

TWIN BUTTES METROPOLITAN DISTRICT NO. 1

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT

December 31, 2023



TWIN BUTTES METROPOLITAN DISTRICT NO. 1

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Independent Auditor's Report



Board of Directors
Twin Buttes Metropolitan District No. 1
Durango, Colorado

INDEPENDENT AUDITOR'S REPORT

Opinions

We have audited the accompanying financial statements of the governmental activities and the major fund of the Twin Buttes Metropolitan District No. 1 (the District) as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the District, as of December 31, 2023, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 and the budgetary comparison information on page 21 is presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

DWC

Grand Junction, Colorado

June 6, 2024

Management's Discussion and Analysis

TWIN BUTTES METROPOLITAN DISTRICT NO. 1

MANAGEMENT'S DISCUSSION AND ANALYSIS

As of and for the year ended December 31, 2023

As management of the Twin Buttes Metropolitan District No. 1 (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the year ended December 31, 2023 with comparative information presented for the year ended December 31, 2022. We encourage readers to consider the information presented here in conjunction with the additional information furnished in our basic financial statements to better understand the financial position of the District.

Financial Highlights

Please refer to the Government-wide Financial Analysis on page 4 of this report.

Net activity of approximately \$(19,000) dropped the District's Net Position from approximately \$71,000 to \$52,000. The drop was primarily attributed to recent farm revenues and certain real estate activity fees (DRC, real estate transfer fees and development fees). The drop in farm revenues was caused by lower than anticipated production stemming from various adverse conditions. Real estate activity revenues dropped as both rising interest rates and dropping inventory slowed real estate sales and development activity.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the basic financial statements. This report also contains required supplemental information in addition to the basic financial statements themselves.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances in a manner similar to a private sector business.

The statement of net position presents information on all of the District's assets and liabilities with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether financial position is improving or deteriorating.

The statement of activities presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of cash flows. Thus, revenues and expenses are reported in the statement of activities for some items that will only result in cash flows in future fiscal periods.

In the government-wide financial statements, the District's activities are shown in one category; governmental activities. The District's activities are principally supported by charges for services – farm sales, fees and permits, intergovernmental transfers and developer operating subsidies. The government-wide financial statements can be found on pages 7 and 8.

Fund Financial Statements

A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements. The District's General Fund is considered a governmental fund.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. The District presents one governmental fund, the General Fund. The District's General Fund financial statements can be found on pages 9 through 11.

An annual appropriated budget was adopted for the General Fund. A budgetary comparison schedule has been provided on page 21 to demonstrate compliance with the adopted budget.

Notes to Basic Financial Statements

The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

The notes to the basic financial statements can be found on pages 13 through 20.

Required Supplementary Information (RSI)

The RSI presents additional information that differs from the basic financial statements in that the auditor applies certain limited procedures in reviewing the information. In this report, RSI includes the management's discussion and analysis and budgetary comparison schedule on page 21.

Government-wide Financial Analysis

The following summarizes the District's governmental net position as of December 31:

	<u>2023</u>	<u>2022</u>
Assets		
Current and other assets	\$ 81,416	\$ 84,722
Capital assets, net	38,248	42,441
Total Assets	<u>119,664</u>	<u>127,163</u>
Liabilities		
Current liabilities	67,317	56,245
Total Liabilities	<u>67,317</u>	<u>56,245</u>
Net Position		
Net investment in capital assets	38,248	42,411
Restricted for emergency reserves	14,100	14,100
Unrestricted	(1)	14,377
Total Net Position	<u>\$ 52,347</u>	<u>\$ 70,918</u>

The following summarizes the change in the District’s governmental net position for the years ended December 31:

