

Timnath Ranch Metropolitan District No. 4

FINANCIAL STATEMENTS AND
REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

December 31, 2022

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
Timnath Ranch Metropolitan District No. 4
Timnath, Colorado

Opinion on the Financial Statements

We have audited the financial statements of governmental activities and each major fund of the Timnath Ranch Metropolitan District No. 4 (the "District"), as of and for the year ended December 31, 2022 and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the basic 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 Timnath Ranch Metropolitan District No. 4, as of December 31, 2022, and the respective changes in financial position thereof, and the respective budgetary comparison for the general fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

Auditor's Responsibilities for the Audit of the Financial Statements - continued

In performing an audit in accordance with US GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit,
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements,
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed,
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements,
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

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

Other Matters

Supplementary Information

Our audit was conducted with the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The supplementary information on page 21 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Required Supplementary Information

The Board of Directors has omitted the Management's Discussion and Analysis information that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Logan, Thomas & Johnson, LLC

Castle Rock, Colorado
September 28, 2023

BASIC FINANCIAL STATEMENTS

Timnath Ranch Metropolitan District No. 4

GOVERNMENTAL FUNDS BALANCE SHEET/STATEMENT OF NET POSITION

December 31, 2022

| | Governmental Funds | | | Adjustments | Statement of Net Position |
|--|--------------------|---------------------|---------------------|------------------------|---------------------------------|
| | General | Debt Service | Total | | |
| ASSETS | | | | | |
| Cash and cash equivalents - restricted | \$ - | \$ 2,365,361 | \$ 2,365,361 | \$ - | \$ 2,365,361 |
| Property taxes receivable | 677 | 1,692 | 2,369 | - | 2,369 |
| Due from other districts | - | 333,031 | 333,031 | - | 333,031 |
| Due from County Treasurer | 240 | 599 | 839 | - | 839 |
| Total assets | \$ 917 | \$ 2,700,683 | \$ 2,701,600 | - | 2,701,600 |
| LIABILITIES | | | | | |
| Accrued interest payable | \$ - | \$ - | \$ - | 882,305 | 882,305 |
| Due to other districts | 240 | - | 240 | - | 240 |
| Long-term liabilities | | | | | |
| Due within one year | - | - | - | 140,000 | 140,000 |
| Due after one year | - | - | - | 13,601,000 | 13,601,000 |
| Total liabilities | 240 | - | 240 | 14,623,305 | 14,623,545 |
| DEFERRED INFLOWS OF RESOURCES | | | | | |
| Property taxes | 677 | 1,692 | 2,369 | - | 2,369 |
| FUND BALANCE/NET POSITION | | | | | |
| FUND BALANCE | | | | | |
| Restricted | 1,300 | 2,698,991 | 2,700,291 | (2,700,291) | - |
| Unassigned | (1,300) | - | (1,300) | 1,300 | - |
| Total fund balance | - | 2,698,991 | 2,698,991 | (2,698,991) | - |
| Total liabilities, deferred inflows of resources and fund balance | \$ 917 | \$ 2,700,683 | \$ 2,701,600 | | |
| NET POSITION | | | | | |
| Restricted | | | | 2,700,291 | 2,700,291 |
| Unrestricted | | | | (14,624,605) | (14,624,605) |
| Total net position | | | | \$ (11,924,314) | \$ (11,924,314) |

