

**TWIN BUTTES METROPOLITAN DISTRICT NO. 2**

**FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITOR'S REPORT**

December 31, 2016



**RECEIVED**

*By the Office of the State Auditor at 4:17 pm, Jun 29, 2017*

## TWIN BUTTES METROPOLITAN DISTRICT NO. 2

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**Independent Auditor's Report**

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DALBY, WENDLAND & CO., P.C.

Grand Junction

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Board of Directors  
Twin Buttes Metropolitan District No. 2  
Durango, Colorado

## **INDEPENDENT AUDITOR'S REPORT**

We have audited the accompanying financial statements of the governmental activities and each major fund of the Twin Buttes Metropolitan District No. 2 (the District), as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

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

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

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of December 31, 2016, 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.

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## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 and the budgetary comparison information on pages 22 and 23, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Dalby, Wendland & Co, P.C.*

DALBY, WENDLAND & CO., P.C.  
Grand Junction, Colorado

June 26, 2017

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**Management's Discussion and Analysis**

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## TWIN BUTTES METROPOLITAN DISTRICT NO. 2

### MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended December 31, 2016

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As management of the Twin Buttes Metropolitan District No. 2 (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, 2016. Comparative information presented for the year ended December 31, 2015 is not provided because the District had no activity in 2015. 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**

- In the government-wide financial statements, the District's assets were exceeded by its liabilities and deferred inflows by \$285,579 at December 31, 2016. In addition, the District's revenues were \$285,579 lower than expenses for the year ended December 31, 2016.
- The General Fund reported an ending fund balance of \$9,156 at December 31, 2016, of which \$7,456 is unassigned.
- The Debt Service Fund reported an ending fund balance of \$462,999 at December 31, 2016, the full amount of which is restricted for debt service.
- 2016 was the District's first year of operations. The District issued \$4,215,000 in bonds to finance capital outlay and fund the construction of District infrastructure.

#### **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, liabilities, and deferred inflows of resources, 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 property taxes and fees.

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 funds are all considered governmental funds.

### **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 two governmental funds; the General Fund and the Debt Service Fund. The District's governmental funds financial statements can be found on pages 9 and 11.

An annual appropriated budget was adopted for the funds. Budgetary comparison schedules have been provided on pages 22 and 23 to demonstrate compliance with the adopted budgets.

### **Notes to Basic Financial Statements**

The notes to the basic financial statements provide additional information that are 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 21.

### **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 schedules.

## Government-wide Financial Analysis

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

	2016
<b>Assets</b>	
Current and other assets	\$ 647,181
Capital assets, net	3,409,634
	<u>4,056,815</u>
	<b>Total Assets</b>
<b>Liabilities</b>	
Current liabilities	28,564
Noncurrent liabilities	4,145,854
	<u>4,174,418</u>
	<b>Total Liabilities</b>
<b>Deferred Inflows of Resources</b>	
Deferred property tax revenue	167,976
	<u>167,976</u>
	<b>Total Deferred Inflows of Resources</b>
<b>Net Position</b>	
Restricted	464,699
Unrestricted	(750,278)
	<u>(285,579)</u>
	<b>Total Net Position</b>
	<u>\$ (285,579)</u>

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

	2016
<b>Revenues</b>	
Program revenues:	
Permits and fees	\$ 24,096
General revenues:	
Taxes	33,640
Earnings on deposits and investments	617
	<u>58,353</u>
	<b>Total Revenues</b>
<b>Expenses</b>	
General and administrative	935
Intergovernmental	24,284
Interest	105,600
Bond issuance costs	213,113
	<u>343,932</u>
	<b>Total Expenses</b>
	<b>Change in Net Position</b>
	(285,579)
<b>Net Position – January 1</b>	-
<b>Net Position – December 31</b>	<u>\$ (285,579)</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 two major governmental funds, the General Fund and the Debt Service Fund. The General Fund had a fund balance of \$9,156 as of December 31, 2016, of which \$1,700 is restricted for emergencies. The unassigned portion of the fund balance in the amount of \$7,456 is available for general spending. The Debt Service Fund had a fund balance of \$462,999 as of December 31, 2016, the entire amount of which is restricted for debt service.

