

KARL'S FARM METROPOLITAN DISTRICT NO. 1

Financial Statements

Year Ended December 31, 2023

with

Independent Auditor's Report

C O N T E N T S

	<u>Page</u>
<u>Independent Auditor's Report</u>	I
<u>Basic Financial Statements</u>	
Balance Sheet/Statement of Net Position - Governmental Funds	1
Statement of Revenues, Expenditures and Changes in Fund Balances/Statement of Activities - Governmental Funds	2
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund	3
Notes to Financial Statements	4
<u>Supplemental Information</u>	
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Capital Projects Fund	14



HIRATSUKA & ASSOCIATES, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Karl's Farm Metropolitan District No. 1
Adams County, Colorado

Opinion

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District, as of December 31, 2023, and the respective changes in financial position and the budgetary comparison for the General Fund for the year then ended in accordance 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. 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 generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Management has not presented Management's Discussion and Analysis. Such missing information, although not a part of the basic financial statements, is required by GASB, 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. Our opinion on the basic financial statements is not affected by the missing information.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Supplemental Information as listed in the table of contents is presented for the purpose of additional analysis and was not a required part of the financial statements.

The Supplemental Information is the responsibility of management and is derived from and related directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Hiratsuka & Associates, LLP

April 25, 2025
Wheat Ridge, Colorado

Karl's Farm Metropolitan District No. 1

BALANCE SHEET/STATEMENT OF NET POSITION GOVERNMENTAL FUNDS December 31, 2023

	<u>General</u>	<u>Capital Projects</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
ASSETS					
Cash and investments	\$ 8,521	\$ -	\$ 8,521	\$ -	\$ 8,521
Cash and investments - restricted	2,958	-	2,958	-	2,958
Receiveable - other Districts	-	128,947	128,947	-	128,947
Prepaid expenses	9,363	-	9,363	-	9,363
Capital assets not being depreciated	-	-	-	19,634,274	19,634,274
	<u>-</u>	<u>-</u>	<u>-</u>	<u>19,634,274</u>	<u>19,634,274</u>
Total Assets	<u>\$ 20,842</u>	<u>\$ 128,947</u>	<u>\$ 149,789</u>	<u>19,634,274</u>	<u>19,784,063</u>
 LIABILITIES					
Accounts payable	\$ 24,874	\$ -	\$ 24,874	-	24,874
Long-term liabilities:					
Due in more than one year	<u>-</u>	<u>-</u>	<u>-</u>	2,644,835	2,644,835
Total Liabilities	<u>24,874</u>	<u>-</u>	<u>24,874</u>	<u>2,644,835</u>	<u>2,669,709</u>
 FUND BALANCES/NET POSITION					
Fund Balances:					
Nonspendable:					
Prepays	9,363	-	9,363	(9,363)	-
Restricted:					
Emergencies	2,958	-	2,958	(2,958)	-
Capital projects	-	128,947	128,947	(128,947)	-
Unassigned	<u>(16,353)</u>	<u>-</u>	<u>(16,353)</u>	<u>16,353</u>	<u>-</u>
Total Fund Balances	<u>(4,032)</u>	<u>128,947</u>	<u>124,915</u>	<u>(124,915)</u>	<u>-</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 20,842</u>	<u>\$ 128,947</u>	<u>\$ 149,789</u>		
 Net Position:					
Net investment in capital assets				16,989,439	16,989,439
Restricted for:					
Emergencies				2,958	2,958
Capital projects				128,947	128,947
Unrestricted				<u>(6,990)</u>	<u>(6,990)</u>
Total Net Position				<u>\$ 17,114,354</u>	<u>\$ 17,114,354</u>

The notes to the financial statements are an integral part of these statements.