The accompanying notes are an integral part of these financial statements

Timnath Ranch Metropolitan District No. 4

STATEMENT OF GOVERNMENTAL FUNDS REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCES/STATEMENT OF ACTIVITIES

For the Year ended December 31, 2022

| | Governmental Funds | | | Adjustments | Statement of Activities |
|--|--------------------|-----------------|--------------|-----------------|-------------------------------|
| | General | Debt Service | Total | | |
| Expenditures/Expenses | | | | | |
| Operating | | | | | |
| Payment for services to District No. 1 | \$ 50,929 | \$ - | \$ 50,929 | \$ - | \$ 50,929 |
| Treasurer's fees | 20 | 49 | 69 | - | 69 |
| Debt service | | | | | |
| Trustee fees | - | 6,000 | 6,000 | - | 6,000 |
| Principal | - | 130,000 | 130,000 | (130,000) | - |
| Interest | - | 637,725 | 637,725 | 195,397 | 833,122 |
| Total expenditures/expenses | 50,949 | 773,774 | 824,723 | 65,397 | 890,120 |
| General revenue | | | | | |
| Property taxes | 1,071 | 2,678 | 3,749 | - | 3,749 |
| Specific ownership taxes | 3,325 | 8,313 | 11,638 | - | 11,638 |
| Intergovernmental | 46,642 | 116,605 | 163,247 | - | 163,247 |
| Service fees | - | 981,780 | 981,780 | - | 981,780 |
| Interest | (89) | 42,120 | 42,031 | - | 42,031 |
| Total general revenue | 50,949 | 1,151,496 | 1,202,445 | - | 1,202,445 |
| EXCESS OF REVENUES AND TRANSFERS IN UNDER EXPENDITURES AND TRANSFERS OUT/CHANGE IN NET POSITION | - | 377,722 | 377,722 | (65,397) | 312,325 |
| Fund balance/net position | | | | | |
| Beginning of the year | - | 2,321,269 | 2,321,269 | (14,557,908) | (12,236,639) |
| End of the year | \$ - | \$ 2,698,991 | \$ 2,698,991 | \$ (14,623,305) | \$ (11,924,314) |

The accompanying notes are an integral part of these financial statements

Timnath Ranch Metropolitan District No. 4

STATEMENT OF REVENUE, EXPENDITURES AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND

For the Year ended December 31, 2022

| | Original and Final Budget | Actual | Variance |
|---|---------------------------------|---------------|--------------|
| Revenue | | | |
| Property taxes | \$ 760 | \$ 1,071 | \$ 311 |
| Specific ownership taxes | 2,789 | 3,325 | 536 |
| Intergovernmental | 45,722 | 46,642 | 920 |
| Interest and other | 2,500 | (89) | (2,589) |
| | <u>51,771</u> | <u>50,949</u> | <u>(822)</u> |
| Total revenue | | | |
| Expenditures | | | |
| Operating | | | |
| Payment for services to District No. 1 | 49,256 | 50,929 | (1,673) |
| Treasurer's fees | 15 | 20 | (5) |
| Contingency | 2,500 | - | 2,500 |
| | <u>51,771</u> | <u>50,949</u> | <u>822</u> |
| Total expenditures | | | |
| CHANGE IN FUND BALANCE | - | - | - |
| Fund Balance | | | |
| Beginning of the year | <u>-</u> | <u>-</u> | <u>-</u> |
| End of the year | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

The accompanying notes are an integral part of these financial statements

Timnath Ranch Metropolitan District No. 4

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Timnath Ranch Metropolitan District No. 4 (the “District”) conform to the accounting principles generally accepted in the United States of America (“US GAAP”) as applicable to governmental entities. The following is a summary of the more significant policies consistently applied in the preparation of the basic financial statements of the District.

1. Reporting Entity

The District was formed, pursuant to the Colorado Special District Act, Article 1 of Title 32 of the Colorado Revised Statutes, in November 2005, as a quasi-municipal corporation and a political subdivision of the State of Colorado. The District was formed in conjunction with Timnath Ranch Metropolitan District Nos. 1 through 3 (the “Districts”). The District, along with District Nos. 2 and 3, serve as the Financing Districts with District No. 1 serving as the Service District. The District is governed by a five-member Board of Directors. The District is in the Town of Timnath, Colorado.

The Districts were formed to serve the needs of the approximately 560-acre Timnath Ranch mixed-use development being developed by Timnath Ranch, LLC (the “Developer”) currently planned to consist of 1,600 single family and multi-family homes, 33 acres of light industrial property and 60 acres of commercial property.

As required by US GAAP, these financial statements present the activities of the District, which is legally separate and financially independent of other state and local government entities. The District has no component units as defined by Governmental Accounting Standards Board (“GASB”), Statement No. 14, *The Reporting Entity* and GASB No. 39, *Determining Whether Certain Organizations are Component Units*.

2. Measurement Focus and Financial Reporting Framework

Government-wide Financial Statements

The government-wide financial statements, the Statement of Net Position and the Statement of Activities, report information on the accrual basis of accounting related to the *governmental-type activities* of the District, which rely to a significant extent on property taxes and specific ownership taxes. The Statement of Activities demonstrates the degree to which expenses of the *governmental-type activities* are supported by property tax and specific ownership taxes.