### **General Fund Budgetary Highlights**

The District amended its originally adopted 2016 budget. General Fund revenues were reduced by approximately \$7,500 and expenditures were reduced by approximately \$15,000. Total General Fund revenues were in excess of budget by \$2,294. Total expenditures were \$3,623,385 over budget, mainly due to the capital outlay and bond issuance in 2016. The budget amounts as shown on pages 22 and 23 of the financial statements include the original and final adopted budgets for the General Fund and Debt Service Fund.

### **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.

### **Long-Term Debt**

In August of 2016, the District issued the Series 2016A Tax Supported Revenue Senior Bonds. This is discussed further in Note 7.

### **Economic Factors and Next Year's Budget**

The 2017 budget reflects continued increases in property tax revenues which are primarily utilized for funding District No. 1 operations and District No. 2 bonded debt service. Increases in the revenues are primarily the result of District No. 2's growing tax base. The growth in tax base stems from the platting and development activity that has occurred during both 2016 and 2017. As discussed in Note 8, certain property tax revenues are transferred to District No. 1 to fund operations and maintenance of the facilities and properties of all the districts. The current and projected tax base growth is considered to be adequate to service the District's outstanding bond obligations.

### **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, Highway 160 Durango, CO 81301.

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## Basic Financial Statements

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**Government-wide Financial Statements**

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**TWIN BUTTES METROPOLITAN DISTRICT NO. 2**

**STATEMENT OF NET POSITION**

December 31, 2016

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<b>ASSETS</b>	
Cash	\$ 32,306
Receivables:	
Property taxes	167,976
Other	211
Capital assets:	
Construction in process - infrastructure	3,409,634
Restricted investments	446,688
	<u>446,688</u>
<i>Total Assets</i>	<u>4,056,815</u>
 <b>LIABILITIES</b>	
Accrued interest payable	21,514
Intergovernmental payables	7,050
Noncurrent liabilities, net of discount:	
Due after one year	4,145,854
	<u>4,145,854</u>
<i>Total Liabilities</i>	<u>4,174,418</u>
 <b>DEFERRED INFLOWS OF RESOURCES</b>	
Property tax revenue	167,976
	<u>167,976</u>
<i>Total Deferred Inflows of Resources</i>	<u>167,976</u>
 <b>NET POSITION</b>	
Restricted for:	
Debt service	462,999
Emergency reserve	1,700
Unrestricted	(750,278)
	<u>(750,278)</u>
<i>Total Net Position</i>	<u>\$ (285,579)</u>

See accompanying notes.

**TWIN BUTTES METROPOLITAN DISTRICT NO. 2**

**STATEMENT OF ACTIVITIES**

For the year ended December 31, 2016

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**GOVERNMENTAL ACTIVITIES:**

**PROGRAM EXPENSES**

General and administrative	\$	935
Intergovernmental		24,284
Interest		105,600
Bond issuance costs		213,113
		<u>343,932</u>

*Total Program Expenses*

**PROGRAM REVENUES**

Permits and fees		24,096
		<u>319,836</u>

*Net Program Expenses*

**GENERAL REVENUES**

Taxes:		
Property taxes		31,194
Specific ownership taxes		2,446
Earnings on deposits and investments		617
		<u>34,257</u>

*Total General Revenues*

*Change in Net Position*

**Net Position - January 1**

**Net Position - December 31**

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\$ (285,579)

See accompanying notes.

