

**ELKHORN RANCH METROPOLITAN DISTRICT NO. 1
Elbert County, Colorado**

FINANCIAL STATEMENTS

With Independent Auditor's Report

December 31, 2023

ELKHORN RANCH METROPOLITAN DISTRICT NO. 1

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Elkhorn Ranch Metropolitan District No. 1
Elbert County, Colorado

Opinions

We have audited the financial statements of the governmental activities and each major fund of Elkhorn Ranch 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 accompanying 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 thereof, and the respective 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 Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (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 opinions.

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 Responsibility 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 opinions. 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 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.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risk 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 judgement, 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 to 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 omitted management's discussion and analysis 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 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. Our opinions on the basic financial statements are not affected by this missing information.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information as identified in the table of contents is presented for the purposes of additional analysis and legal compliance and is not a required part of the basic financial statements.

Such 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 information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Fiscal Focus Partners LLC

Arvada, Colorado
February 19, 2024

BASIC FINANCIAL STATEMENTS

ELKHORN RANCH METROPOLITAN DISTRICT NO. 1

STATEMENT OF NET POSITION

December 31, 2023

	<u>Governmental Activities</u>
Assets	
Cash and investments	\$ 1,177,607
Cash and investments - restricted	96,673
Prepaid expense	2,671
Receivable - County Treasurer	11,254
Property taxes receivable	896,101
Capital assets, not being depreciated	240,000
Capital assets, net	2,176
Total Assets	<u>2,426,482</u>
Liabilities	
Accounts payable	2,712
Accrued interest payable	21,570
Noncurrent liabilities:	
Due within one year	385,000
Due in more than one year	7,555,000
Total Liabilities	<u>7,964,282</u>
Deferred Inflow of Resources	
Property tax revenue	896,101
Total Deferred Inflow of Resources	<u>896,101</u>
Net Position	
Restricted for:	
Emergencies	11,363
Debt service	92,779
Road improvements	69,756
Unrestricted	(6,607,799)
Total Net Position	<u>\$ (6,433,901)</u>

The accompanying Notes to Financial Statements are an integral part of these statements.

ELKHORN RANCH METROPOLITAN DISTRICT NO. 1

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2023

Functions/Programs:	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Position
Primary government					Governmental Activities
General government	\$ 78,916	\$ -	\$ -	\$ -	\$ (78,916)
Interest on long-term debt and related costs	271,251	-	-	-	(271,251)
Total primary government	<u>\$ 350,167</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(350,167)</u>
General Revenues:					
					840,588
					135,467
					68,236
					<u>1,044,291</u>
					694,124
					<u>(7,128,025)</u>
					<u>\$ (6,433,901)</u>

ELKHORN RANCH METROPOLITAN DISTRICT NO. 1

**BALANCE SHEET
GOVERNMENTAL FUNDS**

December 31, 2023

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
Assets				
Cash and investments	\$ 810,071	\$ -	\$ 367,536	\$ 1,177,607
Cash and investments - restricted	11,363	85,310	-	96,673
Prepaid Expense	2,671	-	-	2,671
Due from County Treasurer	3,785	7,469	-	11,254
Property taxes receivable	286,383	609,718	-	896,101
Total Assets	<u>1,114,273</u>	<u>702,497</u>	<u>367,536</u>	<u>2,184,306</u>
Liabilities, Deferred Inflow of Resources and Fund Balances				
Liabilities				
Accounts Payable	2,712	-	-	2,712
Total Liabilities	<u>2,712</u>	<u>-</u>	<u>-</u>	<u>2,712</u>
Deferred Inflow of Resources				
Property tax revenue	286,383	609,718	-	896,101
Total Deferred Inflow of Resources	<u>286,383</u>	<u>609,718</u>	<u>-</u>	<u>896,101</u>
Fund Balances				
Nonspendable	2,671	-	-	2,671
Restricted for:				
Emergencies	11,363	-	-	11,363
Debt service	-	92,779	-	92,779
Road improvements	-	-	69,756	69,756
Assigned				
Capital projects	-	-	297,780	297,780
Unassigned	811,144	-	-	811,144
Total Fund Balances	<u>825,178</u>	<u>92,779</u>	<u>367,536</u>	<u>1,285,493</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 1,114,273</u>	<u>\$ 702,497</u>	<u>\$ 367,536</u>	
Amounts reported for governmental activities in the statement of net position are different because:				
Long-term assets are not available to pay for current period expenditures and, therefore, are not reported in the funds:				
Capital assets				242,176
Long-term liabilities, including bonds payable and accrued interest, are not due and payable in the current period and therefore are not reported in the funds:				
Loan payable				(7,940,000)
Accrued interest				<u>(21,570)</u>
Net position of governmental activities				<u>\$ (6,433,901)</u>

