

TWIN BUTTES METROPOLITAN DISTRICT NO. 1

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT

December 31, 2019



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

TWIN BUTTES METROPOLITAN DISTRICT NO. 1

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Independent Auditor's Report



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

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities and the major fund of the Twin Buttes Metropolitan District No. 1 (the District), as of and for the year ended December 31, 2019, 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 the major fund of the District as of December 31, 2019, 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.

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 page 20, 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.

A handwritten signature in blue ink that reads "Dalby Wendland & Co. P.C." in a cursive script.

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

June 4, 2020

Management's Discussion and Analysis

TWIN BUTTES METROPOLITAN DISTRICT NO. 1

MANAGEMENT'S DISCUSSION AND ANALYSIS

As of and for the year ended December 31, 2019

As management of the Twin Buttes Metropolitan District No. 1 (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the year ended December 31, 2019 with comparative information presented for the year ended December 31, 2018. 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 net position decreased approximately \$45,000 (40%) from \$112,000 to \$67,000 primarily stemming from flat tax base.
- Net Farm results remained comparable to 2018 with an approximate \$57,000 operating deficit. This last fiscal year the Farm business model began making adjustments, shifting revenue growth towards retail and away from wholesaling activities. This is consistent with the model's goal for further reduced operating deficits.
- District general and administrative costs in 2019 (\$177,000) were lower than 2018 (\$187,000) and comparable to budget (\$189,000).
- Intergovernmental revenues (from District Nos. 2, 3 and 4) of \$136,000 were comparable to 2018 primarily due to the tax base remaining flat.

Overview of the Financial Statements

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

Government-wide Financial Statements

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

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

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

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

The government-wide financial statements can be found on pages 7 and 8.

Fund Financial Statements

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

Governmental Funds

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

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

An annual appropriated budget was adopted for the General Fund. A budgetary comparison schedule has been provided on page 20 to demonstrate compliance with the adopted budget.

Notes to Basic Financial Statements

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

The notes to the basic financial statements can be found on pages 13 through 19.

Required Supplementary Information (RSI)

The RSI presents additional information that differs from the basic financial statements in that the auditor applies certain limited procedures in reviewing the information. In this report, RSI includes the management's discussion and analysis and budgetary comparison schedule on page 20.

Government-wide Financial Analysis

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

	<u>2019</u>	<u>2018</u>
Assets		
Current and other assets	\$ 55,852	\$ 92,736
Capital assets, net	52,284	56,192
Total Assets	108,136	148,928
Liabilities		
Current liabilities	41,219	37,126
Total Liabilities	41,219	37,126
Net Position		
Net investment in capital assets	52,284	56,192
Restricted for emergency reserves	14,100	14,100
Unrestricted	533	41,510
Total Net Position	\$ 66,917	\$ 111,802

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

	<u>2019</u>	<u>2018</u>
Revenues		
Program revenues:		
Charge for services – garden sales	\$ 78,190	\$ 113,991
Permits and fees	12,750	-
General revenues:		
Developer subsidy	69,678	25,123
Intergovernmental revenue	136,472	137,967
Total Revenues	297,090	277,081
Expenses		
General and administrative	176,758	186,858
Garden expenses	141,336	163,773
Property and grounds maintenance	23,881	14,942
Total Expense	341,975	365,573
Change in Net Position	(44,885)	(88,493)
Net position – January 1	111,802	200,295
Net position – December 31	\$ 66,917	\$ 111,802

Financial Analysis of Governmental Funds

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

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

The District has one major governmental fund, the General Fund. The General Fund had a fund balance of \$14,633 as of December 31, 2019, of which \$14,100 is restricted for emergencies. The unassigned portion of the fund balance in the amount of \$533 is available for general spending. The General Fund had a fund balance of \$55,610 as of December 31, 2018, of which \$14,100 was restricted for emergencies. The assigned portion of the fund balance in the amount of \$15,000 was designated for use by the District's Board of Directors.

General Fund Budgetary Highlights

In 2018, the Developer subsidy of \$25K hit its lowest historical figure. In 2019, the Developer subsidy was \$70K. The increased subsidy is primarily attributable to the utilization of built up reserves in the prior year. Built up reserves were indirectly attributable to certain surpluses in prior years.