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**Fund Financial Statements**

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**TWIN BUTTES METROPOLITAN DISTRICT NO. 2**

**BALANCE SHEET – GOVERNMENTAL FUNDS**

December 31, 2016

	<b>General Fund</b>	<b>Debt Service Fund</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>			
Cash	\$ 9,096	\$ 23,210	\$ 32,306
Property taxes receivable	83,988	83,988	167,976
Other receivables	60	151	211
Restricted investments	-	446,688	446,688
<i>Total Assets</i>	<u>\$ 93,144</u>	<u>\$ 554,037</u>	<u>\$ 647,181</u>
<b>LIABILITIES</b>			
Intergovernmental payables	\$ -	\$ 7,050	\$ 7,050
<i>Total Liabilities</i>	<u>-</u>	<u>7,050</u>	<u>7,050</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Property tax revenue	83,988	83,988	167,976
<i>Total Deferred Inflows of Resources</i>	<u>83,988</u>	<u>83,988</u>	<u>167,976</u>
<b>FUND BALANCE</b>			
Restricted for:			
Debt service	-	462,999	462,999
Emergency reserve	1,700	-	1,700
Unassigned	7,456	-	7,456
<i>Total Fund Balance</i>	<u>9,156</u>	<u>462,999</u>	<u>472,155</u>
<i>Total Liabilities, Deferred Inflows of Resources and Fund Balance</i>	<u>\$ 93,144</u>	<u>\$ 554,037</u>	<u>\$ 647,181</u>

See accompanying notes.

**TWIN BUTTES METROPOLITAN DISTRICT NO. 2**

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES  
TO THE STATEMENT OF NET POSITION**

December 31, 2016

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<b>Total Fund Balance - Governmental Funds</b>		\$	472,155
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds:			
Cost of capital assets	3,409,634		
Less accumulated depreciation	<u>                    -</u>		3,409,634
Long-term debt obligations are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.			(4,215,000)
Original bond issue discount is reported as financing sources in the governmental funds when first issued, but deferred and amortized in the Statement of Net Position.			69,146
Accrued interest on debt obligations is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.			(21,514)
<b>Total Net Position - Governmental Activities</b>		<u>\$</u>	<u>(285,579)</u>

See accompanying notes.

**TWIN BUTTES METROPOLITAN DISTRICT NO. 2**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –  
GOVERNMENTAL FUNDS**

For the year ended December 31, 2016

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>			
Taxes:			
Property taxes	\$ 8,912	\$ 22,282	\$ 31,194
Specific ownership taxes	699	1,747	2,446
Permits and fees	24,096	-	24,096
Earnings on deposits and investments	-	617	617
	<u>33,707</u>	<u>24,646</u>	<u>58,353</u>
<i>Total Revenues</i>			
<b>EXPENDITURES</b>			
General and administrative	267	668	935
Intergovernmental	24,284	-	24,284
Capital outlay	3,409,634	-	3,409,634
Debt service			
Interest	-	83,905	83,905
Bond issuance costs	213,113	-	213,113
	<u>3,647,298</u>	<u>84,573</u>	<u>3,731,871</u>
<i>Total Expenditures</i>			
<i>Deficiency of Revenues Under Expenditures</i>	<u>(3,613,591)</u>	<u>(59,927)</u>	<u>(3,673,518)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Other financing sources - proceeds from bond issuance	3,692,074	522,926	4,215,000
Other financing uses - bond discount	(69,327)	-	(69,327)
	<u>9,156</u>	<u>462,999</u>	<u>472,155</u>
<i>Net Change in Fund Balance</i>			
<b>Fund Balance - January 1</b>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Fund Balance - December 31</b>	<u>\$ 9,156</u>	<u>\$ 462,999</u>	<u>\$ 472,155</u>

See accompanying notes.

**TWIN BUTTES METROPOLITAN DISTRICT NO. 2**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT  
OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
TO THE STATEMENT OF ACTIVITIES**

For the year ended December 31, 2016

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<b>Net Change in Fund Balance - Total Governmental Funds</b>		\$	472,155
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:			
Capital outlay	3,409,634		
Depreciation expense	<u>-</u>		3,409,634
Proceeds from the issuance of bonds are recognized as other financing sources in the fund statements, but are reported as a liability in the Statement of Net Position.			
			(4,145,673)
Accrued interest on debt obligations is not reported in the governmental funds but reported as an expenditure when due in the Statement of Net Position.			
			(21,514)
Amortization of bond discount is recorded in the Statement of Activities, but not on the governmental funds.			
			(181)
<b>Change in Net Position of Governmental Activities</b>		<u>\$</u>	<u>(285,579)</u>

See accompanying notes.