Governmental Fund Financial Statements

The governmental fund financial statements are prepared using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if the revenues are collectible within the current period or soon thereafter to pay liabilities of the current period. For that purpose, the District considers revenues to be available if they are expected to be collected within 60 days of the end of the current fiscal period.

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *continued*

2. *Measurement Focus and Financial Reporting Framework - continued*

Governmental Funds

The District maintains three individual governmental funds. The governmental funds information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and change in fund balance for the General Fund, the Debt Service Fund, and Capital Projects Fund, all of which, the District considers to be major funds. The Capital Projects Fund was inactive during 2022 and is not presented.

The *General Fund* is the District's primary operating fund. It accounts for all financial resources of the general government, except for those required to be accounted for in another fund.

The *Debt Service Fund* accounts for the resources accumulated and payments made for principal and interest on long-term liabilities of the District.

3. *Cash and Cash Equivalents*

The District considers cash and cash equivalents to include cash on hand, unrestricted demand deposits and money market accounts, as applicable.

4. *Fair Value of Financial Instruments*

The District's financial instruments include cash, various accounts receivable, accrued liabilities and deferred inflows of resources. The District estimates that the fair value of these financial instruments as of December 31, 2022 do not differ materially from the aggregate carrying values used in the accompanying financial statements. The carrying amount of these financial instruments approximates the fair value due to the short maturity of these financial instruments.

5. *Capital Assets*

The District has a capitalization policy of \$5,000. The District's Board of Directors has the option to capitalize certain items less than \$5,000 in certain circumstances. Depreciation, if applicable, is to be provided in amounts sufficient to relate the cost of depreciable capital assets to operations over the estimated useful lives of the assets.

The cost of normal maintenance and repairs that do not add to the value of, or materially extend the life of, the related capital asset, are charged to expense as incurred, if applicable.

Currently, it is the intent of the District to convey any acquired or constructed capital assets to the Town of Timnath or other local governmental entities, as applicable. As of December 31, 2022, the District had no capital assets and there were no conveyances during 2022.

Timnath Ranch Metropolitan District No. 4

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

6. *Property Taxes*

Property taxes are levied on December 15 and attach an enforceable lien on the respective property on January 1. Taxes are payable in full on or before April 30 or in two installments on February 28 and June 15. The County Treasurer collects and remits the property taxes to the District on a monthly basis.

District No. 1 in its capacity as the Service District collects all property taxes on behalf of the Districts as service fees. The portion of the District's property taxes for operations is reflected as a Payment to District No. 1 for services.

7. *Use of Estimates*

The preparation of financial statements in conformity with US GAAP involves the use of District management's estimates that may affect the reported amounts of assets and liabilities as of the date of the financial statements, and the reported amounts of revenue and expenses as applicable, during the reporting period. These estimates are based upon District management's best judgment, after considering past events and assumptions about future events. Actual results could differ from those estimates.

NOTE B – BUDGET INFORMATION

The District's annual budget is prepared on a Non-GAAP basis for the District's General Fund and Debt Service Fund. An annual appropriated budget is adopted at the total fund expenditure level and the annual appropriations lapse at the end of the District's fiscal year.

The District conforms to the following procedures, in accordance with the State of Colorado Revised Statutes, in the establishment of the budgetary information reflected in the accompanying financial statements.

On or before October 15, the District's Treasurer and/or the District's Manager submit a proposed budget for the subsequent fiscal year to the District's Board of Directors. The budget sets forth all proposed expenditures for administration, operations, maintenance, debt service, and capital projects for the budget year; all anticipated revenues for the budget year; estimated beginning and ending fund balances; actual figures for the prior fiscal year and projected figures through the end of the current year; and a written budget message describing the important features of the budget.

Following receipt of the proposed budget, the District publishes notice of the hearing at which the adoption of the proposed budget will be considered, a statement that the proposed budget is available for inspection, and that any interested elector may file objections to the proposed budget prior to its adoption. The budget hearing is held at a regular or special Board of Directors' meeting.