The accompanying Notes to Financial Statements are an integral part of these statements.

ELKHORN RANCH METROPOLITAN DISTRICT NO. 1
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
For the Year Ended December 31, 2023

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
Revenues				
Property taxes	\$ 282,757	\$ 557,831	\$ -	\$ 840,588
Specific ownership tax	45,287	90,180	-	135,467
Investment income	50,712	17,524	-	68,236
Total revenues	<u>378,756</u>	<u>665,535</u>	<u>-</u>	<u>1,044,291</u>
Expenditures				
General government				
County treasurer's fees	8,445	16,660	-	25,105
Directors fees and taxes	1,731	-	-	1,731
District management and accounting	15,056	-	-	15,056
Audit	6,000	-	-	6,000
Insurance and bonds	3,332	-	-	3,332
Legal	20,978	-	-	20,978
Repairs and maintenance	5,030	-	-	5,030
Other	596	-	-	596
Debt Service				
Principal	-	365,000	-	365,000
Interest	-	270,743	-	270,743
Trustee fee	-	1,500	-	1,500
Total expenditures	<u>61,168</u>	<u>653,903</u>	<u>-</u>	<u>715,071</u>
Net change in fund balances	<u>317,588</u>	<u>11,632</u>	<u>-</u>	<u>329,220</u>
Fund balances - beginning	<u>507,590</u>	<u>81,147</u>	<u>367,536</u>	<u>956,273</u>
Fund balances - ending	<u>\$ 825,178</u>	<u>\$ 92,779</u>	<u>\$ 367,536</u>	<u>\$ 1,285,493</u>

The accompanying Notes to Financial Statements are an integral part of these statements.

ELKHORN RANCH METROPOLITAN DISTRICT NO. 1

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

For the Year Ended December 31, 2023

Net change in fund balances - total governmental funds	\$ 329,220
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. In the statement of activities, capital outlay is not reported as an expenditure. However, the statement of activities will report as depreciation expense the allocation of the cost of any depreciable assets over the estimated useful life of the asset.	
Depreciation expense	(1,088)
Long-term debt (e.g. loans) provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position.	
Loan principal	365,000
Some revenues and expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	
Accrued interest payable - change in liability	<u>992</u>
Change in net position of governmental activities	<u><u>\$ 694,124</u></u>

The accompanying Notes to Financial Statements are an integral part of these statements.