Karl's Farm Metropolitan District No. 1

STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES/STATEMENT OF ACTIVITIES
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2023

	<u>General</u>	<u>Capital Projects</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
EXPENDITURES					
Accounting and audit	\$ 24,826	\$ -	\$ 24,826	\$ -	\$ 24,826
Engineering	32,615	-	32,615	-	32,615
Insurance	9,833	-	9,833	-	9,833
Legal	44,180	-	44,180	-	44,180
Miscellaneous expenses	690	-	690	-	690
Interest expense	-	-	-	99,027	99,027
Facilities acquisition	-	2,319,285	2,319,285	(2,319,285)	-
Capital assets conveyed from other Districts	-	-	-	(17,314,989)	(17,314,989)
Total Expenditures	<u>112,144</u>	<u>2,319,285</u>	<u>2,431,429</u>	<u>(19,535,247)</u>	<u>(17,103,818)</u>
GENERAL REVENUES					
Transfer from other districts	<u>108,112</u>	<u>128,947</u>	<u>237,059</u>	<u>-</u>	<u>237,059</u>
Total General Revenues	<u>108,112</u>	<u>128,947</u>	<u>237,059</u>	<u>-</u>	<u>237,059</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES					
	(4,032)	(2,190,338)	(2,194,370)	19,535,247	17,340,877
OTHER FINANCING SOURCES (USES)					
Developer advances	-	2,319,285	2,319,285	(2,319,285)	-
Transfer developer advance liability from other districts	-	-	-	(200,773)	(200,773)
Total Other Financing Sources (Uses)	<u>-</u>	<u>2,319,285</u>	<u>2,319,285</u>	<u>(2,520,058)</u>	<u>(200,773)</u>
NET CHANGES IN FUND BALANCES					
	(4,032)	128,947	124,915	(124,915)	
CHANGE IN NET POSITION					
				17,140,104	17,140,104
FUND BALANCES/NET POSITION:					
BEGINNING OF YEAR	-	-	-	(25,750)	(25,750)
END OF YEAR	<u>\$ (4,032)</u>	<u>\$ 128,947</u>	<u>\$ 124,915</u>	<u>\$ 16,989,439</u>	<u>\$ 17,114,354</u>

The notes to the financial statements are an integral part of these statements.

Karl's Farm Metropolitan District No. 1

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND

For the Year Ended December 31, 2023

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES				
Transfer from other districts	\$ 99,711	\$ 103,599	\$ 108,112	\$ 4,513
Total Revenues	99,711	103,599	108,112	4,513
EXPENDITURES				
Accounting and audit	15,000	22,982	24,826	(1,844)
Election expense	5,000	-	-	-
Engineering	15,000	32,961	32,615	346
Insurance	3,500	9,833	9,833	-
Legal	25,000	49,224	44,180	5,044
Management fees	1,500	-	-	-
Miscellaneous expenses	5,000	5,000	690	4,310
Contingency	27,611	-	-	-
Emergency reserve	2,100	-	-	-
Total Expenditures	99,711	120,000	112,144	7,856
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES				
	-	(16,401)	(4,032)	12,369
OTHER FINANCING SOURCES (USES)				
Developer advances	-	16,401	-	(16,401)
Total Other Financing Sources (Uses)	-	16,401	-	(16,401)
NET CHANGE IN FUND BALANCE				
	-	-	(4,032)	(4,032)
FUND BALANCE:				
BEGINNING OF YEAR	-	-	-	-
END OF YEAR	\$ -	\$ -	\$ (4,032)	\$ (4,032)

The notes to the financial statements are an integral part of these statements.

KARL'S FARM METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements December 31, 2023

Note 1: Summary of Significant Accounting Policies

The accounting policies of the Karl's Farm Metropolitan District No. 1 (the "District"), located in Arapahoe County, Colorado, conform to the accounting principles generally accepted in the United States of America ("GAAP") as applicable to governmental units. The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant policies consistently applied in the preparation of financial statements.