- Intergovernmental revenues were comparable to prior year.
- Farm Revenues decreased from prior year through a strategic revenue management shift.
- Administrative costs decreased from prior year through effective fiscal management.
- Farm operating costs have been reduced by better staffing management by the new farm director team.
- Property management costs are increasing in conjunction with buildout of community improvements.

Capital Assets

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

Economic Factors and Next Year's Budget

The District's Board will be monitoring various factors that affect the District's finances, including but not limited to the following:

- District No. 2 assessed values
- Possible changes in the Residential Assessment Rate (RAR)
- Real Estate Activity

The current outlook for property values and assessment rates are somewhat optimistic primarily due to a voter authorized clause that allows the District to adjust for downward adjustment to the RAR, as well as proper real estate valuation aspects employed by the La Plata County Assessor's office. We are optimistic the sales absorption rates and development pace will continue at an appropriate pace helping to improve and stabilize the District's tax base and provide ample development fee revenues.

Request for Information

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

Basic Financial Statements

Government-wide Financial Statements

TWIN BUTTES METROPOLITAN DISTRICT NO. 1

STATEMENT OF NET POSITION

December 31, 2019

ASSETS

Cash	\$	47,059
Accounts receivable		1,743
Intergovernmental receivables		7,050
Capital assets, net of accumulated depreciation:		
Farm assets		36,883
Vehicles		15,401
		<u>108,136</u>
		<i>Total Assets</i>

LIABILITIES

Accounts payable		35,988
Accrued expenses		5,231
		<u>41,219</u>
		<i>Total Liabilities</i>

NET POSITION

Net investment in capital assets		52,284
Restricted for emergency reserves		14,100
Unrestricted		533
		<u>66,917</u>
		<i>Total Net Position</i>
	\$	<u>66,917</u>

See accompanying notes.

TWIN BUTTES METROPOLITAN DISTRICT NO. 1

STATEMENT OF ACTIVITIES

For the year ended December 31, 2019

GOVERNMENTAL ACTIVITIES:	
PROGRAM EXPENSES	
General and administrative	\$ 176,758
Garden expenses	141,336
Property and grounds maintenance	23,881
<i>Total Program Expenses</i>	<u>341,975</u>
PROGRAM REVENUES	
Charges for services - garden sales	78,190
Permits and fees	12,750
<i>Net Program Expenses</i>	<u>251,035</u>
GENERAL REVENUES	
Developer subsidy	69,678
Intergovernmental revenue	136,472
<i>Total General Revenues</i>	<u>206,150</u>
<i>Change in Net Position</i>	(44,885)
Net Position - January 1	<u>111,802</u>
Net Position - December 31	<u><u>\$ 66,917</u></u>

See accompanying notes.

Fund Financial Statements

TWIN BUTTES METROPOLITAN DISTRICT NO. 1

BALANCE SHEET – GOVERNMENTAL FUND

December 31, 2019

ASSETS

Cash	\$	47,059
Accounts receivable		1,743
Intergovernmental receivables		7,050
		<u>7,050</u>
		<u><u>\$ 55,852</u></u>

Total Assets

LIABILITIES

Accounts payable	\$	35,988
Accrued expenses		5,231
		<u>5,231</u>
		<u><u>41,219</u></u>

Total Liabilities

FUND BALANCE

Restricted for:		
Emergency reserve		14,100
Unassigned:		
Unassigned		533
		<u>533</u>

Total Fund Balance

Total Liabilities and Fund Balance \$ 55,852

See accompanying notes.

TWIN BUTTES METROPOLITAN DISTRICT NO. 1

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO THE STATEMENT OF NET POSITION

December 31, 2019

Total Fund Balance - Governmental Fund		\$	14,633
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the Fund:			
Cost of capital assets	86,987		
Less accumulated depreciation	(34,703)		<u>52,284</u>
Total Net Position - Governmental Activities		\$	<u><u>66,917</u></u>

See accompanying notes.