ELKHORN RANCH METROPOLITAN DISTRICT NO. 1

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

For the Year Ended December 31, 2023

	Original and Final Budgeted Amounts	Actual	Variance with Final Budget - Positive (Negative)
Revenues			
Property taxes	\$ 282,757	\$ 282,757	\$ -
Specific ownership tax	42,414	45,287	2,873
Investment income	30,000	50,712	20,712
Total revenues	<u>355,171</u>	<u>378,756</u>	<u>23,585</u>
Expenditures			
General government			
County treasurer's fees	8,483	8,445	38
Directors fees and taxes	1,700	1,731	(31)
District management and accounting	23,000	15,056	7,944
Audit	6,200	6,000	200
Insurance and bonds	4,100	3,332	768
Legal	18,200	20,978	(2,778)
Repairs and maintenance	5,000	5,030	(30)
Other	2,700	596	2,104
Contingency	10,000	-	10,000
Total expenditures	<u>79,383</u>	<u>61,168</u>	<u>18,215</u>
Net change in fund balances	<u>275,788</u>	<u>317,588</u>	<u>41,800</u>
Fund balances - beginning	<u>485,921</u>	<u>507,590</u>	<u>21,669</u>
Fund balances - ending	<u><u>\$ 761,709</u></u>	<u><u>\$ 825,178</u></u>	<u><u>\$ 63,469</u></u>

The accompanying Notes to Financial Statements are an integral part of these statements.

ELKHORN RANCH METROPOLITAN DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

December 31, 2023

Note 1 – Reporting Entity

Elkhorn Ranch Metropolitan District No. 1 (the District) was organized on June 18, 2002, as a quasi-municipal organization established under the State of Colorado Special District Act (Title 32, Article 1, Colorado Revised Statutes). The District's service area is located in Elbert County, Colorado (the County).

The District was established to coordinate the construction, acquisition, financing and maintenance of public improvements, including streets and safety control, landscaping, water, sewer, storm drainage, television relay, and park and recreation improvements and facilities. Upon completion of construction, the District dedicates public improvements to the County, the Arapahoe Water and Wastewater Authority, the Homeowner's Association or other local governments. Certain landscaping, park and recreation improvements and street lighting continue to be maintained by the District.

The District follows the Governmental Accounting Standards Board (GASB) accounting pronouncements which provide guidance for determining which governmental activities, organizations and functions should be included within the financial reporting entity. GASB pronouncements set 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 District is not financially accountable for any other organization, nor is the District a component unit of any other primary governmental entity.

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

Note 2 – Summary of Significant Accounting Policies

The more significant accounting policies of the District are described as follows:

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of the District. The effect of interfund activity has been removed from these statements. Governmental activities are normally supported by taxes and intergovernmental revenues.

The statement of net position reports all financial and capital resources of the District. The difference between the sum of assets and deferred outflows of resources and the sum of liabilities and deferred inflows of resources of the District is reported as net position.

ELKHORN RANCH METROPOLITAN DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2023

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.

Separate financial statements are provided for governmental funds. 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 related cash flows.

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. All other revenue items are considered to be measurable and available only when cash is received by the District. Expenditures, other than interest on long-term obligations are recorded when the liability is incurred or the long-term obligation is due.

The District reports the following major governmental funds:

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 obligation debt of the governmental funds.

The Capital Projects Fund is used to account for financial resources to be used for the acquisition and construction of capital facilities and other assets.

Budgets

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

ELKHORN RANCH METROPOLITAN DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2023

Pooled Cash

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 single bank account. 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.

Capital Assets

Capital assets, which include open space, landscape and parks, are reported in the applicable governmental activities column of the government-wide financial statements. Capital assets are defined by the District as those assets with a cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

Capital assets which are anticipated to be conveyed to other governmental entities are recorded as construction in progress, and are not included in the calculation of net investment in capital assets.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements for which the District retains title are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable. Interest incurred during the construction phase of capital assets is not included as part of the capitalized value of the assets constructed.

Depreciation expense has been computed using the straight-line method over the estimated economic useful lives of 20 years.

Deferred Inflow of Resources

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The District has one item that qualifies for reporting in this category. Accordingly, deferred property tax revenue is deferred and recognized as an inflow of resources in the period that the amount becomes available.

Equity

Net Position

For government-wide presentation purposes when both restricted and unrestricted resources are available for use, it is the District's practice to use restricted resources first, then unrestricted as they are needed.