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**Notes to Basic Financial Statements**

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## TWIN BUTTES METROPOLITAN DISTRICT NO. 2

### NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2016

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#### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Twin Buttes Metropolitan District No. 2 (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 more 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 had no financial activity prior to 2016. Its purpose is to issue and service the bond financing and assess property taxes to assist with the financing of the Development. Twin Buttes Metropolitan District No. 1 (District No. 1) 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 8). Twin Buttes Metropolitan District Nos. 3-4 (District No. 3 and District No. 4) will collect property taxes, which are pledged for the repayment of the bond, and will contain the residential and commercial property of the Development. 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 the statement of activities to report information on all of the nonfiduciary 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) Permit and fee charges on real estate transactions, 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 are reported instead as *general revenues*. Beginning in 2017, the District will receive intergovernmental revenue from District No.3 and District No. 4 in the form of property taxes that are pledged for the repayment of the bond. 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, deferred inflows of resources, 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 and current liabilities. 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, 2016, the District has two funds, the General Fund, which is the District's primary operating fund that accounts for all financial resources of the District, except those required to be accounted for in another fund; and the Debt Service Fund, which is the fund that accounts for principal and interest payments on outstanding bonds of the District. Both funds are considered major funds.

Separate financial statements are provided for governmental funds.

### **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 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 property taxes, interest revenue 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 include principal and interest on general long-term debt which is recognized when due, and compensated absences which are 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.

### **Restricted Investments**

Certain debt proceeds of the District's Debt Service Fund were invested and are classified as restricted on the balance sheet because their use is limited by applicable bond covenants and they are maintained in separate accounts (see Note 7). Investments consist of money market funds invested in external investment pools and are presented at fair value determined from quoted market prices. The investment pools are similar to money market funds, with each share valued at \$1.

As of and for the year ended December 31, 2016 the District implemented GASB Statement No. 72, *Fair Value Measurement and Application*. GASB 72 establishes new requirements on how fair value should be measured, which assets and liabilities should be measured at fair value, and what information about fair

value should be disclosed in the notes to the financial statements (see Note 5). As of December 31, 2016, all of the District's investments were in money market funds which are valued using Level 1 inputs since the quoted prices are in active markets with identical assets.

### **Property Taxes**

Property taxes for the current year are levied in December of the previous year and attach as a lien on property the following January 1. They are payable in full by April 30 or in two equal installments due February 28 and June 15. Property taxes for 2016 are reported as a receivable and deferred inflow of resources at December 31. The deferred taxes are reported as revenue in the year in which the lien attaches and they are available and collectible.

### **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. Construction in process is not depreciated.

### **Long-term Debt**

In the government-wide financial statements, long-term debt is reported as a liability in the statement of net position. Bond issuance discounts are deferred and amortized over the life of the related debt using the straight-line method. Bond obligations payable are reported net of the applicable bond discount. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as program expenses.

### **Intergovernmental Payables**

As described earlier, the District was established to issue and service bonds and to collect property taxes to assist with general operations of the Development. Intergovernmental payables arise from inter-district transactions with Twin Buttes Metropolitan No. 1, and are recorded by all funds affected in the period in which the transactions are executed. Intergovernmental payables as of December 31, 2016 represent operating costs incurred by Twin Buttes Metropolitan District No. 1 on behalf of the District outside of those operating costs described in Note 8.

### **Deferred Inflows of Resources**

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position* (GASB 63), defines the five elements that make up a statement of financial position to include:

- Assets – resources with a present service capacity under District control
- Deferred Outflows of Resources – consumption of net assets by the District that is applicable to a future reporting period. The District had no deferred outflows of resources as of December 31, 2016.
- Liabilities – present obligations to sacrifice resources
- Deferred Inflows of Resources – acquisitions of net assets by the District that is applicable to a future reporting period
- Net Position – residual of all other elements presented in a statement of financial position

### **Net Position**

Net position represents the difference between assets, liabilities, and deferred inflows of resources. 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:

- **Nonspendable:** 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. The District did not have any nonspendable resources as of December 31, 2016.
- **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 State Statute. The District has classified the amount restricted for payment of debt service as being restricted because their use is restricted by the financial institution with which the District has a revenue bond.
- **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, 2016.
- **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. The District did not have any assigned resources as of December 31, 2016.
- **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.

