December 31, 2015 consist of the following:

	<u>Book</u>	<u>Bank</u>
Deposits with financial institutions - unrestricted	\$ 686,866	\$ 683,323
Deposits with financial institutions - restricted	397,550	397,550
Cash on hand	1,000	—
	<u>\$ 1,085,416</u>	<u>\$ 1,080,873</u>

HEATHER GARDENS METROPOLITAN DISTRICT

Notes To Basic Financial Statements (Continued)

Interest Rate Risk

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

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

Restricted Cash

At December 31, 2015, cash in the amount of \$397,550 is restricted. This amount has been restricted to make bond principle and interest payments.

4. Capital Assets

An analysis of the changes in capital assets for the year ended December 31, 2015 is as follows:

	Balance - January 1, 2015	Additions/ Transfers	Deletions/ Transfers	Balance - December 31, 2015
Capital Assets				
Nondepreciable Capital Assets				
Land	\$ 1,725,000	\$ —	\$ —	\$ 1,725,000
Intangible asset	133,190	—	—	133,190
Total Nondepreciable Capital Assets	1,858,190	—	—	1,858,190
Depreciable Capital Assets				
Property and equipment	13,065,628	43,493	(38,419)	13,070,702
Furniture and equipment	742,990	73,181	—	816,171
Restaurant equipment	71,178	—	—	71,178
Restaurant and pro shop renovation	1,346,537	—	—	1,346,537
Capital lease equipment	77,376	—	—	77,376
Total Depreciable Capital Assets	15,303,709	116,674	(38,419)	15,381,964
Total Capital Assets	17,161,899	116,674	(38,419)	17,240,154
Accumulated Depreciation	(3,143,035)	(621,598)	4,697	(3,759,936)
Net Depreciable Capital Assets	12,160,674	(504,924)	(33,722)	11,622,028
Total Capital Assets, Net Of Depreciation	\$ 14,018,864	\$ (504,924)	\$ (33,722)	\$ 13,480,218

Depreciation expense for the year ended December 31, 2015 is \$621,598.

HEATHER GARDENS METROPOLITAN DISTRICT

Notes To Basic Financial Statements (Continued)

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 205,000	\$ 434,116	\$ 639,116
2017	210,000	427,966	637,966
2018	215,000	421,142	636,142
2019	225,000	413,616	638,616
2020	235,000	405,179	640,179
2021 - 2025	1,330,000	1,864,139	3,194,139
2026 - 2030	1,680,000	1,514,031	3,194,031
2031 - 2035	2,140,000	1,048,388	3,188,388
2036 - 2040	2,745,000	441,998	3,186,998
	<u>\$ 8,985,000</u>	<u>\$ 6,970,575</u>	<u>\$ 15,955,575</u>

6. Net Position

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

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

As of December 31, 2015, the District had net position invested in capital assets, which is calculated as follows:

Capital assets - net of accumulated depreciation	\$ 13,480,218
Capital related borrowings	<u>(8,574,095)</u>
	<u>\$ 4,906,123</u>

HEATHER GARDENS METROPOLITAN DISTRICT

Notes To Basic Financial Statements (*Continued*)

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

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

8. Heather Gardens Association

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

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

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

On December 31, 2014, the District purchased certain assets of the restaurant from the Heather Gardens Association. In 2015, the District operated the restaurant as a cost center.

The total due to Heather Gardens Association at December 31, 2015 was \$143,626.

HEATHER GARDENS METROPOLITAN DISTRICT

Notes To Basic Financial Statements (Continued)

10. Operating Lease

The District pays for an operating lease, which is in the name of the Association, for a copier in the club house. Total payments for the copier for the year ended December 31, 2015 were \$4,241. The monthly rental payments are \$353, and the future payments under the lease are as follows:

<u>Year</u>	<u>Amount</u>
2016	\$ 4,240
2017	4,240
2018	3,888
Total	\$ 12,368

11. Capital Leases

The District has entered into two noncancelable capital lease agreements under which the related equipment may become the property of the District at the end of the lease under a bargain purchase option for \$1. The cost and accumulated amortization of the fitness equipment under these agreements totaled \$77,376 and \$66,860, respectively, at December 31, 2015. The leases expire in 2017 and 2016, respectively. The amortization expense for the year ended December 31, 2015 was \$19,405, which is included in depreciation expense for depreciable assets.

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

Total minimum lease payments	\$ 12,908
Less: Amount representing interest	<u>500</u>
Present value of minimum lease payments	<u>\$ 12,408</u>

Future minimum lease payments under capital leases are as follows:

<u>Year</u>	<u>Amount</u>
2016	\$ 10,634
2017	2,274
Total	\$ 12,908

Other Supplementary Information

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

HEATHER GARDENS METROPOLITAN DISTRICT

NOTE TO BUDGETARY COMPARISON SCHEDULE

Budgets And Budgetary Accounting

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

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