ELKHORN RANCH METROPOLITAN DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2023

Fund Balance

Fund balance for governmental funds should be reported in classifications that comprise a hierarchy based on the extent to which the government is bound to honor constraints on the specific purposes for which spending can occur. Governmental funds report up to five classifications of fund balance: nonspendable, restricted, committed, assigned, and unassigned. Because circumstances differ among governments, not every government or every governmental fund will present all of these components. The following classifications describe the relative strength of the spending constraints:

Non-spendable fund balance – The portion of fund balance that cannot be spent because it is either not in spendable form (such as prepaids) or is legally or contractually required to be maintained intact.

Restricted fund balance – The portion of fund balance constrained to being used for a specific purpose by external parties (such as grantors or bondholders), constitutional provisions or enabling legislation.

Committed fund balance – The portion of fund balance constrained for specific purposes according to limitations imposed by the District's highest level of decision making authority, the Board of Directors prior to the end of the current fiscal year. The constraint may be removed or changed only through formal action of the Board of Directors.

Assigned fund balance – The portion of fund balance that is constrained by the government's intent to be used for specific purposes, but is neither restricted nor committed. Intent is expressed by the Board of Directors to be used for a specific purpose. Constraints imposed on the use of assigned amounts are more easily removed or modified than those imposed on amounts that are classified as committed.

Unassigned fund balance – The residual portion of fund balance that does not meet any of the above criteria.

If more than one classification of fund balance is available for use when an expenditure is incurred, it is the District's policy to use the most restrictive classification first.

Development Fees

The District imposes certain development impact and facility fees on property within the District. The facility fee and infrastructure fee for road improvements are required to be paid upon the closing of a first sale to a residential end user for a permanent structure on any lot. The infrastructure fee for road improvements is to be used solely for the improvement of certain access roads into the District. The Infrastructure Support Fee is imposed only on undeveloped lots. The District records revenues for these fees when they are measurable and available.

As of December 31, 2023, the District imposed the following fees per single-family equivalent:

Facility fee - \$3,500

Infrastructure fee for road improvements - \$2,220

Infrastructure support fee - \$250

ELKHORN RANCH METROPOLITAN DISTRICT NO. 1

**NOTES TO FINANCIAL STATEMENTS
(continued)**

December 31, 2023

Property Taxes

Property taxes are levied by the District's Board of Directors. The levy is based on assessed valuations determined by the County Assessor generally as of January 1 of each year. The levy is normally set by December 15 by certification of the County Commissioners to put the tax lien on the individual properties as of January 1 of the following year. The County Treasurer collects the determined taxes during the ensuing calendar year. The taxes are payable by April or, if in equal installments at the taxpayer's election, in February and June. Delinquent taxpayers are notified in August and generally sales of the tax liens on delinquent properties are held in November or December. The County remits taxes collected monthly to the District.

Property taxes, net of estimated uncollectible taxes, are recorded initially as deferred inflow of resources in the year they are levied and measurable. The unearned property tax revenues are recorded as revenue in the year they are available or collected.

Note 3 – Cash and Investments

Cash and investments are reflected on the December 31, 2023 Statement of net position as follows:

Statement of net position:	
Cash and investments – unrestricted	\$ 1,177,607
Cash and investments – restricted	96,673
Total cash and investments	<u>\$ 1,274,280</u>

Cash and investments as of December 31, 2023 consist of the following:

Deposits with financial institutions	\$ 41,090
Investments	1,233,190
Total cash and investments	<u>\$ 1,274,280</u>

Deposits with Financial Institutions

The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulators. Amounts on deposit in excess of federal insurance levels must be collateralized. As of December 31, 2023, the federal insurance limit was \$250,000. The eligible collateral is determined by the PDPA. PDPA allows the institution to create a single collateral pool for all public funds. The pool for all the uninsured public deposits as a group is to be maintained by another institution or held in trust. 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.

At December 31, 2023, the District's cash deposits had a bank and carrying balance of \$41,090.

ELKHORN RANCH METROPOLITAN DISTRICT NO. 1

**NOTES TO FINANCIAL STATEMENTS
(continued)**

December 31, 2023

Investments

The District has not adopted a formal investment policy, but follows state statutes regarding investments.

