

TWIN BUTTES METROPOLITAN DISTRICT NO. 2

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT

December 31, 2017



DALBY, WENDLAND & CO., P.C.
CPAs and Business Advisors

TWIN BUTTES METROPOLITAN DISTRICT NO. 2

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Independent Auditor's Report



DALBY, WENDLAND & CO., P.C.

Grand Junction

CPAs and Business Advisors

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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, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our 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, 2017, 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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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 7, 2018

Management's Discussion and Analysis

TWIN BUTTES METROPOLITAN DISTRICT NO. 2

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended December 31, 2017

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, 2017, with comparative information for the year ended December 31, 2016. 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

- The District General Fund 2017 revenues grew over \$135,000 (over 400%) primarily as a result of a significant jump in assessed valuation and property sales. The jump in assessed valuation is attributable to La Plata County recognizing the value of certain infrastructure investment made by the developer in Filing 1A. Property sales are attributable in 2017 because it is the first full year of sales for the developer. Over \$3.1 million of property sales occurred in 2017, more than tripling the volume which occurred in 2016. 2017 property sales activity produced approximately \$29,000 in real estate transfer fees and \$48,000 in development fees. Net of certain minimal fund operating costs these revenues were transferred either directly into District No. 1's General Fund or indirectly through the District's Debt Service fund.
- In the government-wide financial statements, the District's assets were exceeded by its liabilities and deferred inflows by \$395,488 at December 31, 2017. In addition, the District's revenues were \$109,909 lower than expenses for the year ended December 31, 2017.
- 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 no ending fund balance at December 31, 2017. The General Fund reported an ending fund balance of \$9,156 at December 31, 2016, of which \$7,456 was unassigned.
- The Debt Service Fund reported an ending fund balance of \$364,412 at December 31, 2017, the full amount of which is restricted for debt service. 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.
- There were no additions to capital assets or noncurrent liabilities during the year ended December 31, 2017.
- 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 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:

	2017	2016
Assets		
Current and other assets	\$ 522,202	\$ 647,181
Capital assets, net	3,409,634	3,409,634
Total Assets	3,931,836	4,056,815
Liabilities		
Current liabilities	35,506	28,564
Noncurrent liabilities	4,148,020	4,145,854
Total Liabilities	4,183,526	4,174,418
Deferred Inflows of Resources		
Property tax revenue	143,798	167,976
Total Deferred Inflows of Resources	143,798	167,976
Net Position		
Restricted	369,312	464,699
Unrestricted	(764,800)	(750,278)
Total Net Position	\$ (395,488)	\$ (285,579)

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

	2017	2016
Revenues		
Program revenues:		
Permits and fees	\$ 76,548	\$ 24,096
General revenues:		
Taxes	184,900	33,640
Developer subsidy	3,500	-
Intergovernmental	112,978	-
Earnings on deposits and investments	2,650	617
Total Revenues	380,576	58,353
Expenses		
Treasurer fee	5,036	935
Bond trustee fee	3,500	-
Intergovernmental	221,614	24,284
Interest	260,335	105,600
Bond issuance costs	-	213,113
Total Expenses	490,485	343,932
Change in Net Position	(109,909)	(285,579)
Net position – January 1	(285,579)	-
Net position – December 31	\$ (395,488)	\$ (285,579)

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 \$0 as of December 31, 2017, of which \$4,900 is restricted for

emergencies. The negative unassigned portion of the fund balance in the amount of \$4,900 is available for general spending. The Debt Service Fund had a fund balance of \$364,412 as of December 31, 2017, the entire amount of which is restricted for debt service.