Following the budget hearing, the Board of Directors adopts the budget and makes appropriations for the budget year. The District also certifies a mill levy for collection in the budget year. Because the District certifies a mill levy, the adoption of the budget, appropriations and certification of the mill levy must occur on or before December 15. Expenditures in excess of the amounts appropriated for a Fund or transfer of moneys between Funds must be approved by the Board of Directors in the same manner as the adoption of the budget.

Timnath Ranch Metropolitan District No. 4

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

NOTE B – BUDGET INFORMATION – *continued*

State of Colorado Revised Statutes requires a balanced budget. For 2022, the District's Debt - Service Fund budgeted revenues exceeded budgeted expenditures by \$331,665. It was anticipated that the current year surplus would be used in subsequent years.

NOTE C – CASH AND INVESTMENTS

The Colorado Public Deposit Protection Act ("PDPA") requires that all units of local government deposit cash in eligible public depositories. State regulators determine the eligibility. Amounts on deposit in excess of the Federal Deposit Insurance Corporation ("FDIC") insurance levels must be collateralized. The eligible collateral is determined by the PDPA. The PDPA allows institutions to create a single collateral pool for all public funds. The pool is to be maintained by another institution, or held in trust for all uninsured public deposits. The market value of the collateral must be equal to 102% of the aggregate uninsured public deposits. The Colorado Division of Banking for banks and savings 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.

As of December 31, 2022, all of the District's funds were held in eligible public depositories.

NOTE D – RESTRICTED CASH

The cash and cash equivalents held in the Debt Service Fund, \$2,365,361, is reflected as restricted as of December 31, 2022.

NOTE E – LONG-TERM DEBT

Limited Tax General Obligation Refunding and Improvement Bonds, Series 2018A

In February 2018, the District issued Limited Tax General Obligation Refunding and Improvement Bonds, Series 2018A, ("Series 2018A Bonds") in the amount of \$12,030,000. The Series 2018A Bonds were issued for the purpose of funding the costs of public improvements for the Districts, paying the costs of issuance and paying and discharging a portion of the outstanding loans of District No. 2.

The Series 2018A Bonds have a final maturity of December 1, 2047, and bear interest at a rate of 5.25%, through May 31, 2038, then increasing to 5.375% through maturity, calculated based on a 360-day year of twelve 30-day months, payable to the extent Pledged Revenues, as defined in the Senior Trust Indenture, are available semiannually on each June 1 and December 1 until the Series 2018A Bonds are paid in full or are redeemed prior to maturity. Principal payments on the Series 2018A Bonds began on December 1, 2021, and are due annually thereafter.

In 2022, interest payments totaling \$637,725 were made and as of December 31, 2022, there was accrued interest payable of \$52,575 which is reflected on the Statement of Net Position.

Timnath Ranch Metropolitan District No. 4

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

NOTE E – LONG-TERM DEBT – *continued*

Limited Tax General Obligation Refunding and Improvement Bonds, Series 2018A - continued

The Series 2018A Bonds are subject to optional redemption prior to maturity at the option of the District, as a whole or in integral multiples of \$1,000, beginning on December 1, 2023, and on any date thereafter, upon payment of par, accrued interest and redemption premium equal to a percentage of the principal amount so redeemed, as follows:

| <u>Date of Redemption</u> | <u>Redemption Premium</u> |
|---------------------------------------|---------------------------|
| December 1, 2023 to November 30, 2024 | 3.00% |
| December 1, 2024 to November 30, 2025 | 2.00 |
| December 1, 2025 to November 30, 2026 | 1.00 |
| December 1, 2026 and thereafter | 0.00 |

Subordinate Limited Tax General Obligation Bonds, Series 2018B

In February 2018, the District issued a Subordinate Limited Tax General Obligation Bonds, Series 2018B, ("Series 2018B Bonds") in the amount of \$1,906,000. The Series 2018B Bonds were issued for the purpose of funding the costs of public improvements for the Districts and paying the costs of issuance.

The Series 2018B Bonds have a maturity of December 15, 2048, and shall bear interest at a rate of 7.75% calculated based on a 360-day year of twelve 30-day months, payable to the extent of Subordinate Pledged Revenues, as defined in the Subordinate Trust Indenture, are available annually on December 15 until the Series 2018B Bonds are paid in full or are redeemed prior to maturity. The Series 2018B are structured as "cash flow" bonds and as such, there are no scheduled payments of principal prior to the final maturity date. However, the Series 2018B Bonds are subject to mandatory redemption on December 15 of each year, to the extent of moneys available on deposit.