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

For the year ended December 31, 2019

REVENUES

Charges for services - garden sales	\$	78,190
Permits and fees		12,750
Developer subsidy		69,678
Intergovernmental revenue		136,472
		136,472
<i>Total Revenues</i>		297,090

EXPENDITURES

General and administrative		176,758
Garden expenses		134,965
Property and grounds maintenance		23,881
Capital outlay		2,463
		2,463
<i>Total Expenditures</i>		338,067
		338,067
<i>Deficiency of Revenues Under Expenditures</i>		(40,977)
<i>Net Change in Fund Balance</i>		(40,977)

Fund Balance - January 1		55,610
Fund Balance - December 31		\$ 14,633

See accompanying notes.

TWIN BUTTES METROPOLITAN DISTRICT NO. 1

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES**

For the year ended December 31, 2019

Net Change in Fund Balance - Governmental Fund	\$ (40,977)
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Capital outlays are reported as expenditures in the Governmental Funds; however, in the Statement of Activities, the cost of capital assets is allocated over their estimated useful life as depreciation expense:

Depreciation expense	(6,371)
Capital outlay	2,463
Change in Net Position of Governmental Activities	<u><u>\$ (44,885)</u></u>

See accompanying notes.

Notes to Basic Financial Statements

TWIN BUTTES METROPOLITAN DISTRICT NO. 1

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The District's significant accounting policies are described below:

Financial Reporting Entity

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

Government-wide Financial Statements

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

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

Fund Financial Statements

The accounts of the District are organized on the basis of funds. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues,

and expenditures. Government resources are allocated to, and accounted for, in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

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

For the year ended December 31, 2019, the District has one fund, the General Fund, which is the District's primary operating fund that accounts for all financial resources of the District. The General Fund is considered a major fund.

Separate financial statements are provided for the governmental fund.

Measurement Focus and Basis of Accounting

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

The modified accrual basis of accounting is used by all governmental funds. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenues are considered available if collected within 60 days after year end. Those revenues associated with the current period susceptible to accrual are charges for services - garden sales, permits and fees, and operating subsidies from the Developer (see Notes 8 and 9). Grant revenues, if any, are recognized as they are earned. All other revenues are reported when cash is received. Expenditures are recorded when the related fund liability is incurred. Exceptions to this general rule would include capital outlay which would be recognized when incurred, principal and interest on general long-term debt which would be recognized when due, and compensated absences which would be recognized when the obligations are expected to be liquidated with available financial resources.

Use of Estimates

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

Accounts Receivable

Accounts receivable consist of amounts due from various retail customers from garden and wholesale sales. As of December 31, 2019, management believes all accounts receivable are fully collectible; therefore no allowance for doubtful accounts has been recorded.

As described above, the District is the managing district of the Development and coordinates all financing and operations of the Development. Intergovernmental receivables may arise from inter-district transactions with District Nos. 2-4, and are recorded by all funds affected in the period in which transactions are executed. Intergovernmental receivables as of December 31, 2019 represent operating

costs incurred by the District on behalf of District No. 2 that are expected to be repaid and are not related to operating expenses covered by the intergovernmental agreement described in Note 7 that would be included in the District's statement of activities.

Capital Assets

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

Net Position

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

Fund Balance Classification

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

- **Non-spendable:** This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. As of December 31, 2019, the District did not have a non-spendable fund balance.
- **Restricted:** This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. The District has classified the Taxpayer's Bill of Rights (TABOR) emergency reserves as being restricted because their use is restricted by Colorado State Statute.
- **Committed:** This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the District's Board. These amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The District did not have any committed resources as of December 31, 2019.
- **Assigned:** This classification includes amounts that are constrained by the District's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Board or through the Board delegating this responsibility to the District manager through the budgetary process. As of December 31, 2019, the District had \$15,000 of Board designated assigned resources.
- **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 balance* of the *governmental fund* and the *changes in net position of governmental activities* as reported in the government-wide statement of activities. These reconciliations detail items that require adjustment to convert from the current resources measurement and modified accrual basis for government fund statements to the economic resources measurement and full accrual basis used for government-wide statements.