Definition of Reporting Entity

The District was organized on November 12, 2019, as a quasi-municipal corporation and political subdivision of the State of Colorado pursuant to the Special District Act. The District was established to provide financing, acquisition, and construction of certain essential public facilities for the use and benefit of the inhabitants and taxpayers of real property within the boundaries of the District and District Nos. 2 and 3. Effective January 1, 2023, the District and Districts No. 2 and No. 3 approved a restructuring of the Districts in which District No. 2 and District No. 3 are deemed the financing Districts and the District is the service district charged with the coordination and management of services for District No. 2 and District No. 3 and the provision of improvements authorized in the service plans and pursuant to intergovernmental agreements. Thus, in 2023, the District was the service District for Districts 2-3. The District is governed by an elected Board of Directors. The primary sources of revenue are the transfers from the financing districts and developer advances.

The District is governed by an elected Board of Directors.

As required by GAAP, these financial statements present the activities of the District, which is legally separate and financially independent of other state and local governments. The District follows the GASB pronouncements, which provide guidance for determining which governmental activities, organizations and functions should be included within the financial reporting entity. GASB sets forth the financial accountability of a governmental organization's elected governing body as the basic criterion for including a possible component governmental organization in a primary government's legal entity. Financial accountability includes, but is not limited to, appointment of a voting majority of the organization's governing body, ability to impose its will on the organization, a potential for the organization to provide specific financial benefits or burdens and fiscal dependency. The pronouncements also require including a possible component unit if it would be misleading to exclude it.

The District is not financially accountable for any other organization. The District has no component units as defined by the GASB.

The District has no employees and all operations and administrative functions are contracted.

KARL'S FARM METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements December 31, 2023

Basis of Presentation

The accompanying financial statements are presented per GASB Statement No. 34 - Special Purpose Governments.

The government-wide financial statements (i.e. the governmental funds balance sheet/statement of net position and the governmental funds statement of revenues, expenditures, and changes in fund balances/statement of activities) report information on all of the governmental activities of the District. The statement of net position reports all financial and capital resources of the District. The difference between the (a) assets and deferred outflows of resources and the (b) liabilities and deferred inflows of resources of the District is reported as net position. The statement of activities demonstrates the degree to which expenditures/expenses of the governmental funds are supported by general revenues. For the most part, the effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct and indirect expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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 expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year in which they are collected.

Governmental fund financial statements are reported 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* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The material sources of revenue subject to accrual are property taxes and interest. Expenditures, other than interest on long-term obligations, are recorded when the liability is incurred or the long-term obligation is paid.

KARL'S FARM METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements December 31, 2023

The District reports the following major governmental funds:

General Fund - The General Fund is the general operating fund of the District. It is used to account for all financial resources not accounted for and reported in another fund.

Capital Projects Fund – The Capital Projects Fund is used to account for all financial resources that are restricted, committed or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other assets.

Budgetary Accounting

Budgets are adopted on a non-GAAP basis for the governmental funds. In accordance with the State Budget Law of Colorado, the District's Board of Directors holds public hearings in the fall of each year to approve the budget and appropriate the funds for the ensuing year. The District's Board of Directors can modify the budget by line item within the total appropriation without notification. The appropriation can only be modified upon completion of notification and publication requirements. The budget includes each fund on its basis of accounting unless otherwise indicated. The appropriation is at the total fund expenditures level and lapses at year end.

In September 2023, The District amended its total appropriations in the General Fund from \$99,711 to \$120,000 primarily due to increased expenses. The District amended its total appropriations in the Capital Projects Fund from \$0 to \$3,500,000 primarily due to the acceptances of costs.

Assets, Liabilities, Deferred Inflows/Inflows of Resources and Net Position:

Fair Value of Financial Instruments

The District's financial instruments include cash and cash equivalents, and accounts payable. The District estimates that the fair value of all financial instruments at December 31, 2023, does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying balance sheet. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

Deposits and Investments

The District's cash and cash equivalents are considered to be cash on hand and short-term investments with maturities of three months or less from the date of acquisition. Investments for the government are reported at fair value.