	<u>2023</u>	<u>2022</u>
Revenues		
Program revenues:		
Charges for services – farm sales	\$ 36,646	\$ 65,679
Charges for services – snow removal	4,640	-
Permits and fees	15,100	17,250
General revenues:		
Developer subsidy	25,960	-
Intergovernmental revenue	297,274	248,922
Other general revenues	7,085	5,356
Gain on disposal of capital assets	500	-
Total Revenues	<u>387,205</u>	<u>336,685</u>
Expenses		
General and administrative	263,249	254,456
Farm expenses	102,692	105,305
Property and grounds maintenance	39,835	53,787
Total Expenses	<u>405,776</u>	<u>413,548</u>
Change in Net Position	<u>(18,571)</u>	<u>(76,341)</u>
Net position – January 1	<u>70,918</u>	<u>147,259</u>
Net position – December 31	<u>\$ 52,347</u>	<u>\$ 70,918</u>

Financial Analysis of Governmental Funds

As noted earlier, fund accounting is used to ensure and demonstrate compliance with finance related legal requirements.

The focus of governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. In particular, unassigned fund balance may serve as a useful measure of a government’s net resources available for spending at the end of the fiscal year.

The District has one major governmental fund, the General Fund. The General Fund had a fund balance of \$14,099 as of December 31, 2023, of which \$14,100 is restricted for emergencies.

General Fund Budgetary Highlights

Please refer to the General Fund-Budget and Actual Statement on page 21 of this report.

Net deficit of approximately \$(14,000) dropped the fund balance of the District’s General Fund from approximately \$28,000 to \$14,000. Activity included a \$26,000 developer subsidy so as to maintain adequate reserves. This deficit is an improvement over prior year deficit of approximately \$(80,000) and comparable with the revised budget due to various factors, including but not limited to,

- Increased property tax revenues stemming from a growing tax base
- Maintaining operating costs

Capital Assets

Replacements, which improve or extend the lives of property, are capitalized. Maintenance, repairs and equipment replacements of a routine nature are charged to expenditures as incurred and are not capitalized. Additional information on the District’s capital assets can be found in Note 6.

Economic Factors and Next Year's Budget

The District's Board adopted next year's budget (2024) which reflects a surplus adequate to repay the Developer back its 2023 subsidy and is premised on adequate increases in property tax, real estate activity and farm revenues. Appropriate economic conditions will be necessary to ensure the District's financial activity will be consistent with the Budget.

Request for Information

This financial report is designed to provide a general overview of the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Steven Wilson, 692 Twin Buttes Ave., Durango, CO 81301.

Basic Financial Statements

Government-wide Financial Statements

TWIN BUTTES METROPOLITAN DISTRICT NO. 1

STATEMENT OF NET POSITION

December 31, 2023

ASSETS

Cash	\$	51,722
Accounts receivable		3,734
Developer subsidy receivable		25,960
Capital assets, net of accumulated depreciation:		
Farm assets		9,813
Vehicles and equipment		8,203
Website		7,120
Capital projects in progress		13,112
		<u>13,112</u>
	<i>Total Assets</i>	<u>119,664</u>

LIABILITIES

Accounts payable		66,565
Accrued expenses		752
		<u>752</u>
	<i>Total Liabilities</i>	<u>67,317</u>

NET POSITION

Net investment in capital assets		38,248
Restricted for emergency reserves		14,100
Unrestricted		(1)
		<u>(1)</u>
	<i>Total Net Position</i>	<u>\$ 52,347</u>

See accompanying notes.

TWIN BUTTES METROPOLITAN DISTRICT NO. 1

STATEMENT OF ACTIVITIES

For the year ended December 31, 2023

GOVERNMENTAL ACTIVITIES:

PROGRAM EXPENSES

General and administrative	\$	263,249
Farm expenses		102,692
Property and grounds maintenance		39,835
		<hr/>
<i>Total Program Expenses</i>		405,776

PROGRAM REVENUES

Charges for services - farm sales		36,646
Charges for services - snow removal		4,640
Permits and fees		15,100
		<hr/>
<i>Net Program Expenses</i>		349,390

GENERAL REVENUES

Developer subsidy		25,960
Intergovernmental revenue		297,274
Other general revenue		7,085
Gain on disposal of assets		500
		<hr/>
<i>Total General Revenues</i>		330,819

Change in Net Position

Net Position - January 1

Net Position - December 31

See accompanying notes.