The possibility exists that there may not be sufficient Subordinate Pledged Revenues to pay the principal and interest on the Series 2018B Bonds when due. However, as long as the Subordinated Required Mill Levy is imposed the inability of the District to pay the principal and interest when due will not constitute an event of default.

Under the terms of the Subordinate Trust Indenture, in the event that any amount of principal or interest on the Series 2018B Bonds remain unpaid after the application of all Subordinate Pledged Revenue available on December 15, 2057, the Series 2018B Bonds shall be deemed discharged.

In 2022, there were insufficient moneys available and there were no interest payments made and as of December 31, 2022, there was accrued interest payable of \$829,161, which is reflected on the Statement of Net Position.

Timnath Ranch Metropolitan District No. 4

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

NOTE E – LONG-TERM DEBT – *continued*

Subordinate Limited Tax General Obligation Bonds, Series 2018B – continued

The Series 2018B Bonds are subject to optional redemption prior to maturity at the option of the District as a whole or in integral multiples of \$1,000, beginning on December 15, 2023, and on any date thereafter, upon payment of par, accrued interest and redemption premium equal to a percentage of the principal amount so redeemed, as follows:

| <u>Date of Redemption</u> | <u>Redemption Premium</u> |
|--|---------------------------|
| December 15, 2023 to December 14, 2024 | 3.00% |
| December 15, 2024 to December 14, 2025 | 2.00 |
| December 15, 2025 to December 14, 2026 | 1.00 |
| December 15, 2026 and thereafter | 0.00 |

Changes in Long-Term Debt

The following is an analysis of the changes in the long-term debt for the year ended December 31, 2022:

| | <u>December 31, 2022</u> | <u>Additions</u> | <u>Payments</u> | <u>December 31, 2022</u> | <u>Due within One Year</u> |
|--------------------|------------------------------|-------------------|---------------------|------------------------------|--------------------------------|
| Series 2018A Bonds | \$ 11,965,000 | \$ - | \$ (130,000) | \$ 11,835,000 | \$ 140,000 |
| Series 2018B Bond | 1,906,000 | - | - | 1,906,000 | - |
| Accrued interest | <u>686,908</u> | <u>833,122</u> | <u>(637,725)</u> | <u>882,305</u> | <u>52,575</u> |
| | <u>\$ 14,557,908</u> | <u>\$ 832,553</u> | <u>\$ (767,725)</u> | <u>\$ 14,622,736</u> | <u>\$ 192,575</u> |

Future Minimum Required Principal Redemptions

The future minimum required principal redemptions for the Series 2018A Bonds as of December 31, 2022, are as follows:

| <u>Year Ended December 31</u> | |
|-------------------------------|----------------------|
| 2023 | \$ 140,000 |
| 2024 | 160,000 |
| 2025 | 170,000 |
| 2026 | 195,000 |
| 2027 | 205,000 |
| 2028-2032 | 1,345,000 |
| 2033-2037 | 1,970,000 |
| 2038-2042 | 2,795,000 |
| 2043-2047 | <u>4,855,000</u> |
| Total | <u>\$ 11,835,000</u> |

Given the “cash flow” structure of the Series 2018B Bonds, the future principal redemptions of the Series 2018B Bonds are uncertain and are not presented.

Timnath Ranch Metropolitan District No. 4

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

NOTE E – LONG-TERM DEBT – *continued*

Debt Issuance Authorization

In November 2007, the qualified electors of the District approved the issuance of indebtedness and the imposition of taxes for the repayment thereof up to \$182,000,000 at an interest rate not to exceed 15% for providing public improvements and up to \$25,000,000 at an interest rate not to exceed 15% for service plan purposes.

However, under the District's Service Plan, based upon the debt issued by the Districts, the amount of indebtedness available for issuance as of December 31, 2022 was \$0.

NOTE F – TIMNATH DEVELOPMENT AUTHORITY AGREEMENT

The Town of Timnath formed the Timnath Development Authority ("the Authority"), as an urban renewal authority. The Districts are within the boundaries of the area designated in the Urban Renewal Plan for the Town of Timnath. Pursuant to the Urban Renewal Plan, the revenue derived from the levy of property taxes against property within the boundaries of the Authority is to be divided between the tax authority and the Authority for a period of 25 years. The property tax revenue allocated to the District for the year ended December 31, 2022 in the amount \$163,248 is reflected as intergovernmental.