Colorado statutes specify investment instruments meeting defined rating and risk criteria in which local governments may invest which include:

- Obligations of the United States and certain U.S. government agency securities
- Certain international agency securities
- General obligation and revenue bonds of U.S. local government entities
- Bankers' acceptances of certain banks
- Commercial paper
- Written repurchase agreements and certain reverse repurchase agreements collateralized by certain authorized securities
- Certain money market funds
- Guaranteed investment contracts
- Local government investment pools

The District generally limits its investments to those which are believed to have minimal credit risk, minimal interest rate risk and no foreign currency risk. Additionally, the District is not subject to concentration risk or investment custodial risk disclosure requirements for investments that are in the possession of another party. Colorado revised statutes limit investment maturities to five year or less unless formally approved by the Board of Directors. Such actions are generally associated with a debt service reserve or sinking fund requirements. As of December 31, 2023, the District had the following investments:

<u>Investment</u>	<u>Maturity</u>	<u>2023</u>
Colorado Local Government Liquid Asset Trust (COLOTRUST)	Weighted average maturity less than 60 days	<u>\$ 1,233,190</u>

COLOTRUST

The District invested in the Colorado Local Government Liquid Asset Trust (COLOTRUST) (the Trust), an investment vehicle established for local government entities in Colorado to pool surplus funds. The State Securities Commissioner administers and enforces all State statutes governing the Trust. The Trust currently offers three portfolios – COLOTRUST PRIME, COLOTRUST PLUS+, and COLOTRUST EDGE. The District holds all its investments in the COLOTRUST PLUS+ portfolio.

COLOTRUST PLUS+, which operates similarly to a money market fund and each share is equal in value to \$1.00, offers daily liquidity. The portfolio may invest in U.S. Treasury securities and repurchase agreements collateralized by U.S. Treasury securities, certain obligations of U.S. government agencies, highest rated commercial paper, and any security allowed under CRS 24-75-601.

ELKHORN RANCH METROPOLITAN DISTRICT NO. 1

**NOTES TO FINANCIAL STATEMENTS
(continued)**

December 31, 2023

A designated custodial bank serves as custodian for the Trust's portfolios pursuant to a custodian agreement. The custodian acts as safekeeping agent for the Trust's investment portfolios and provides services as the depository in connection with direct investments and withdrawals. The custodian's internal records segregate investments owned by the Trust. COLOTRUST PLUS+ is rated AAAM by Standard & Poor's. COLOTRUST records its investments at fair value and the District records its investment in COLOTRUST at net asset value as determined by fair value. There are no unfunded commitments, the redemption frequency is daily or weekly, and there is no redemption notice period.

Note 4 – Capital Assets

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

	Balance at December 31, 2022	Additions	Deletions	Balance at December 31, 2023
Governmental activities				
Capital assets not being depreciated:				
Open space	\$ 240,000	\$ –	\$ –	\$ 240,000
Total capital assets, not being depreciated	240,000	–	–	240,000
Capital assets being depreciated:				
Landscape and parks	21,766	–	–	21,766
Total capital asset being depreciated	21,766	–	–	21,766
Less accumulated depreciation for:				
Landscape and parks	(18,502)	(1,088)	–	(19,590)
Total accumulated depreciation	(18,502)	(1,088)	–	(19,590)
Total assets being depreciated, net	3,264	(1,088)	–	2,176
Governmental activities capital assets, net	\$ 243,264	\$ (1,088)	\$ –	\$ 242,176

Depreciation expense of \$1,088 is charged to the general government function of the District.