Fund Financial Statements

TWIN BUTTES METROPOLITAN DISTRICT NO. 1

BALANCE SHEET – GOVERNMENTAL FUND

December 31, 2023

ASSETS	
Cash	\$ 51,722
Accounts receivable	3,734
Developer subsidy receivable	25,960
<i>Total Assets</i>	<u>\$ 81,416</u>
LIABILITIES	
Accounts payable	\$ 66,565
Accrued expenses	752
<i>Total Liabilities</i>	<u>67,317</u>
FUND BALANCE	
Restricted for:	
Emergency reserve	14,100
Unassigned	(1)
<i>Total Fund Balance</i>	<u>14,099</u>
<i>Total Liabilities and Fund Balance</i>	<u>\$ 81,416</u>

See accompanying notes.

TWIN BUTTES METROPOLITAN DISTRICT NO. 1
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO THE STATEMENT
OF NET POSITION
December 31, 2023

Total Fund Balance - Governmental Fund	\$	14,099
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the Fund:		
Cost of capital assets	61,375	
Less accumulated depreciation	(23,127)	<u>38,248</u>
Total Net Position - Governmental Activities	\$	<u>52,347</u>

See accompanying notes.

TWIN BUTTES METROPOLITAN DISTRICT NO. 1
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE – GOVERNMENTAL FUND

For the year ended December 31, 2023

REVENUES	
Charges for services - farm sales	\$ 36,646
Charges for services - snow removal	4,640
Permits and fees	15,100
Developer subsidy	25,960
Intergovernmental revenue	297,274
Other general revenue	7,085
<i>Total Revenues</i>	<u>386,705</u>
EXPENDITURES	
General and administrative	262,289
Farm expenses	99,459
Property and grounds maintenance	39,835
<i>Total Expenditures</i>	<u>401,583</u>
<i>Excess of Expenditures Over Revenues</i>	<u>(14,878)</u>
OTHER FINANCING SOURCES	
Proceeds from sale of assets	500
<i>Net Change in Fund Balance</i>	<u>(14,378)</u>
Fund Balance - January 1	<u>28,477</u>
Fund Balance - December 31	<u><u>\$ 14,099</u></u>

See accompanying notes.

TWIN BUTTES METROPOLITAN DISTRICT NO. 1
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - GOVERNMENTAL FUND TO THE STATEMENT OF
ACTIVITIES

For the year ended December 31, 2023

Net Change in Fund Balance - Governmental Fund	\$ (14,378)
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Capital outlays are reported as expenditures in the Governmental Funds; however, in the Statement of Activities, the cost of capital assets is allocated over their estimated useful life as depreciation expense:

Depreciation expense	(4,193)
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Change in Net Position of Governmental Activities	<u><u>\$ (18,571)</u></u>
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See accompanying notes.

Notes to Basic Financial Statements

TWIN BUTTES METROPOLITAN DISTRICT NO. 1

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2023

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Twin Buttes Metropolitan District No. 1 (the District) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The District's significant accounting policies are described below:

Financial Reporting Entity

The Twin Buttes Metropolitan District Nos. 1-4 are political subdivisions of the State of Colorado, formed in 2013 for the purpose of providing the management, implementation, and coordination of the financing, acquisition, completion, and operation of certain public infrastructure and services throughout the Twin Buttes of Durango Development (the Development). The improvements will be for the collective use and benefit of the property owners within, and residents of, the Development. The District will operate and maintain all other improvements within the Development. The District is the managing district and will arrange, control, and coordinate the financing, acquisition, construction, completion and operation of all public infrastructure and services for the Development (see Note 7); however, Twin Buttes Metropolitan District No. 2 (District No. 2) has issued \$8.7 million of debt. Twin Buttes Metropolitan District Nos. 2-4 (District Nos. 2-4) are authorized to collect property taxes and will contain the residential and commercial property of the Development. District Nos. 2 and 4 are authorized to issue bonds. The District is governed by an elected five-member Board of Directors (the Board).