Budgetary Highlights

General Fund

Depending on how much certain development revenues vary, the annual budget might be amended when there is opportunity to do so. This opportunity presents itself when the District board convenes regarding other financial matters. Real estate transfer and development fees, which are variable by nature, ran short of original budget projections in 2017. Accordingly, the budget was amended primarily to reflect this drop. Certain surpluses stemming from these revenues were to be accumulated as unreserved fund balance. Given the drop, ending fund reserves did not accumulate. However, the fund did produce a surplus of over \$175,000 from O&M property taxes, development fees and real estate transfer fees, allowing the District No. 1 General Fund reserves to grow correspondingly.

Debt Service Fund

Combining restricted fund reserves remaining from the 2016 bond issuance with current year revenues, the annual debt service requirements of \$258,000 were met with minimal developer subsidy.

Economic Factors and Next Year's Budget

A drop in the assessed value in 2017 and growing bonded debt interest cost will trigger a developer subsidy. The subsidy will last until additional platted inventory (and corresponding assessed valuation) is realized or the County Assessor provides more accurate appraisal values for the current platted inventory. Filing 1B is expected to be platted in 2018 which will work towards growing out the District's assessed valuation which should lead to reducing future developer subsidies.

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.

Basic Financial Statements

Government-wide Financial Statements

TWIN BUTTES METROPOLITAN DISTRICT NO. 2

STATEMENT OF NET POSITION

December 31, 2017

ASSETS	
Cash	\$ 60,427
Property taxes receivable	143,798
Capital assets:	
Construction in process - infrastructure	3,409,634
Restricted investments	317,977
	<u>3,931,836</u>
	<i>Total Assets</i>
	<u>3,931,836</u>
LIABILITIES	
Accrued interest payable	21,514
Intergovernmental payables	13,992
Noncurrent liabilities, net of discount:	
Due after one year	4,148,020
	<u>4,183,526</u>
	<i>Total Liabilities</i>
	<u>4,183,526</u>
DEFERRED INFLOWS OF RESOURCES	
Property tax revenue	143,798
	<u>143,798</u>
	<i>Total Deferred Inflows of Resources</i>
	<u>143,798</u>
NET POSITION	
Restricted for:	
Debt service	364,412
Emergency reserve	4,900
Unrestricted	(764,800)
	<u>(395,488)</u>
	<i>Total Net Position</i>
	<u>\$ (395,488)</u>

See accompanying notes.

TWIN BUTTES METROPOLITAN DISTRICT NO. 2

STATEMENT OF ACTIVITIES

For the year ended December 31, 2017

GOVERNMENTAL ACTIVITIES:

PROGRAM EXPENSES

Treasurer's fees	\$	5,036
Bond trustee fee		3,500
Intergovernmental		221,614
Interest		260,335
		<u>490,485</u>

Total Program Expenses

PROGRAM REVENUES

Permits and fees		76,548
------------------	--	--------

Net Program Expenses

GENERAL REVENUES

Taxes:		
Property taxes		167,976
Specific ownership taxes		16,924
Developer subsidy		3,500
Intergovernmental		112,978
Earnings on deposits and investments		2,650

Total General Revenues

Change in Net Position

Net Position - January 1		<u>(285,579)</u>
Net Position - December 31	\$	<u><u>(395,488)</u></u>

See accompanying notes.

Fund Financial Statements

TWIN BUTTES METROPOLITAN DISTRICT NO. 2

BALANCE SHEET – GOVERNMENTAL FUNDS

December 31, 2017

	General Fund	Debt Service Fund	Total Governmental Funds
ASSETS			
Cash	\$ -	\$ 60,427	\$ 60,427
Property taxes receivable	41,085	102,713	143,798
Restricted investments	-	317,977	317,977
<i>Total Assets</i>	<u>\$ 41,085</u>	<u>\$ 481,117</u>	<u>\$ 522,202</u>
LIABILITIES			
Intergovernmental payables	\$ -	\$ 13,992	\$ 13,992
<i>Total Liabilities</i>	<u>-</u>	<u>13,992</u>	<u>13,992</u>
DEFERRED INFLOWS OF RESOURCES			
Property tax revenue	41,085	102,713	143,798
<i>Total Deferred Inflows of Resources</i>	<u>41,085</u>	<u>102,713</u>	<u>143,798</u>
FUND BALANCE			
Restricted for:			
Debt service	-	364,412	364,412
Emergency reserve	4,900	-	4,900
Unassigned	(4,900)	-	(4,900)
<i>Total Fund Balance</i>	<u>-</u>	<u>364,412</u>	<u>364,412</u>
<i>Total Liabilities, Deferred Inflows of Resources and Fund Balance</i>	<u>\$ 41,085</u>	<u>\$ 481,117</u>	<u>\$ 522,202</u>