NOTE G – RELATED PARTIES

All the members of the Board of Directors of the District are employees, owners or are otherwise affiliated with the Developer.

NOTE H – FUND BALANCE/NET POSITION

Fund Balance

The District utilizes the fund balance presentation as required under GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Fund balances are categorized as non-spendable, restricted, committed, assigned or unassigned.

Non-spendable – represents amounts that cannot be spent because they are either in non-spendable form or legally required to remain intact,

Restricted – represents amounts with external constraints placed on the use of these resources or imposed by enabling legislation,

Committed – represents amounts that can only be used for specific purposes imposed by a formal action of the District's highest level of decision-making authority, the District's Board of Directors. Committed resources cannot be used for any other purpose unless the District's Board of Directors removes or changes the specific use by the same type of action used to commit those amounts, either by resolution or by ordinance,

Assigned – represents amounts that the District intends to use for specific purposes as expressed by the District's Board of Directors or a District official delegated the authority to assign amounts,

Unassigned – represents the residual classification for the general fund or deficit balances in other funds, as applicable.

Timnath Ranch Metropolitan District No. 4

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

NOTE H – FUND BALANCE/NET POSITION – *continued*

Amounts are considered to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) amounts are available. Unrestricted amounts are considered to have been spent when an expenditure is incurred for purposes for which amounts in any of these unrestricted fund balances classifications could be used.

As of December 31, 2022, the District's fund balance consisted of the following:

| | <u>General Fund</u> | <u>Debt Service Fund</u> | <u>Total</u> |
|--------------------|-------------------------|------------------------------|---------------------|
| Restricted | | | |
| Debt service | \$ - | \$ 2,698,991 | \$ 2,698,991 |
| Unassigned | - | - | - |
| Total fund balance | <u>\$ -</u> | <u>\$ 2,698,991</u> | <u>\$ 2,698,991</u> |

Net Position

Net Position represents the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources. The District may report three categories of net position, as follows:

Net investment in capital assets – consists of net capital assets, reduced by outstanding balances of any related debt obligations and deferred inflows of resources attributable to the acquisition, construction, or improvement of those assets and increased by balances of deferred outflows or resources related to those assets.

Restricted net position – net position is considered restricted if their use is constrained to a particular purpose. Restrictions are imposed by external organizations such as federal or state laws. Restricted net position is reduced by liabilities and deferred inflows of resources related to the restricted assets.

Unrestricted net position – consists of all other net position that does not meet the definition of the above two components and is available for general use by the District.

When an expense is incurred for purposes for which both restricted and unrestricted net position is available, the District will use the most restrictive net position first.

NOTE I – SERVICE FEES

District Nos. 1 through 4, levy and collect property taxes intended for the debt service requirements of the Series 2018A Bonds and Series 2018B Bonds, further discussed NOTE E. District Nos. 1 through 3 remit the property taxes and other available moneys to the District which are reflected as service fees. In 2022, the District received service fees totaling \$981,780.

Timnath Ranch Metropolitan District No. 4

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

NOTE J – COMMITMENTS

Intergovernmental Agreement Concerning District Operations and Outstanding Reimbursement Obligations (“District Operations Agreement”)

Under the District Operations Agreement, District No.1 is authorized to undertake certain administrative functions on behalf of the Districts, and as such, the Districts agree to fund the operating costs incurred by District No.1 from legally available funds of the Districts. Under the District Operations Agreement, District No. 4 remitted to District No. 1, \$50,929 during 2022.

District Management Agreement

The District outsources the management of the District which includes overall management, accounting and administrative services. The service contract renews annually each year on January 1, unless notice of non-renewal is provided by either party as described in the service contract.

NOTE K – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets and natural disasters. These risks are covered by commercial insurance purchased from independent insurance brokers. Settled claims have not exceeded this commercial coverage in any of the past three years.

NOTE L – TAX, SPENDING AND DEBT LIMITATIONS

Article X, Section 20 of the Colorado Constitution, commonly known as the Taxpayer’s Bill of Rights (“TABOR”), contains tax, spending and debt limitations which apply to the State of Colorado and all local governments.