The District follows the practice of pooling cash and investments of all funds to maximize investment earnings. Except when required by trust or other agreements, all cash is deposited to and disbursed from a minimum number of bank accounts. Cash in excess of immediate operating requirements is pooled for deposit and investment flexibility. Investment earnings are allocated periodically to the participating funds based upon each fund's average equity balance in the total cash.

KARL'S FARM METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements December 31, 2023

Estimates

The preparation of these financial statements in conformity with GAAP requires the District management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has no items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has no items that qualify for reporting in this category.

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items), are reported in the applicable governmental activities columns in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the life of the asset are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable using the straight-line method. Depreciation on property that will remain assets of the District is reported on the Statement of Activities as a current charge. Improvements that will be conveyed to other governmental entities are classified as construction in progress and are not depreciated. Land and certain landscaping improvements are not depreciated. No depreciation expense was recognized during 2023.

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities.

KARL'S FARM METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements December 31, 2023

Fund Equity

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. Because circumstances differ among governments, not every government or every governmental fund will present all of these components. The following classifications make the nature and extent of the constraints placed on a government's fund balance more transparent:

Nonspendable Fund Balance

Nonspendable fund balance includes amounts that cannot be spent because they are either not spendable in form (such as inventory or prepaids) or are legally or contractually required to be maintained intact.

The nonspendable fund balance in the General Fund in the amount of \$9,363 represents prepaid expenditures.

Restricted Fund Balance

The restricted fund balance includes amounts restricted for a specific purpose by external parties such as grantors, bondholders, constitutional provisions or enabling legislation.

The restricted fund balance in the General Fund represents Emergency Reserves that have been provided as required by Article X, Section 20 of the Constitution of the State of Colorado. A total of \$2,958 of the General Fund balance has been restricted in compliance with this requirement.

The restricted fund balance in the Capital Projects Fund in the amount of \$128,947 is restricted for the payment of the costs for capital improvements within the District.

Committed Fund Balance

The portion of fund balance that can only be used for specific purposes pursuant to constraints imposed by a formal action of the government's highest level of decision-making authority, the Board of Directors. The constraint may be removed or changed only through formal action of the Board of Directors.

Assigned Fund Balance

Assigned fund balance includes amounts the District intends to use for a specific purpose. Intent can be expressed by the District's Board of Directors or by an official or body to which the Board of Directors delegates the authority.

Unassigned Fund Balance

Unassigned fund balance includes amounts that are available for any purpose. Positive amounts are reported only in the General Fund, all funds can report negative amounts.

KARL'S FARM METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements
December 31, 2023

Deficits

The General Fund reported a deficit fund balance in the fund financial statements of \$(4,032). The District has budgeted sufficient property tax revenue for Districts Nos. 2 and 3 to transfer to the District in 2024 to correct the deficit.

For the classification of Governmental Fund balances, the District considers an expenditure to be made from the most restrictive first when more than one classification is available.

Net Position

Net Position represents the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources. The District can 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 are available, the District will use the most restrictive net position first.

Note 2: Cash

As of December 31, 2023, cash is classified in the accompanying financial statements as follows:

Statement of Net Position:	
Cash and investments	\$ 8,521
Cash and investments - Restricted	<u>2,958</u>
Total	<u>\$ 11,479</u>

Cash as of December 31, 2023, consists of the following:

Deposits with financial institutions	<u>\$ 11,479</u>
--------------------------------------	------------------

KARL’S FARM METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements
December 31, 2023

Deposits:

Custodial Credit Risk

The Colorado Public Deposit Protection Act, (“PDPA”) requires that all units of local government deposit cash in eligible public depositories. State regulators determine eligibility. Amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is determined by the PDPA. PDPA allows the institution 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 the uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the aggregate uninsured deposits. The State Commissioners for banks and financial services are required by statute to monitor the naming of eligible depositories and reporting of the uninsured deposits and assets maintained in the collateral pools.

The District follows state statutes for deposits. None of the District’s deposits were exposed to custodial credit risk.