See accompanying notes.

TWIN BUTTES METROPOLITAN DISTRICT NO. 2

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

December 31, 2017

Total Fund Balance - Governmental Funds		\$	364,412
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.			66,980
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)
Total Net Position - Governmental Activities		\$	<u><u>(395,488)</u></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, 2017

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
REVENUES			
Taxes:			
Property taxes	\$ 83,988	\$ 83,988	\$ 167,976
Specific ownership taxes	8,409	8,515	16,924
Permits and fees	76,548	-	76,548
Developer subsidy	-	3,500	3,500
Intergovernmental	-	112,978	112,978
Earnings on deposits and investments	-	2,650	2,650
	<u>168,945</u>	<u>211,631</u>	<u>380,576</u>
<i>Total Revenues</i>			
EXPENDITURES			
Treasurer's fees	2,519	2,517	5,036
Bond trustee fee	-	3,500	3,500
Intergovernmental	175,582	46,032	221,614
Debt service			
Interest	-	258,169	258,169
	<u>178,101</u>	<u>310,218</u>	<u>488,319</u>
<i>Total Expenditures</i>			
<i>Deficiency of Revenues Under Expenditures</i>	<u>(9,156)</u>	<u>(98,587)</u>	<u>(107,743)</u>
<i>Net Change in Fund Balance</i>	<u>(9,156)</u>	<u>(98,587)</u>	<u>(107,743)</u>
Fund Balance - January 1	<u>9,156</u>	<u>462,999</u>	<u>472,155</u>
Fund Balance - December 31	<u><u>\$ -</u></u>	<u><u>\$ 364,412</u></u>	<u><u>\$ 364,412</u></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, 2017

Net Change in Fund Balance - Total Governmental Funds	\$ (107,743)
Amortization of bond discount is recorded in the Statement of Activities, but not on the governmental funds.	(2,166)
Change in Net Position of Governmental Activities	<u><u>\$ (109,909)</u></u>

See accompanying notes.

Notes to Basic Financial Statements

TWIN BUTTES METROPOLITAN DISTRICT NO. 2

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2017

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. 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) collect property taxes, a portion of which are pledged for the repayment of the bond, and will contain the residential and commercial property of the Development. District No. 4 is also 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 the 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) 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*. The District receives 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, 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, 2017, 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, liabilities, deferred inflows of resources, 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). The investment pools are established for local governments in Colorado to pool surplus funds (COLOTRUST). These pools are regulated by the Colorado Securities Commissioner. These pools operate similar to money market funds, with each share valued at \$1.

As of December 31, 2017, all of the District's investments were in COLOTRUST 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 on January 1. They are payable in full by April 30 or in two equal installments due February 28 and June 15. Property taxes levied in 2017 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.

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 District Nos. 1, 3, and 4, and are recorded by all funds affected in the period in which the transactions are executed. Intergovernmental payables as of December 31, 2017 represent operating costs incurred by District No. 1 and District No. 4 that the District is required to reimburse.

Noncurrent Liabilities

In the government-wide financial statements, noncurrent liabilities represent bond obligations and are reported as liabilities in the statement of net position. Bond issuance discounts are deferred and amortized over the life of the related bonds 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 in the year incurred.