### **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 balances* 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 the Taxpayer’s Bill of Rights (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, 2016, none 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 2016 budget. The District expended \$3,623,385 more than was budgeted in the General Fund in 2016. This may be a violation of state budget law. The District expended less than was appropriated during 2016 in the Debt Service 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 AND INVESTMENTS**

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 depositories as a group with a market value at least equal to 102% of the uninsured deposits. The Colorado Division of Banking for banks, 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, 2016, 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	\$ 32,306	\$ 32,306
Money market account	446,688	446,688
	<u>\$ 478,994</u>	<u>\$ 478,994</u>

At December 31, 2016, the cash balance of \$32,306 and \$250,000 of the money market balance was covered by depositor’s insurance. The remaining money market balance of \$196,688 was collateralized under PDPA requirements.

Custodial Credit Risk – Deposits and Investments

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 the FDIC or are collateralized under PDPA.

Colorado statutes specify investment instruments meeting defined rating and risk criteria in which local government entities may invest including: obligations of the United States and certain U.S. government agency securities; certain international agency securities; general obligation and revenue bonds of U.S. local government entities; bankers’ acceptances of certain banks; commercial paper; local government investment pools, written repurchase agreements collateralized by certain authorized securities; certain money market funds; and guaranteed investment contracts. The District has no investment policy that would further limit its investment choices.

At December 31, 2016 the District had funds in a local government investment pool called COLOTRUST. COLOTRUST is an investment vehicle established for local government entities in Colorado to pool surplus funds for investment purposes. COLOTRUST is routinely monitored by the Colorado Division of Securities with regard to its operations and investments, which are also subject to provisions of C.R.S. Title 24, Article 75, Section 6. The fair value of the investments in COLOTRUST is the same as the value of the pool shares.

COLOTRUST operates similarly to a money market fund and each share is equal in value to \$1.00. Investments include U.S. Treasury and Agency securities, the highest rated commercial paper and repurchase agreements collateralized by U.S. Treasury and Agency securities. COLOTRUST I is rated AAAm by Standard and Poor’s. Financial statements for COLOTRUST may be obtained on their website at [www.colotruster.com](http://www.colotruster.com). COLOTRUST is not exposed to custodial credit risk because its existence is not evidenced by securities that exist in physical or book entry form.

Description	Credit Quality Rating	Maturity	Fair Value
COLOTRUST Plus+	AAAm	N/A	\$ 446,688

Interest Rate Risk – Investments

Colorado revised statutes limit investment maturities to five years or less unless formally approved by the Board. The Board has not adopted an investment policy that allows investment maturities greater than five years.

Concentrations of Credit Risk – Deposits and Investments

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. The District holds 100% of its investments in the public entity investment pool.

**NOTE 6 - CAPITAL ASSETS**

Capital assets activity for the year ended December 31, 2016 was as follows:

	Balance December 31, 2015	Increases	Decreases	Balance December 31, 2016
Non-depreciable capital assets				
Construction in process - infrastructure	\$ -	\$ 3,409,634	\$ -	\$ 3,409,634
<i>Total non-depreciable capital assets</i>	<u>\$ -</u>	<u>\$ 3,409,634</u>	<u>\$ -</u>	<u>\$ 3,409,634</u>

**NOTE 7 - LONG-TERM LIABILITIES**

**Revenue Bond Obligation**

In August 2016 the District issued Tax Supported Revenue Bonds Series 2016A (Series 2016A) for \$4,215,000. Principal is payable annually on December 1 beginning on December 1, 2019 and annually thereafter maturing on December 1, 2048. Interest is charged at a rate of 6.125% and is payable semiannually beginning December 1, 2016 and semi-annually thereafter maturing on December 1, 2048. Additionally, the total proceeds received by the District were net of a bond issue discount of \$69,327. The discount is amortized over the life of Series 2016A. As required by GASB No. 65, bond issuance costs of \$213,113 were expensed in the current year. All of the taxable property in the District is subject to the levy of an ad valorem tax to pay the principal of and interest on Series 2016A without limitation as to rate and in an amount sufficient to pay Series 2016A when due. Property taxes assessed in Twin Buttes Metropolitan District Nos. 3-4 is also pledged for debt service.