Note 3: Capital Assets

An analysis of the changes in capital assets for the year ended December 31, 2023, follows:

<u>Governmental Type Activities:</u>	<u>Balance 1/1/2023</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12/31/2023</u>
<u>Capital assets not being depreciated:</u>				
Construction in progress	\$ -	\$ 19,634,274	\$ -	\$ 19,634,274
Total capital assets not being depreciated	<u>\$ -</u>	<u>\$ 19,634,274</u>	<u>\$ -</u>	<u>\$ 19,634,274</u>

In 2023, the District accepted conveyance of capital assets all of which were categorized as Construction in Progress from District No. 2 pursuant to the IGA (see note 6). The District will convey all fixed assets to other local governments upon acceptance from other governmental entities. The District will not be responsible for maintenance.

KARL’S FARM METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements
December 31, 2023

Note 4: Long-term Debt

Funding and Reimbursement Agreement

On December 4, 2019, the District and KF Developers Inc., (“KFD”) entered into a Funding and Reimbursement Agreement, (“agreement”), under which KFD agreed to advance funds necessary to fund or directly pay the District’s operations and maintenance expenses for up to \$100,000 through December 31, 2023. Under the agreement, simple interest accrues on each advance from the date of deposit into the District’s account or from the date of direct payment by KFD, until paid, at the rate of six and a half percent (6.5%) per annum. As of December 31, 2023, the principal outstanding was \$25,000 and the interest was \$2,371.

Acquisition and Reimbursement Agreement

On December 4, 2019, the District and KFD entered into the Acquisition and Reimbursement Agreement in which KFD may seek reimbursement for costs related to certain public improvements that were financed, constructed, or caused to be constructed by the developer on behalf of the District. Any advances not reimbursed will accrue interest, until paid, at the rate of six and a half percent (6.5%) per annum. In 2023, the liabilities of \$200,774 related to this agreement were transferred from District No. 2 under the amended IGA, and the District accepted additional costs totaling \$2,318,972 under this agreement. Unreimbursed principal and interest outstanding at year-end total \$2,519,223 and \$98,241 respectively.

Below is an analysis of changes in long-term debt for the period ending December 31, 2023:

	Balance 1/1/2023	Additions	Deletions	Balance 12/31/2023
Acquisition & Reimbursement Agreement	\$ -	\$ 2,519,223	\$ -	\$ 2,519,223
Acquisition & Reimbursement Agreement - Interest	-	98,241	-	98,241
Funding & Reimbursement Agreement	25,000	-	-	25,000
Funding & Reimbursement Agreement - Interest	750	1,621	-	2,371
Total	<u>\$ 25,750</u>	<u>\$ 2,619,085</u>	<u>\$ -</u>	<u>\$ 2,644,835</u>

Debt Authorization

Per the Districts’ Service Plan, the Districts cannot issue debt in excess of \$37,000,000. The District has not budgeted to issue any new debt during 2024.

Note 5: Related Party

All of the Board of Directors are employees, owners or are otherwise associated with the Developer and may have conflicts of interest in dealing with the District. Management believes that all potential conflicts, if any, have been disclosed to the Board.

KARL'S FARM METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements December 31, 2023

Note 6: Agreements

Amended and Restated Intergovernmental Agreement Regarding Facilities Funding and Construction ("IGA")

On September 20, 2023, the District and District Nos. 2 and 3 entered into an IGA whereby the District acknowledged it will coordinate the construction of all residential and commercial improvements by either constructing them or acquiring them from the Developer under the Acquisition and Reimbursement Agreement dated December 4, 2019 (See Note 6). The District is designated as the Coordinating District and shall coordinate construction and funding of public improvements with and for the benefit of District Nos. 2 and 3 ("Financing Districts") within the Development. The Coordinating District which will own, operate and maintain the improvements within the boundaries of the Districts that are not dedicated to other governmental entities or an owner's association. The Financing Districts will be responsible for the costs associated with the financing of the improvements as well as costs associated for the administrative services and operation and maintenance services. This IGA is effective January 1, 2023, and resulted in all capital assets and developer advances recorded in District Nos. 2 and 3 at December 31, 2022, being transferred to the District on this date.