Note 5 – Long-Term Obligations

The District's outstanding long-term obligations at December 31, 2023, are as follows:

	Balance at December 31, 2022	Additions	Deletions	Balance at December 31, 2023	Due within one year
Governmental activities, direct borrowing debt					
G.O. Limited Tax Convertible Debt to Unlimited Tax Refunding Loan Series 2021	\$ 8,305,000	\$ –	\$ 365,000	\$ 7,940,000	\$ 385,000
	\$ 8,305,000	\$ –	\$ 365,000	\$ 7,940,000	\$ 385,000

ELKHORN RANCH METROPOLITAN DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS
(continued)

December 31, 2023

Direct Borrowing Debt

Refunding and Improvement Loan, Series 2021

On July 8, 2021, the District issued a \$9,000,000 General Obligation (Limited Tax Convertible to Unlimited Tax) Refunding Loan, Series 2021 (Series 2021 Loan). This refunding was undertaken to reduce the interest rate on the note and future debt service payments, with the majority of the terms remaining substantially the same. The loan matures on December 1, 2038. The interest rate on the Series 2021 Loan is 3.26% per annum. Interest is payable semi-annually on June 1 and December 1 each year, and principal is payable on December 1 each year. The Series 2021 Loan is secured by and payable from pledged revenues, which consist primarily of ad valorem property taxes, development fees (see Note 2) and specific ownership taxes. The District has a limited number of undeveloped lots. No significant amounts are anticipated to be received from facility fees. The Series 2021 Loan was acquired for the purpose of providing funds (i) to refund the General Obligation (Limited Tax Convertible to Unlimited Tax) Refunding and Improvement Loan, Series 2018 (Series 2018 Loan) (ii) to refinance the 2018A, 2018B and 2018C Notes (iii) and to pay certain costs of issuing the Series 2021 Loan, including the prepayment penalty on the Series 2018 Loan. The Series 2021 Loan may be prepaid at the option of the District, in whole or in part, upon payment of the sum of the principal amount plus accrued interest thereon to the date of prepayment, and a prepayment fee ranging from 0% to 3%, with no prepayment penalty after July 8, 2026.

Significant events of default under the Series 2021 Loan include failure to impose the required mill levy or apply pledged revenue as required by the Series 2021 Loan, nonpayment of principal and/or interest, non-compliance with covenants, receiving a qualified audit opinion and the ability of the District to remain a going concern.

Immediately upon the occurrence of an Event of Default, the Series 2021 Loan balance shall bear interest at the default rate (defined as the fixed rate plus 3%) and all amounts constituting collateral will be applied to the unpaid principal and accrued interest of the Series 2021 Loan and all other amounts owing or payable to the lender. Acceleration is not be remedy for the occurrence of an Event of Default. The following table sets forth the estimated debt service payment schedule for the principal and interest on the Series 2021 Loan:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Payment</u>
2024	\$ 385,000	\$ 258,844	\$ 643,844
2025	400,000	246,293	646,293
2026	420,000	233,253	653,253
2027	440,000	219,561	659,561
2028	460,000	205,217	665,217
2029-2033	2,620,000	787,942	3,407,942
2034-2038	3,215,000	321,273	3,536,273
Total	<u>\$ 7,940,000</u>	<u>\$ 2,272,383</u>	<u>\$ 10,212,383</u>

ELKHORN RANCH METROPOLITAN DISTRICT NO. 1

**NOTES TO FINANCIAL STATEMENTS
(continued)**

December 31, 2023

Debt Authorization

On May 7, 2002, a majority of the qualified electors of the District authorized the issuance of indebtedness in an amount not to exceed \$30,350,000 at an interest rate not to exceed 18% per annum. Since the authorization is more than 20 years old, subject to section 32-1-1101.5 , C.R.S Special District Act, the authorization is considered stale and no longer available.

Note 6 – Net Position

The District reports net position consisting of two components – restricted and unrestricted.