Government-wide Financial Statements

The government-wide financial statements consist of a statement of net position and a statement of activities to report information on all of the non-fiduciary activities of the District as a whole. These statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the District's assets, and liabilities, including capital assets and any long-term liabilities, are included in the accompanying Statement of Net Position.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or program. *Program revenues* include 1) charges to those who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions, if any, that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not included among program revenues, if any, are reported instead as *general revenues*. The District has no *business-type activities*, which rely to a significant extent on user charges for support.

Fund Financial Statements

The accounts of the District are organized on the basis of funds. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. Government resources are allocated to, and accounted for, in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Governmental funds are accounted for on a flow of current financial resources basis. Balance sheets for these funds generally include only current assets, current liabilities and appropriate deferred inflows and deferred outflows of resources. Reported fund balances are considered a measure of available, spendable resources. Operating statements for these funds present a summary of available, spendable resources and expenditures for the period.

For the year ended December 31, 2023, the District has one governmental fund, the General Fund, which is the District's primary operating fund that accounts for all financial resources of the District. The General Fund is considered a major fund.

Separate financial statements are provided for the governmental fund.

Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenditures are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes, if any, are recognized as revenues in the year for which they are levied. Grants and similar items, if any, are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The modified accrual basis of accounting is used by all governmental funds. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenues are considered available if collected within 60 days after year end. Those revenues associated with the current period susceptible to accrual are charges for services - farm sales and permits and fees. Grant revenues, if any, are recognized as they are earned. All other revenues are reported when cash is received. Expenditures are recorded when the related fund liability is incurred. Exceptions to this general rule would include capital outlay which would be recognized when incurred, principal and interest on general long-term debt which would be recognized when due, and compensated absences which would be recognized when the obligations are expected to be liquidated with available financial resources.

Use of Estimates

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

Accounts Receivable

Accounts receivable consist of amounts due from various retail customers from farm and wholesale sales. As of December 31, 2023, management believes all accounts receivable are fully collectible; therefore no allowance for doubtful accounts has been recorded.

As described above, the District is the managing district of the Development and coordinates all financing and operations of the Development. Intergovernmental receivables may arise from inter-district transactions with District Nos. 2-4, and are recorded by all funds affected in the period in which transactions are executed. Intergovernmental receivables as of December 31, 2023 represent operating costs incurred by the District on behalf of District No. 2 that are expected to be repaid and are not related to operating expenses covered by the intergovernmental agreement described in Note 7 that would be included in the District's statement of activities.

Capital Assets

Capital assets are stated at cost and include assets with an estimated useful life of more than one year. Donated assets are recorded at their estimated fair market value at the date of donation. Replacements, which improve or extend the lives of property, are capitalized. Maintenance, repairs, and equipment replacements of a routine nature are charged to expenditures as incurred and are not capitalized. Capital assets are depreciated using the straight-line method over useful lives of 5 to 25 years.

Net Position

Net position represents the difference between assets and liabilities. Net position invested in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing attributable to the acquisition or construction of improvements of those assets. Net position is reported as restricted when there are limitations on their use due to external restrictions imposed by creditors, grantors, laws or regulations of other governments. The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

Fund Balance Classification

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- **Non-spendable:** This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. As of December 31, 2023, the District did not have a non-spendable fund balance.
- **Restricted:** This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. The District has classified the Taxpayer's Bill of Rights (TABOR) emergency reserves as being restricted because their use is restricted by Colorado State Statute.
- **Committed:** This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the District's Board. These amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The District did not have any committed resources as of December 31, 2023.
- **Assigned:** This classification includes amounts that are constrained by the District's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Board or through the Board delegating this responsibility to the District manager through the budgetary process. As of December 31, 2023, the District did not have any assigned fund balance.
- **Unassigned:** This classification includes the residual fund balance for the General Fund.

The District would typically use committed resources first and then assigned resources as appropriate opportunities arise, but the District reserves the right to selectively spend unassigned resources first to defer the use of these other classified funds.