The net proceeds were used to reimburse Twin Buttes of Durango, LLC (the Developer) for the costs of infrastructure construction in process as part of the ongoing construction of the Development. Net bond proceeds of \$3,622,747 were deposited in the General Fund to finance the capital outlay related to the infrastructure construction in process. The remaining bond proceeds of \$522,926 were deposited in the Debt Service Fund. At year end, the District had \$462,999 in fund balance restricted for debt service on Series 2016A.

The Series 2016A requires compliance with specified covenants and obligations such as a mandatory sinking fund redemption prior to the maturity date of the bonds, in part, by lot, upon payment of par and accrued interest, without redemption premium, on December 1 in the years and principal amounts set forth below. Since the first principal payment is not due until 2019, the sinking fund will not be established until then. In addition, the District established a Reserve Fund money market investment account as required by the agreement to hold a minimum balance of \$314,288 to pay any deficiency that exists in the bond fund and future obligations. The District also established a Capitalized Interest money market investment account, as required by the agreement, to hold funds sufficient to pay the first two interest payments. The Capitalized Interest account will not be required after the second interest payment is made on June 1, 2017. See Note 5 for disclosure of investment accounts.

The minimum future obligations on Series 2016A are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ -	\$ 258,169	\$ 258,169
2018	-	258,169	258,169
2019	35,000	258,169	293,169
2020	50,000	256,025	306,025
2021	60,000	252,963	312,963
2022 and thereafter	4,070,000	4,349,977	8,419,977
<i>Total minimum future obligations payments</i>	<u>\$ 4,215,000</u>	<u>\$ 5,633,472</u>	<u>\$ 9,848,472</u>

Changes in long-term liabilities:

	<u>Balance December 31, 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance December 31, 2016</u>	<u>Due Within One Year</u>
Series 2016A	\$ -	\$ 4,215,000	\$ -	\$ 4,215,000	\$ -
Original issue discount, net	-	(69,327)	181	(69,146)	2,166
<i>Long-term debt</i>	<u>\$ -</u>	<u>\$ 4,145,673</u>	<u>\$ 181</u>	<u>\$ 4,145,854</u>	<u>\$ 2,166</u>

Interest expense of \$105,600 on long-term debt has been included in the direct expenses of individual functions on the government-wide statement of activities. Authorization for general long-term debt is specific to a particular purpose; thus, an objective connection can be made to a specific program. All interest on long-term debt is reported as a direct expense of the program for which borrowing is related.

#### **NOTE 8 - INTERGOVERNMENTAL AGREEMENT**

Effective January 1, 2013, the District and District No. 1 entered into an intergovernmental financing agreement for the purpose of jointly financing the costs of any public improvements, facilities, systems, programs, or projects which the District may provide, or for the purpose of providing for the operations and maintenance of the District and its facilities and properties. According to this agreement, certain administrative costs directly associated with the District are considered obligations of District No. 1. As property tax revenues and other fees are received by the District, an inter-governmental expense is recognized to transfer the revenue to District No. 1 to assist in the payment of these costs. Future transfers of tax revenue may be in excess of actual costs paid by District No. 1 on behalf of the District. For the year ended December 31, 2016, activities of District Nos. 1-4 were as follows:

	<u>District No. 1</u>	<u>District No. 2</u>	<u>District No. 3</u>	<u>District No. 4</u>	<u>Total</u>
Program expenses	\$ (370,900)	\$ (343,932)	\$ -	\$ -	\$ (714,832)
Program revenues	111,068	24,096	-	-	135,164
General revenues	235,044	34,257	-	-	269,301
<i>Change in net position</i>	<u>\$ (24,788)</u>	<u>\$ (285,579)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (310,367)</u>

#### **NOTE 9 - RELATED PARTIES**

As described in Note 1, the District's Board is composed of substantially the same members as the Board of District Nos. 1, 3, & 4. In addition, the president of the Developer sits on the District's Board.