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 position by the District that is applicable to a future reporting period. The District had no deferred outflows of resources as of December 31, 2017
- Liabilities – present obligations to sacrifice resources
- Deferred Inflows of Resources – acquisitions of net position 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:

- 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. The District did not have any non-spendable resources as of December 31, 2017.
- 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, 2017.
- 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, 2017.
- 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 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.

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 2017 budget. The District expended \$8,469 more than was budgeted in the General Fund in 2017 due to the fact that fees and taxes collected were higher than budget and therefore intergovernmental transfers to District No. 1 were higher than budgeted. This may be a violation of state budget law. The District expended \$3,218 more than was appropriated during 2017 in the Debt Service Fund due to a clerical error on the budget resolution related to interest expense. This may be a violation of state budget law.
- 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 depositors 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, 2017, 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	\$ 59,640	\$ 60,427
COLOTRUST accounts	317,977	317,977
	<u>\$ 377,617</u>	<u>\$ 378,404</u>

At December 31, 2017, \$309,640 was covered by the depositor's insurance. The remaining balance of \$67,977 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, 2017 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 is rated AAAM by Standard and Poor's. Financial statements for COLOTRUST may be obtained on their website at www.colotrust.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.

<u>Description</u>	<u>Credit Quality Rating</u>	<u>Maturity</u>		<u>Fair Value</u>
COLOTRUST Prime	AAAm	N/A	\$	317,977

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, 2017 was as follows:

	Balance December 31, 2016	Increases	Decreases	Balance December 31, 2017
Non-depreciable capital assets				
Construction in process - infrastructure	\$ 3,409,634	\$ -	\$ -	\$ 3,409,634
<i>Total non-depreciable capital assets</i>	<u>\$ 3,409,634</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,409,634</u>

NOTE 7 - NONCURRENT 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 semiannually 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. 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 are also pledged for debt service. At year end, the District had \$364,412 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 is not required after the second interest payment was 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>
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	65,000	249,288	314,288
2023-2027	375,000	1,183,656	1,558,656
2028-2032	505,000	1,053,500	1,558,500
2033-2037	685,000	878,325	1,563,325
2038-2042	915,000	642,207	1,557,207
2043-2047	1,230,000	324,932	1,554,932
2048	295,000	18,069	313,069
<i>Total minimum future obligations payments</i>	<u>\$ 4,215,000</u>	<u>\$ 5,375,303</u>	<u>\$ 9,590,303</u>

Changes in noncurrent liabilities for the year ended December 31, 2017 were as follows:

	Balance December 31, 2016	Additions	Reductions	Balance December 31, 2017	Due Within One Year
Series 2016A	\$ 4,215,000	\$ -	\$ -	\$ 4,215,000	\$ -
Original issue discount, net	(69,146)	-	2,166	(66,980)	2,166
<i>Long-term debt</i>	<u>\$ 4,145,854</u>	<u>\$ -</u>	<u>\$ 2,166</u>	<u>\$ 4,148,020</u>	<u>\$ 2,166</u>

Interest expense of \$258,169 on noncurrent liabilities has been included in the direct expenses of individual functions on the government-wide statement of activities. Authorization for general noncurrent liabilities is specific to a particular purpose; thus, an objective connection can be made to a specific program. All interest on noncurrent liabilities 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 O&M fees are received by the District, an inter-governmental expense is recognized to transfer funds 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, 2017, activities of District Nos. 1-4 were as follows:

	District No. 1	District No. 2	District No. 3	District No. 4	Total
Program expenses	\$ (330,442)	\$ (490,485)	\$ (630)	\$ (69,595)	\$ (891,152)
Program revenues	114,416	76,548	-	-	190,964
General revenues	356,539	304,028	630	69,595	730,792
<i>Change in net position</i>	<u>\$ 140,513</u>	<u>\$ (109,909)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 30,604</u>

NOTE 9 - RELATED PARTIES

The District receives an operating subsidy from Twin Buttes of Durango, Inc. (the Developer), a related party and the developer of the Development. For the year ended December 31, 2017, the District received an operating subsidy of \$3,500 from the Developer.