Restricted assets include net position that is restricted for use either externally imposed by creditors, grantors, contributors, or laws of other governments, or imposed by law through constitutional provisions or enabling legislation. At December 31, 2023 the District had restricted net position as follows:

	Governmental Activities
Emergencies	\$ 11,363
Debt service	92,779
Road improvements	69,756
	<u>\$ 173,898</u>

The District has unrestricted deficit net position of (\$ 6,607,799) as of December 31, 2023. This deficit amount is a result of the District being responsible for repayments of loans and notes issued for public improvements which were conveyed to other governmental entities.

Note 7 – Related Parties

One member of the Board of Directors is an owner of or otherwise associated with the Developer and related companies and may have conflicts of interest with respect to certain transactions which come before the Board.

Note 8 – Risk Management

The District is exposed to various risks of loss related to torts, thefts of, damage to, or destruction of assets; errors or omissions; injuries to employees; or acts of God.

The District is a member of the Colorado Special District Property and Liability Pool (the Pool) as of December 31, 2023. The Pool is an organization created by intergovernmental agreement to provide property, liability, public officials' liability, boiler and machinery, and workers compensation coverage to its members. Settled claims have not exceeded this coverage in any of the past three fiscal years.

ELKHORN RANCH METROPOLITAN DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2023

The District pays annual premiums to the Pool for liability, property and public officials' liability coverage. In the event aggregated losses incurred by the Pool exceed amounts recoverable from reinsurance contracts and funds accumulated by the Pool, the Pool may require additional contributions from the Pool 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 – 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, 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.

On May 7, 2002, a majority of the District's electors authorized the District to increase taxes \$100,000 annually to pay the District's operations, maintenance and other expenses, without limitation on the mill levy rate imposed, and in amounts sufficient to produce the annual increase or a lesser amount as may be necessary. The proceeds of such taxes and investment income thereon may be collected and spent by the District as a voter-approved revenue change without regard to spending, revenue-raising, or the limitations contained in TABOR or Section 29-1-301, C.R.S. The electors also authorized the District to collect, retain and spend any revenue from sources other than ad valorem taxes annually without regard to any limitations imposed by TABOR.

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

SUPPLEMENTARY INFORMATION

ELKHORN RANCH METROPOLITAN DISTRICT NO. 1

**STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
DEBT SERVICE FUND**

For the Year Ended December 31, 2023

	Original and Final Budgeted Amounts	Actual	Variance with Final Budget - Positive (Negative)
Revenues			
Property taxes	\$ 557,831	\$ 557,831	\$ -
Specific ownership tax	83,675	90,180	6,505
Investment income	14,000	17,524	3,524
Total revenues	655,506	665,535	10,029
Expenditures			
General government			
County treasurer's fees	16,735	16,660	75
Contingency	5,000	-	5,000
Debt Service			
Principal	365,000	365,000	-
Interest	270,743	270,743	-
Trustee fee	1,500	1,500	-
Total expenditures	658,978	653,903	5,075
Net change in fund balances	(3,472)	11,632	15,104
Fund balances - beginning	71,134	81,147	10,013
Fund balances - ending	\$ 67,662	\$ 92,779	\$ 25,117

The accompanying Notes to Financial Statements are an integral part of these statements.

ELKHORN RANCH METROPOLITAN DISTRICT NO. 1

**STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
CAPITAL PROJECTS FUND**

For the Year Ended December 31, 2023

	Original and Final Budgeted Amounts	Actual	Variance with Final Budget - Positive (Negative)
Expenditures			
Capital Outlay	\$ 200,000	\$ -	\$ 200,000
Total expenditures	<u>200,000</u>	<u>-</u>	<u>200,000</u>
Excess of revenue over (under) expenditures	<u>(200,000)</u>	<u>-</u>	<u>200,000</u>
Net change in fund balances	(200,000)	-	200,000
Fund balances - beginning	<u>363,536</u>	<u>367,536</u>	<u>4,000</u>
Fund balances - ending	<u><u>\$ 163,536</u></u>	<u><u>\$ 367,536</u></u>	<u><u>\$ 204,000</u></u>

The accompanying Notes to Financial Statements are an integral part of these statements.