NOTE 3 - TAX, SPENDING AND DEBT LIMITATIONS

Colorado voters passed an amendment to the State Constitution, Article X, Section 20, commonly known as TABOR, which has several limitations including revenue raising, spending abilities, debt limitations, and other specific requirements of state and local governments. Future spending and revenue limits are determined based on the year's 'fiscal year spending,' adjusted for allowable increases based upon information and local growth. An election was held in November 2013 and voters approved a measure to allow the District to keep and retain all revenues, including grants, in excess of the fiscal year spending limit. TABOR also requires a reserve of 3% of the District's fiscal year spending, excluding bonded debt service. TABOR is complex and subject to judicial interpretation. The District believes it is in compliance with the requirements of TABOR. As of December 31, 2019, \$14,100 of the District's governmental fund balance is classified as restricted for an emergency reserve.

NOTE 4 - BUDGETS

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

- A. Budgets are required by state law.
- B. The budget officer is required to submit a proposed budget to the Board by October 15.
- C. Public hearings are conducted by the Board to obtain taxpayer comments.
- D. Certification of the mill levies to the Board of County Commissioners and adoption of the budget and appropriations are required by December 15.
- E. Expenditures may not legally exceed appropriations at the fund level. Board approval is required for changes in the budget. The District did not amend its originally adopted 2019 budget. The District expended less than was appropriated during 2019 in the General Fund.
- F. Budget appropriations lapse at the end of each year.
- G. Budgets are adopted on the modified accrual basis of accounting.

NOTE 5 - DEPOSITS

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

At December 31, 2019, the carrying amount of the District’s deposits with maturities less than one year consisted of the following:

	<u>Bank Balance</u>	<u>Carrying Amount</u>
Cash in checking accounts	\$ 47,495	\$ 47,059

At December 31, 2019, the entire bank balance was covered by the FDIC.

Custodial Credit Risk – Deposits

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

Concentrations of Credit Risk – Deposits

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

NOTE 6 - CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2019 was as follows:

	Balance December 31, 2018	Increases	Decreases	Balance December 31, 2019
Depreciable capital assets				
Farm assets	\$ 49,605	\$ -	\$ -	\$ 49,605
Vehicles	34,919	-	-	37,382
<i>Total depreciable capital assets</i>	<u>84,524</u>	<u>2,463</u>	<u>-</u>	<u>86,987</u>
Less accumulated depreciation for:				
Farm assets	(10,218)	(2,504)	-	(12,722)
Vehicles	(18,114)	(3,867)	-	(21,981)
<i>Total accumulated depreciation</i>	<u>(28,332)</u>	<u>(6,371)</u>	<u>-</u>	<u>(34,703)</u>
<i>Total capital assets, net depreciation</i>	<u>\$ 56,192</u>	<u>\$ (3,908)</u>	<u>\$ -</u>	<u>\$ 52,284</u>

Depreciation expense of \$6,371 was charged to the garden expense function/program of the District for the year ended December 31, 2019.

NOTE 7 - INTERGOVERNMENTAL AGREEMENT

Effective January 1, 2013, the District and District Nos. 2-4 entered into intergovernmental financing agreements for the purpose of jointly financing the costs of any public improvements, facilities, systems, programs, or projects which the districts may provide, or for the purpose of providing for the operations and maintenance of the districts and their facilities and properties. According to the agreements, certain administrative costs directly associated with District Nos. 2-4 are considered obligations of the District. When property tax revenues are received by District Nos. 2-4, intergovernmental revenues and expenditures will be recognized to transfer the tax revenue to the District to assist in the payment of these costs. Future transfers of tax revenue may be in excess of actual costs paid by the District on behalf of District Nos. 2-4. For the year ended December 31, 2019, 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	\$ (341,975)	\$ (730,784)	\$ (9,433)	\$ (72,675)	\$ (1,154,867)
Program revenues	90,940	77,533	-	-	168,473
General revenues	206,150	359,076	9,433	72,675	647,334
<i>Change in net position</i>	<u>\$ (44,885)</u>	<u>\$ (294,175)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (339,060)</u>

NOTE 8 - RELATED PARTY TRANSACTIONS

The District receives operating subsidies from Twin Buttes of Durango, Inc. (the Developer), a related party and the developer of the Development (see Note 9). For the year ended December 31, 2019, the District received operating subsidies of \$69,678 from the Developer.

The Developer pays certain costs on behalf of the District. As of December 31, 2019, the Developer incurred \$29,865 of costs on behalf of the District which is included in accounts payable.

The Developer leases office space to the District for operations. For the year ended December 31, 2019, the District paid \$3,000 in lease expense to the Developer.