As described in Note 1, the Districts' 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 Districts' Boards.

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 the District's participation in a special district-funded pool. Settled claims have not exceeded this commercial coverage in the past year.

NOTE 11 - SUBSEQUENT EVENTS

Subsequent events have been evaluated by management through June 7, 2018, which is the date the financial statements were available to be issued.

On April 5, 2018, the City of Durango formally accepted the Twin Buttes Phase 1 Filing 1A – Public Improvements Agreement for infrastructure assets recorded as construction in process on the statement of net position. As a result of this acceptance, \$2,622,590 of the \$3,409,634 balance of construction in process infrastructure was transferred to the City of Durango, resulting in a reduction in District capital assets. This transfer will result in a negative fund balance.

On June 7, 2018 the District Board authorized the issuance of \$4,500,000 tax supported subordinate bonds (Series 2018B). The bond proceeds will be used to reimburse the Developer for certain public improvements paid for by the Developer for the benefit of the residents and tax payers of District Nos. 2-4. The bonds will be issued in June 2018 as tax exempt, maturing in 2048 with an optional redemption date of June 2048.

Required Supplemental Information

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, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Favorable (Unfavorable) Variance</u>
REVENUES				
Taxes:				
Property taxes	\$ 83,988	\$ 83,988	\$ 83,988	\$ -
Specific ownership taxes	-	6,693	8,409	1,716
Permits and fees	114,000	76,548	76,548	-
<i>Total Revenues</i>	<u>197,988</u>	<u>167,229</u>	<u>168,945</u>	<u>1,716</u>
EXPENDITURES				
Treasurer's fees	2,520	2,520	2,519	1
Intergovernmental	153,468	167,112	175,582	(8,470)
<i>Total Expenditures</i>	<u>155,988</u>	<u>169,632</u>	<u>178,101</u>	<u>(8,469)</u>
<i>Excess (Deficiency) of Revenues Over (Under) Expenditures</i>	<u>42,000</u>	<u>(2,403)</u>	<u>(9,156)</u>	<u>(6,753)</u>
<i>Net Change in Fund Balance</i>	<u>\$ 42,000</u>	<u>\$ (2,403)</u>	<u>(9,156)</u>	<u>\$ (6,753)</u>
Fund Balance - January 1			9,156	
Fund Balance - December 31			<u>\$ -</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, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Favorable (Unfavorable) Variance</u>
REVENUES				
Taxes				
Property taxes	\$ 83,988	\$ 83,988	\$ 83,988	\$ -
Specific ownership taxes	-	6,800	8,515	1,715
Developer subsidy	-	3,500	3,500	-
Intergovernmental	130,507	113,478	112,978	(500)
Earnings on deposits and investments	-	2,515	2,650	135
<i>Total Revenues</i>	<u>214,495</u>	<u>210,281</u>	<u>211,631</u>	<u>1,350</u>
EXPENDITURES				
Treasurer's fees	(2,520)	2,520	2,517	3
Bond trustee fee	-	3,500	3,500	-
Intergovernmental	72,000	48,000	46,032	1,968
Debt service				
Interest	258,168	252,980	258,169	(5,189)
<i>Total Expenditures</i>	<u>327,648</u>	<u>307,000</u>	<u>310,218</u>	<u>(3,218)</u>
<i>Deficiency of Revenues Under Expenditures</i>	<u>(113,153)</u>	<u>(96,719)</u>	<u>(98,587)</u>	<u>(1,868)</u>
<i>Net Change in Fund Balance</i>	<u>\$ (113,153)</u>	<u>\$ (96,719)</u>	<u>(98,587)</u>	<u>\$ (1,868)</u>
Fund Balance - January 1			462,999	
Fund Balance - December 31			<u>\$ 364,412</u>	

See accompanying notes and independent auditor's report.