TABOR requires local governments to establish emergency reserves. These reserves must be at least 3% of fiscal year spending (excluding bonded debt service). Local governments are not allowed to use the emergency reserves to compensate for economic conditions, revenue shortfalls, or salary or benefit increases.

The District’s management believes it is in compliance with the provisions of TABOR. However, TABOR is complex and subject to interpretation. Many of the provisions, including the calculation of the fiscal year spending limits may require judicial interpretation.

As of December 31, 2022, the District’s TABOR required emergency reserve is included as part of the TABOR emergency reserve reflected in District No. 1.

Timnath Ranch Metropolitan District No. 4

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

NOTE M – RECONCILIATION OF THE GOVERNMENTAL FUND AND THE GOVERNMENT-WIDE FINANCIAL STATEMENTS

The Governmental Funds Balance Sheet/Statement of Net Position includes an adjustments column which reconciles the differences between the government-wide and fund financial statements as follows:

| | | |
|--|----|------------|
| Long-term liabilities are not due and payable in the current period and, therefore, are not reflected in the governmental funds, | \$ | 13,741,000 |
|--|----|------------|

| | | |
|---|--|---------|
| Interest expense is recognized in the governmental funds as paid, therefore accrued interest payable is only recognized on the Statement of Net Position. | | 882,305 |
|---|--|---------|

The Statements of Governmental Funds Revenues, Expenditures and Changes in Fund Balance/Statement of Net Activities includes an adjustment column which reconciles the differences between the government-wide and fund financial statements as follows:

| | | |
|---|----|---------|
| Interest is recognized in the governmental funds as paid. For the Statement of Activities interest expense is recognized as incurred. This is the difference between the amount of interest paid and the amount of interest expense incurred. | \$ | 195,397 |
|---|----|---------|

| | | |
|--|--|---------|
| Principal payments on the Series 2018A Bonds are reflected as expenditures in the Debt Service Fund; however principal payments are reflected as reduction of the Series 2018A Bonds on the Statement of Net Assets. | | 130,000 |
|--|--|---------|

NOTE N – MANAGEMENT’S EVALUATION OF SUBSEQUENT EVENTS

The preparation of the District’s financial statements and accompanying footnotes in conformity with generally accepted accounting principles requires management of the District to evaluate transactions and events subsequent to the balance sheet date involving the District. Management has evaluated the subsequent transactions and events of the District through September 28, 2023, which is the date the financial statements and accompanying notes were available for issuance.

SUPPLEMENTARY INFORMATION

Timnath Ranch Metropolitan District No. 4

SCHEDULE OF REVENUE, EXPENDITURES AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL - DEBT SERVICE FUND

For the Year ended December 31, 2022

| | Original and Final Budget | Actual | Variance |
|-------------------------------|---------------------------------|---------------------|-------------------|
| Revenue | | | |
| Property taxes | \$ 1,900 | \$ 2,678 | \$ 778 |
| Specific ownership taxes | 6,972 | 8,313 | 1,341 |
| Intergovernmental | 114,306 | 116,605 | 2,299 |
| Service fees | 984,537 | 981,780 | (2,757) |
| Interest and other | 5,000 | 42,120 | 37,120 |
| | <u>1,112,715</u> | <u>1,151,496</u> | <u>38,781</u> |
| Total revenue | | | |
| Expenditures | | | |
| Operating | | | |
| Treasurer's fees | 2,324 | 49 | 2,275 |
| Contingency | 5,000 | - | 5,000 |
| Debt service | | | |
| Trustee fees | 6,000 | 6,000 | - |
| Principal | 130,000 | 130,000 | - |
| Interest | 637,726 | 637,725 | 1 |
| | <u>781,050</u> | <u>773,774</u> | <u>7,276</u> |
| Total expenditures | | | |
| CHANGE IN FUND BALANCE | 331,665 | 377,722 | 46,057 |
| Fund Balance | | | |
| Beginning of the year | <u>2,024,110</u> | <u>2,321,269</u> | <u>297,159</u> |
| End of the year | <u>\$ 2,355,775</u> | <u>\$ 2,698,991</u> | <u>\$ 343,216</u> |