Note 7: Tax, Spending and Debt Limitations

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

Spending and revenue limits are determined based on the prior year's Fiscal Year Spending adjusted for allowable increases based upon inflation and local growth. Fiscal Year Spending is generally defined as expenditures plus reserve increases with certain exceptions. Revenue in excess of the Fiscal Year Spending limit must be refunded unless the voters approve retention of such revenue.

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 interpretation of how to calculate Fiscal Year Spending limits will require judicial interpretation.

On November 2, 2004, a majority of the District's electors authorized the District to collect and spend or retain in a reserve all currently levied taxes and fees of the District without regard to any limitations under Article X, Section 20 of the Colorado Constitution.

KARL'S FARM METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements December 31, 2023

Note 8: Risk Management

Except as provided in the Colorado Governmental Immunity Act, 24-10-101, et seq., CRS, the District may be exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets; errors or omissions; injuries to agents; and natural disasters. The District has elected to participate in the Colorado Special Districts Property and Liability Pool ("Pool") which is an organization created by intergovernmental agreement to provide common liability and casualty insurance coverage to its members at a cost that is considered economically appropriate. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

The District pays annual premiums to the Pool for auto, public officials' liability, and property and general liability coverage. In the event aggregated losses incurred by the Pool exceed its amounts recoverable from reinsurance contracts and its accumulated reserves, the District may be called upon to make additional contributions to the Pool on the basis proportionate to other members. Any excess funds which the Pool determines are not needed for purposes of the Pool may be returned to the members pursuant to a distribution formula.

Note 9: Reconciliation of Government-Wide Financial Statements and Fund Financial Statements

The Governmental Funds Balance Sheet/Statement of Net Position includes an adjustments column. The adjustments may have the following elements:

- 1) capital improvements used in government activities are not financial resources and, therefore are not reported in the funds; and
- 2) long-term liabilities such as notes payable and accrued interest payable are not due and payable in the current period and, therefore, are not in the funds.

The Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances/Statement of Activities includes an adjustments column. The adjustments may have the following elements:

- 1) governmental funds report capital outlays as expenditures, however, in the statement of activities, the costs of those assets are held as construction in process pending transfer to other governmental entities or depreciated over their useful lives;
- 2) governmental funds report interest expense on the modified accrual basis; however, interest expense is reported on the full accrual method on the Statement of Activities; and
- 3) governmental funds report developer advances as revenue.

SUPPLEMENTAL INFORMATION

Karl's Farm Metropolitan District No. 1

SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL -
CAPITAL PROJECTS FUND
For the Year Ended December 31, 2023

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES				
Transfer from other districts	\$ -	\$ -	\$ 128,947	\$ 128,947
Total Revenues	<u>-</u>	<u>-</u>	<u>128,947</u>	<u>128,947</u>
EXPENDITURES				
Facilities acquisition	<u>-</u>	<u>3,500,000</u>	<u>2,319,285</u>	<u>1,180,715</u>
Total Expenditures	<u>-</u>	<u>3,500,000</u>	<u>2,319,285</u>	<u>1,180,715</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	-	(3,500,000)	(2,190,338)	1,309,662
OTHER FINANCING SOURCES (USES)				
Developer advances	<u>-</u>	<u>3,500,000</u>	<u>2,319,285</u>	<u>(1,180,715)</u>
Total Other Financing Sources (Uses)	<u>-</u>	<u>3,500,000</u>	<u>2,319,285</u>	<u>(1,180,715)</u>
NET CHANGE IN FUND BALANCE	-	-	128,947	128,947
FUND BALANCE:				
BEGINNING OF YEAR	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 128,947</u>	<u>\$ 128,947</u>

The notes to the financial statements are an integral part of these statements.