Leases

The District accounts for leases in accordance with GASB Statement No. 87, *Leases* (GASB 87). GASB 87 established a single model for lease accounting based on the foundational principal that leases are financings of the right to use an underlying asset. Under GASB 87, for all leases other than short-term leases, a lessee is required to recognize a lease liability and an intangible right-to-use asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The District leases office space from the Developer (see Note 8) and the District also leases land for farm activities from another lessor. All of the District's leases are cancelable by the District and the lessor and do not have terms beyond one year, therefore, the District's leases are considered short-term leases under GASB 87. The District recognizes short-term lease payments as lease expense based on the payment provisions of the lease agreement in accordance with GASB 87. During the year ended December 31, 2023, the District recognized lease expense from short-term leases of \$3,120.

NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE FUND FINANCIAL STATEMENTS

The governmental fund balance sheet includes a reconciliation between *fund balance* of the *governmental fund* and *net position of governmental activities* as reported in the government-wide statement of net position. Additionally, the governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between the *net change in fund balance* of the *governmental fund* and the *changes in net position of governmental activities* as reported in the government-wide statement of activities. These reconciliations detail items that require adjustment to convert from the current resources measurement and modified accrual basis for government fund statements to the economic resources measurement and full accrual basis used for government-wide statements.

NOTE 3 - TAX, SPENDING AND DEBT LIMITATIONS

Colorado voters passed an amendment to the State Constitution, Article X, Section 20, commonly known as TABOR, which has several limitations including revenue raising, spending abilities, debt limitations, and other specific requirements of state and local governments. Future spending and revenue limits are determined based on the year's 'fiscal year spending,' adjusted for allowable increases based upon information and local growth. An election was held in November 2013 and voters approved a measure to allow the District to keep and retain all revenues, including grants, in excess of the fiscal year spending limit. TABOR also requires a reserve of 3% of the District's fiscal year spending, excluding bonded debt service. TABOR is complex and subject to judicial interpretation. The District believes it is in compliance with the requirements of TABOR. As of December 31, 2023, \$14,100 of the District's governmental fund balance is classified as restricted for an emergency reserve.

NOTE 4 - BUDGETS

The District adheres to the following procedures in establishing the budgetary data reflected in the financial statements:

- A. Budgets are required by state law.
- B. The budget officer is required to submit a proposed budget to the Board by October 15.
- C. Public hearings are conducted by the Board to obtain taxpayer comments.

- D. Certification of the mill levies to the Board of County Commissioners and adoption of the budget and appropriations are required by December 15.
- E. Expenditures may not legally exceed appropriations at the fund level. Board approval is required for changes in the budget. The District amended its originally adopted 2023 budget. The District expended less than was appropriated during the year ended December 31, 2023 in the General Fund.
- F. Budget appropriations lapse at the end of each year.
- G. Budgets are adopted on the modified accrual basis of accounting.

NOTE 5 - DEPOSITS

The Colorado Public Deposit Protection Act (PDPA) governs the District’s deposits. The statutes specify eligible depositories for public cash deposits which must be Colorado institutions and must maintain federal deposit insurance through the Federal Deposit Insurance Corporation (FDIC) on deposits held. Each eligible depository with deposits in excess of the insured levels must pledge a collateral pool of defined eligible assets maintained by another institution or held in trust for all of its local government depositors as a group with a market value at least equal to 102% of the uninsured deposits. The Colorado Division of Banking for banks and savings and loan associations is required by statute to monitor the naming of eligible depositories and reporting of the uninsured deposits and assets maintained in the collateral pools.

At December 31, 2023, the carrying amount of the District’s deposits with maturities less than one year consisted of the following:

	Bank Balance	Carrying Amount
Cash in checking accounts	\$ 50,475	\$ 51,722

At December 31, 2023, the entire bank balance was insured by the FDIC.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank or investment pool failure, the District would not be able to recover its deposits or the value of its investments. The District’s deposits and investments are not deemed to be subject to custodial credit risk as they are covered by federal depository insurance or are collateralized under PDPA.