The contract accountants for the District also provide accounting services to the Developer.

**NOTE 10 - 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 commercial insurance purchased from independent third parties. Settled claims have not exceeded this commercial coverage in the past year.

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**Required Supplemental Information**

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**TWIN BUTTES METROPOLITAN DISTRICT NO. 2**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –**  
**BUDGET AND ACTUAL – GENERAL FUND**

For the year ended December 31, 2016

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<b>Favorable (Unfavorable) Variance</b>
<b>REVENUES</b>				
Taxes:				
Property taxes	\$ 8,913	\$ 8,913	\$ 8,912	\$ (1)
Specific ownership taxes	-	-	699	699
Permits and fees	30,000	22,500	24,096	1,596
<i>Total Revenues</i>	<u>38,913</u>	<u>31,413</u>	<u>33,707</u>	<u>2,294</u>
<b>EXPENDITURES</b>				
General and administrative	300	267	267	-
Intergovernmental	38,613	23,646	24,284	(638)
Capital outlay	-	-	3,409,634	(3,409,634)
Debt service				
Bond issuance costs	-	-	213,113	(213,113)
<i>Total Expenditures</i>	<u>38,913</u>	<u>23,913</u>	<u>3,647,298</u>	<u>(3,623,385)</u>
<i>Excess (Deficiency) of Revenues Over (Under) Expenditures</i>	-	7,500	(3,613,591)	(3,621,091)
<b>OTHER FINANCING SOURCES (USES)</b>				
Other financing sources - proceeds from bond issuance	-	-	3,692,074	3,692,074
Other financing uses - bond discount	-	-	(69,327)	(69,327)
<i>Net Change in Fund Balance</i>	<u>\$ -</u>	<u>\$ 7,500</u>	<u>9,156</u>	<u>\$ 1,656</u>
<b>Fund Balance - January 1</b>			<u>-</u>	
<b>Fund Balance - December 31</b>			<u>\$ 9,156</u>	

See accompanying notes and independent auditor's report.

**TWIN BUTTES METROPOLITAN DISTRICT NO. 2**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –**  
**BUDGET AND ACTUAL – DEBT SERVICE FUND**

For the year ended December 31, 2016

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Favorable (Unfavorable) Variance</b>
<b>REVENUES</b>				
Taxes				
Property taxes	\$ 22,282	\$ 22,282	\$ 22,282	\$ -
Specific ownership taxes	-	-	1,747	1,747
Earnings on deposits and investments	-	-	617	617
<i>Total Revenues</i>	<u>22,282</u>	<u>22,282</u>	<u>24,646</u>	<u>2,364</u>
<b>EXPENDITURES</b>				
General and administrative	668	668	668	-
Debt service				
Interest	-	83,905	83,905	-
Bond issuance costs	-	208,762	-	208,762
<i>Total Expenditures</i>	<u>668</u>	<u>293,335</u>	<u>84,573</u>	<u>208,762</u>
<i>Excess (Deficiency) of Revenues Over (Under) Expenditures</i>	21,614	(271,053)	(59,927)	211,126
<b>OTHER FINANCING SOURCES (USES)</b>				
Other financing sources - proceeds from bond issuance	-	4,215,000	522,926	(3,692,074)
Other financing uses - bond discount	-	(69,327)	-	69,327
Transfers to Twin Buttes Metropolitan District No. 1	-	(3,409,634)	-	3,409,634
<i>Net Change in Fund Balance</i>	<u>\$ 21,614</u>	<u>\$ 464,986</u>	<u>462,999</u>	<u>\$ (1,987)</u>
<b>Fund Balance - January 1</b>			<u>-</u>	
<b>Fund Balance - December 31</b>			<u>\$ 462,999</u>	

See accompanying notes and independent auditor's report.