As described in Note 1, the Districts' Board is composed of substantially the same members as the Board of District Nos. 2-4. In addition, the president of the Developer sits on the District's Board.

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

NOTE 9 - ECONOMIC DEPENDENCY

Pursuant to the Intergovernmental Agreements referred to in Note 7, the District relies on certain revenues from District Nos. 2-4 to cover the combined operating costs of all the districts. Until such time that revenues are adequate, the District will rely on Developer subsidies stemming from the Developer Advance, Acquisition, and Reimbursement Agreement that was executed in November 2013 (see Note 8 and Note 11). This agreement obligates the Developer to subsidize revenue shortfalls of the District. Until the tax and fee revenue base grows, which will depend on various economic conditions, the District will continue to rely on Developer subsidies.

NOTE 10 - OPERATING LEASES

In addition to the related party lease discussed in Note 8, the District has lease agreements with unrelated parties for the use of land and property for the garden operations. Each of the leases contain annual cancellation provisions. Total operating lease expenses paid by the District for the year ended December 31, 2019 were \$6,870.

NOTE 11 - CONTINGENT LIABILITIES

Risk Management

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

Developer Subsidy Repayment

In November 2013, the District signed an Operating Funding Agreement (the Agreement) with the Developer. The Agreement provides for the payment of operating subsidies to the District from the Developer to pay the costs of any management, operating and administrative expenses (see Note 8). The subsidies paid by the Developer to the District prior to the date of the Agreement are considered advanced funds. The subsidies become reimbursable to the Developer from the District once revenue, which is not otherwise appropriated, obligated, pledged or reserved for any current or future purpose in any fiscal year, becomes available. The District, from such available sources and at its sole discretion, will reimburse the Developer for the subsidies, together with interest at 9% per annum. As of December 31, 2019, the District has received a total of \$1,045,666 of operating subsidies from the Developer. An accrued liability of \$1,500,850 for the repayment of the operating subsidies is not recorded by the District as of December 31, 2019, because the District had no available revenue that was not otherwise appropriated, obligated, pledged or reserved.

NOTE 12 - SUBSEQUENT EVENTS

The District has evaluated subsequent events through June 4, 2020, the date which the financial statements were available to be issued.

Subsequent to year end, the World Health Organization declared the spread of Coronavirus Disease (COVID-19) a worldwide pandemic. The COVID-19 pandemic is having significant effects on global, national, and local markets, supply chains, businesses, and communities. Specific to the District, COVID-19 may impact various parts of its 2020 operations and financial results including but not limited to potential difficulty collecting the property tax levies and decreased volume of lot sales and farm stand sales. Management believes the District is taking appropriate actions to mitigate the negative impact. However, the full impact of COVID-19 is unknown and cannot be reasonably estimated as of December 31, 2019.

Required Supplemental Information

TWIN BUTTES METROPOLITAN DISTRICT NO. 1

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

For the year ended December 31, 2019

	Original and Final Budget	Actual	Favorable (Unfavorable) Variance
REVENUES			
Charges for services	\$ 96,730	\$ 78,190	\$ (18,540)
Permits and fees	22,500	12,750	(9,750)
Developer subsidy	52,446	69,678	17,232
Intergovernmental revenue	142,264	136,472	(5,792)
<i>Total Revenues</i>	<u>313,940</u>	<u>297,090</u>	<u>(16,850)</u>
EXPENDITURES			
General and administrative	189,146	176,758	12,388
Garden expenses	147,766	134,965	12,801
Property and grounds maintenance	4,320	23,881	(19,561)
Capital outlay	3,900	2,463	1,437
Contingency	15,000	-	15,000
<i>Total Expenditures</i>	<u>360,132</u>	<u>338,067</u>	<u>22,065</u>
<i>Deficiency of Revenues Under Expenditures</i>	<u>(46,192)</u>	<u>(40,977)</u>	<u>5,215</u>
<i>Net Change in Fund Balance</i>	<u>\$ (46,192)</u>	<u>(40,977)</u>	<u>\$ 5,215</u>
Fund Balance - January 1		<u>55,610</u>	
Fund Balance - December 31		<u>\$ 14,633</u>	

See accompanying notes and independent auditor's report.