Concentrations of Credit Risk – Deposits

Concentration of credit risk is the risk of loss attributed to the magnitude of a government’s investment in a single issuer or institution. The District holds 100% of its cash deposits in one financial institution.

NOTE 6 - CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2023 was as follows:

	Balance December 31, 2022	Increases	Decreases	Balance December 31, 2023
Non-depreciable capital assets				
Capital projects in progress	\$ 13,112	\$ -	\$ -	\$ 13,112
<i>Total non-depreciable capital assets</i>	<u>13,112</u>	<u>-</u>	<u>-</u>	<u>13,112</u>
Depreciable capital assets				
Farm Assets	19,250	-	-	19,250
Website	9,600	-	-	9,600
Vehicles and equipment	19,413	-	-	19,413
<i>Total depreciable capital assets</i>	<u>48,263</u>	<u>-</u>	<u>-</u>	<u>48,263</u>
<i>Total capital assets</i>	<u>61,375</u>	<u>-</u>	<u>-</u>	<u>61,375</u>
Less accumulated depreciation for:				
Farm Assets	(8,517)	(920)	-	(9,437)
Website	(1,520)	(960)	-	(2,480)
Vehicles and equipment	(8,897)	(2,313)	-	(11,210)
<i>Total accumulated depreciation</i>	<u>(18,934)</u>	<u>(4,193)</u>	<u>-</u>	<u>(23,127)</u>
<i>Total capital assets, net depreciation</i>	<u>\$ 42,441</u>	<u>\$ (4,193)</u>	<u>\$ -</u>	<u>\$ 38,248</u>

Depreciation expense of \$3,233 was charged to the farm function/program of the District and amortization expense of \$960 was charged to the general and administrative function/program of the District for the year ended December 31, 2023.

NOTE 7 - INTERGOVERNMENTAL AGREEMENT

Effective June 1, 2020, the District and District Nos. 2-4 entered into amended intergovernmental financing agreements for the purpose of jointly financing the costs of any public improvements, facilities, systems, programs, or projects which the districts may provide, or for the purpose of providing for the operations and maintenance of the districts and their facilities and properties. According to the agreements, certain administrative costs directly associated with District Nos. 2-4 are considered obligations of the District. When property tax revenues are received by District Nos. 2-4, intergovernmental revenues and expenditures will be recognized to transfer the tax revenue to the District to assist in the payment of these costs. Future transfers of tax revenue may be in excess of actual costs paid by the District on behalf of District Nos. 2-4. For the year ended December 31, 2023, activities of District Nos. 1-4 were as follows:

	District No. 1	District No. 2	District No. 3	District No. 4	Total
Program expenses	\$ (405,776)	\$ (827,312)	\$ (28,466)	\$ (134,461)	\$ (1,396,015)
Program revenues	56,386	107,294	-	-	163,680
General revenues	<u>330,819</u>	<u>536,496</u>	<u>28,466</u>	<u>134,461</u>	<u>1,030,242</u>
<i>Change in net position</i>	<u>\$ (18,571)</u>	<u>\$ (183,522)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (202,093)</u>

NOTE 8 - RELATED PARTY TRANSACTIONS

The Developer pays certain costs on behalf of the District. As of December 31, 2023, the Developer incurred \$49,951 of costs on behalf of the District which is included in accounts payable.

The Developer leases office space to the District for operations. For the year ended December 31, 2023, the District paid approximately \$3,000 in lease payments to the Developer.

As described in Note 1, the Districts' Board composition is predominately composed of the same members as the Board of District Nos. 2-4. In addition, the Developer's owner is also the president of the District's Board.

The contract accountant for the District also provides accounting services to the Developer.

NOTE 9 - ECONOMIC DEPENDENCY

Pursuant to the Intergovernmental Agreements referred to in Note 7, the District relies on certain revenues from District Nos. 2-4 to cover the combined operating costs of all the districts. At times, the District has partially relied on Developer subsidies stemming from the Operating Funding Agreement that was executed in November 2013 and amended on March 27, 2023 (see Note 10 and Note 11). This agreement obligates the Developer to subsidize revenue shortfalls of the District.

NOTE 10 - CONTINGENT LIABILITIES

Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; injuries to employees; and natural disasters. These risks are covered by the District's participation in a Special District funded pool. Settled claims have not exceeded this commercial coverage in the past year.

Developer Subsidy Repayment

In November 2013, the District signed an Operation Funding Agreement (the Agreement) with the Developer. The Agreement provided for payment of operating subsidies to the District from the Developer to pay the costs of any management, operating and administrative expenses. The subsidies paid by the Developer to the District prior to the date of the Agreement are considered advanced funds. The subsidies become reimbursable to the Developer from the District once revenue, which is not otherwise appropriated, obligated, pledged or reserved for any current or future purpose in any fiscal year, becomes available. Through December 31, 2021, the District had received \$1,067,845 of operating subsidies from the Developer. Under the Agreement, the District, from such available sources and at its sole discretion, would reimburse the Developer for the subsidies, together with a simple interest rate of 7% per year. On March 27, 2023 the Agreement was amended retroactively, effective as of December 31, 2021, to eliminate certain farm operating deficits, remove the applicable interest related to the farm deficits, and suspend interest permanently. The adjusted balance to be reimbursed to the Developer under the Agreement, as amended, is \$1,121,151, consisting of \$730,185 in adjusted subsidies from the Developer plus simple interest at 7% per annum accrued thereon of \$390,966. Under the Agreement, as amended, the District has agreed to make good faith efforts to appropriate funds to reimburse the Developer the adjusted balance of \$1,121,151 over a term of twenty years, which equates to an average of approximately

\$50,000 per year with an interest rate of 0%, providing that the District has adequate revenue to make the appropriation. An accrued liability of \$1,121,151 for the repayment of the operating subsidies is not recorded by the District as of December 31, 2023, because the District had no available revenue that was not otherwise appropriated, obligated, pledged, or reserved. As part of the Agreement, the Developer agreed to waive \$337,660 in prior subsidies provided by the Developer to the District to cover farm losses along with interest accrued on these prior subsidies of \$57,381 for a total amount waived by the Developer of \$395,041.

Required Supplemental Information

TWIN BUTTES METROPOLITAN DISTRICT NO. 1

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL – GENERAL FUND**

For the year ended December 31, 2023

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Favorable (Unfavorable) Variance</u>
REVENUES				
Charges for services - farm sales	\$ 64,500	\$ 36,288	\$ 36,646	\$ 358
Charges for services - snow removal	-	3,840	4,640	800
Permits and fees	30,000	15,100	15,100	-
Developer subsidy	-	29,008	25,960	(3,048)
Intergovernmental revenue	311,587	296,917	297,274	357
Other general revenue	3,750	7,082	7,085	3
<i>Total Revenues</i>	<u>409,837</u>	<u>388,235</u>	<u>386,705</u>	<u>(1,530)</u>
EXPENDITURES				
General and administrative	248,460	263,709	262,289	1,420
Farm expenses	105,425	99,577	99,459	118
Property and grounds maintenance	49,602	39,825	39,835	(10)
Contingency	15,000	-	-	-
Capital outlay	2,000	-	-	-
<i>Total Expenditures</i>	<u>420,487</u>	<u>403,111</u>	<u>401,583</u>	<u>1,528</u>
<i>Excess of Expenditures Over Revenues</i>	<u>(10,650)</u>	<u>(14,876)</u>	<u>(14,878)</u>	<u>(2)</u>
OTHER FINANCING SOURCES				
Proceeds from sale of assets	-	500	500	-
<i>Net Change in Fund Balance</i>	<u>\$ (10,650)</u>	<u>\$ (14,376)</u>	<u>(14,378)</u>	<u>\$ (2)</u>
Fund Balance - January 1			<u>28,477</u>	
Fund Balance - December 31			<u>\$ 14,099</u>	

See accompanying notes and independent auditor's report.